Chairman's Statement

The Hong Kong economy remained weak during the year ended 31 March 2003. New leasing of the Group's properties became more difficult and various incentives had to be offered to attract new tenants and to retain existing ones. There were no new sales during the year although the relatively high yield stimulated buying interest from both investors and end-users.

RESULTS

The Group adopted a new accounting policy in the year under review to recognise the revenue from disposal of investment properties as turnover. This change in recognition policy affects the presentation of the Group's accounts but does not have any impact on the Group's net profit in the year under review and prior years.

On the basis of the new accounting policy, the Group's audited turnover for the year ended 31 March 2003 was HK$312.1 million, an increase of HK$66.5 million compared to HK$245.6 million for the previous year. The overall increase was due to an increase of HK$77.2 million in the sales of investment properties and an increase of HK$1.3 million in storage income. Rental and property management income decreased by HK$12.0 million to HK$174.3 million but its impact on the profit and loss account has been substantially mitigated by reduction in maintenance costs and other outgoings.

Audited Group profit attributable to shareholders for the year ended 31 March 2003 was HK$120.9 million, an increase of 31.8% compared to HK$91.7 million for the previous year, benefiting from the completion of sale of investment properties and lower borrowing costs. Earnings per share for the year under review was HK$0.47, compared to HK$0.35 for the previous year.

BUSINESS REVIEW

Change in Group Structure

In October 2002 the Group agreed on a distribution in specie with the 49% minority shareholders of Zhangjiagang Free Trade Zone Nan Kong Development Co., Ltd., Mainland China ("Nan Kong"). As a result, certain of Nan Kong's assets and liabilities, including part of its land and buildings, were distributed and Nan Kong became a wholly owned subsidiary of the Group.

In April 2002 the Group took up a 20% interest in Universal Plus Ltd., which in turn acquired 50% of Landyork Investment Ltd., the developer of Sha Tin Town Lot 526 in Hong Kong. In June 2002 a wholly owned subsidiary, Winprop Pte. Ltd., was incorporated in Singapore as the investment vehicle of the Group's 15% interest in Winworth Investment Pte Ltd, developer of "The Draycott Park" development in Singapore. The Group also took up one of three issued shares in a shell company in Singapore in the name of Winhome Investment Pte Ltd in March 2003 in preparation for a probable joint venture which did not materialise.

In September 2002 the Group's 43% interest in Varitex Company Ltd. was sold at a profit after it had sold its only property in Hong Kong. The registration of a dormant subsidiary in the name of Nan Kong Development (Zhangjiagang) Ltd. was also struck off during the year.

The Group's results for the year under review have included the attributable results of the aforesaid companies from or up to the effective dates of their acquisition or disposal respectively.

Sale of Properties

The remaining 172,000 sq.ft. of the committed purchase by Comfort Development Ltd. of a total of 631,000 sq.ft. in Global Gateway (Hong Kong) were completed during the year. Proceeds from these sales amounted to HK$112.2 million, realising a profit of HK$43.3 million. In comparison, a total of 54,000 sq.ft. in the same building were sold to Comfort Development Ltd. and another party in the previous year, realising revenue of HK$35.0 million and a profit of HK$7.1 million.

After the end of the financial year under review, another unit in Global Gateway (Hong Kong) with a gross floor area of 16,660 sq.ft. was sold for a consideration of HK$11.7 million.

Rental Operation

Occupancy of the unsold units at Global Gateway (Hong Kong) continued to improve during the year and counteracted part of the decrease in rental resulting from sales. The aggregate rental income of the Group's other investment properties in Hong Kong, namely the unsold portion of the Regent Centre in Kwai Chung, the Fibres and Fabrics Industrial Centre in Kwun Tong, the Winner Godown Building in Tsuen Wan and the Lucky Industrial Building in Kwai Chung, reported a decline of 6.5%. Their overall occupancy rate as at 31 March 2003 was about 84.3%, compared to about 85.0% as at 31 March 2002. The 9th floor of Office Tower 2 of Suntec City in Singapore remains substantially leased.

As at 31 March 2003, total floor spaces leased out by the Group aggregated about 2.1 million sq.ft., compared to 2.2 million sq.ft. a year ago.

