

MANAGING DIRECTOR'S REPORT

BUSINESS REVIEW

For the year ended 31 March 2003, the direct revenues (excluding associates) for the Group amounted to HK\$42.3 million (2002: HK\$49.2 million) and operating profit was HK\$9.5 million (2002: HK\$8.0 million). The decline in revenues was due solely to the drop in IT services revenues. The increase in operating profit was the result of continued cost cutting measures achieved during the period. In addition, as a result of improved performance from all associates during the year, net profit for the Group improved to HK\$3.0 million, from a loss of HK\$53.5 million in 2002.

Properties and Securities Investments

Revenue from the Group's investment properties increased to HK\$27.2 million (from HK\$26.5 million in 2002) while operating profit increased to HK\$9.0 million (from HK\$8.0 million in 2002). In spite of the weak economic environment, the Pioneer Building in Kwun Tong has continued to achieve a high occupancy rate of 98%.

The Pacific Plaza on Huaihai Zhong Road, Shanghai is a joint venture property development 15.4% owned by a 50% associated Company of the Group. The development comprises two development phases. Phase-1 development, which was a luxurious residential property development, was completed and fully sold. Construction for the Phase-2 790,000 sq.ft. grade A office tower has commenced and is expected to be completed by the 2004/2005 fiscal year.

For the year ended 31 March 2003, dividends and interest income were HK\$2.0 million (2002: HK\$3.8 million) and HK\$3.7 million (2002: HK\$ 1.9 million) respectively.

IT Services

Pioneer iConcepts Limited, the Group's 55% owned IT services subsidiary, operated in an extremely difficult environment during the period. While the company continued to have support from its key corporate customers, revenues declined from HK\$17 million in 2002 to HK\$9.4 million in the 12 months ended 31 March 2003 due to drastic cutbacks in corporate IT spending by customers. On the other hand, even though the company suffered a significant decline in revenues, operating loss was contained at HK\$3.9 million (2002: loss of HK\$4.1 million) due to continued cost cutting measures implemented by the management.

Global Gateway

Global Gateway is the 20:80 telecom infrastructure joint venture between the Group and Morgan Stanley Real Estate Funds. The Group is the managing partner contributing management and technical expertise to the joint venture. During the 12 month period ended 31 March 2003, Global Gateway disposed of its facility in Seattle. In April 2003, Global Gateway also disposed of its facility in San Diego. The two disposals resulted in an aggregate loss of HK\$5.1 million. As a result, Global Gateway currently owns and operates facilities totalling 834,000 sq.ft. in Hong Kong and Singapore. Due to the continued turmoil surrounding the telecom industry worldwide, the management has brought in alternative use tenants from



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the logistics and industrial sectors into our facilities, in addition to our traditional telecom customers. Thus, occupancy rate of Global Gateway's facilities has continued to improve and the company achieved positive operating cash flow (EBITDA – earnings before interest, tax, depreciation, and amortization) starting from August 2002.

The Group's share of results of Global Gateway