Warehousing

Due to lower cargo throughput and tariff reduction in the face of fierce competition, the Group's warehousing operation in Hong Kong reported reduced turnover and a small loss. Despite the distribution of one warehouse to the outgoing minority shareholder in October 2002, turnover of Nan Kong's warehousing operation in Zhangjiagang, Jiangsu was maintained and managed to break even. Results of the 95% owned cold storage operation in Shekou continued to improve and its loss has been significantly reduced.

Investment

The Group's 5.14% interest in Suntec City Development Pte. Ltd. ("Suntec") and 10.60% interest in Suntec Investments Pte. Ltd. ("SIPL"), both incorporated in Singapore and carried in the accounts at Directors' valuation, reported a valuation decrease of HK$2.1 million during the year which was set off to the Group's investment revaluation reserve account. The valuation decrease due to weakness of the office property market in Singapore has been mitigated by the gain on exchange translation. At 31 March 2003 Suntec and SIPL were carried in the Group's accounts at HK$468.6 million, with Suntec accounting for the predominant share.

Suntec owns the Suntec City development in Singapore and the Suntec Singapore International Convention and Exhibition Centre. By reason of its cash surplus, Suntec raised its dividends for the two financial years ended 30 September 2000 and 2001. Dividend in the amount of HK$24.1 million in respect of Suntec's 2001 distribution was received by the Group in the year under review. As reported in its most recent audited accounts for the year ended 30 September 2002, Suntec maintained its turnover and achieved a higher profit through cost reduction. However, Suntec has resumed its normal dividend payout and the Group's income therefrom will be halved in the current financial year.

On taking up the 15% interest in "The Draycott Park" development in Singapore, a subscription loan of S$30 million was advanced to the investee company in June 2002. The subscription loan bears simple normal interest at the rate of 4.0619% per annum for a period of 3 years from the date of advance and payable in a lump sum at the end of the 3 years. All other shareholders' loans to the investee company are interest free. As at 31 March 2003, the carrying value of the Group's investment in this project, including the interest receivable on the subscription loan, was HK$136.6 million.

An impairment loss of HK$3.5 million at 31 March 2003 was assessed on the Group's investments held in Mainland China and charged to the profit and loss account for the year under review.

Whereas a first dividend of HK$11.8 million was received by the Group in the previous year from the liquidators of a construction company to which the Group had previously advanced loans, no dividend was declared in the year under review. Further dividends in a smaller aggregate amount are expected but the exact amount and timing thereof are uncertain.

Associated Companies

Varitex Company Ltd. sold its only property in Hong Kong at a loss during the year. The Group's 43% interest in this associated company was then sold at a profit of HK$1.2 million, representing the reversal of the Group's share of its accumulated losses. For the year under review, the combined net result of the Group's associated companies was a loss of HK$0.7 million before tax. Their carrying value in the Group's balance sheet has increased by about HK$35.0 million to HK$54.7 million, mainly on account of the advances to Universal Plus Ltd. for the purpose of funding the Sha Tin Town Lot 526 development.

Property held for Development

The lease modification premium of HK$18.5 million for changing the land use of the 95,940 sq.ft. site at 102 How Ming Street, Kwun Tong from industrial/office to office was paid in September 2002. In January 2003 the Town Planning Board approved the Group's application for changing the use of about 350,000 sq.ft. of gross floor area of the proposed development to hotel use. Pending the result of the Group's negotiation with Government for the terms of the consequential lease modification, the development plan and the timing of its implementation have not been finalised, nor has any financial commitment been entered into. The site continues to be used as an open space car park with Government approval.

Valuation of Properties

The aggregate professional valuation of the Group's investment properties at 31 March 2003 was HK$1,678.1 million, reporting a valuation decrease of HK$63.6 million. After adjusting for minority interests, the valuation decrease attributable to the Group was HK$39.9 million and was set off against the Group's investment properties revaluation reserve.

The professional valuation of the 102 How Ming Street site at 31 March 2003 was HK$453.0 million, resulting in a valuation decrease of HK$19.4 million which was set off against the Group's land and buildings revaluation reserve.

Certain units in Global Gateway (Hong Kong) are classified under current assets as properties for sale. Their professional valuation at 31 March 2003 resulted in a valuation decrease of HK$1.2 million, which was charged to the Group's profit and loss account for the year under review.

Other leasehold land and buildings were valued by the Directors at 31 March 2003 and resulted in an impairment loss of HK$6.7 million which was charged to the profit and loss account.

Employees

As at 31 March 2003, the Group employed a total of 176 employees of which 60 were based in Mainland China. Most of the employees in Hong Kong are engaged in estate management. All eligible employees in Hong Kong are enrolled to a defined contribution mandatory provident fund scheme. Other benefits are awarded at the discretion of the Group. Staff training is provided as and when required.

PROJECT PROGRESS

Sha Tin Town Lot 526

The Group has a 10% indirect attributable shareholding in this residential development with a gross floor area of about 436,000 sq.ft. upon completion. The other shareholders are Nan Fung Textiles Consolidated Limited (50%) and USI Holdings Limited (40%). The development is progressing as planned and the important milestone dates have been maintained, with presale to commence in early 2004.

"The Draycott Park", Singapore

The Group has a 15% interest in this prime residential development with a proposed gross floor area of about 360,000 sq.ft. upon completion. The other shareholder is Wing Tai Holdings Ltd., Singapore. The development was originally scheduled for completion in mid 2006 but the pace of development may be quickened.

FINANCIAL REVIEW

The Group's total bank borrowings increased slightly by HK$13.3 million and amounted to HK$772.4 million as at 31 March 2003. New loans of HK$166.1 million were raised to fund the investments undertaken during the year whereas existing loans were reduced by HK$152.8 million by applying proceeds of the sales of properties and funds generated from the Group's other operations. The loans are secured by certain investment properties and other properties for sale with a total net book value of HK$1,587.9 million as at 31 March 2003. Computed as the ratio of total bank borrowings to shareholders' funds, which amounted to HK$2,072.2 million at 31 March 2003, the Group's gearing was 37.3% as at that date.

Near the end of the year under review, the Group refinanced a substantial portion of its short term bank borrowings into long term loans. As a result the Group's total bank borrowings at 31 March 2003 comprised short term revolving loans and overdrafts of HK$39.0 million and long term loans of HK$733.4 million and were all on a floating rate basis. The equivalents of short term loans of HK$8.8 million and long term loans of HK$169.2 million respectively were denominated in Singapore dollar and were backed by the Group's assets in Singapore.

As at 31 March 2003, 12.2% or HK$89.4 million of the long term loans will fall due within the next 12 months. The repayment will be met by funds generated by the Group's operations.

The Group also carries other long term loans amounting to HK$155.7 million, being unsecured interest-free loans with no fixed terms of repayment from minority shareholders of two subsidiaries. Such loans have been reduced by HK$3.5 million during the year.

As security for the banking facilities to the extent of HK$1,000 million obtained by Landyork Investment Ltd. for financing the development of Sha Tin Town Lot 526, the Company has provided a repayment guarantee and entered into a completion guarantee and funding agreement during the year both in favour of the agent for the lenders. The Company's payment and funding obligations under the two security documents are several and limited to 10% of the total secured liabilities.

The Group did not have any material capital commitments as at 31 March 2003.

The Group's results for the past two financial years have benefited from the low interest rate environment. During the quarter April to June 2003 when interest rate reached even more attractive levels, the Group hedged part of its interest rate exposure by way of 3 to 5 years interest rate swaps. As at the date of this report, outstanding interest rate swap contracts entered by the Group amounted to a total notional principal of HK$180 million, representing about 32% of the Group's bank borrowings denominated in Hong Kong dollar.

OUTLOOK

Hong Kong's already stagnant economy has been further hit by the SARS outbreak. The Group's operation has not been directly affected, but one way or the other it is expected that greater pressure in terms of rental reduction and higher tenant movements will prevail in the rest of the current financial year. The profit from completion of property sales in the year under review is most unlikely to be repeated to any close extent, and the dividend income from Suntec is already known to be halved. The investments made during the year under review remain at the development stage. However, it is expected that finance cost should continue to be contained and rental income as the Group's principal source of revenue will only report a minor decrease.

DIVIDEND

In view of the profit for the year under review and the prospects of the current financial year, the Directors have recommended a final dividend of HK$0.05 per share for the year ended 31 March 2003. Subject to approval of the Annual General Meeting to be held on 21 August 2003, the final dividend will be payable on 3 September 2003 to all shareholders on register as at 21 August 2003.

CHENG Wai Chee, Christopher
Chairman

Hong Kong, 10 July 2003.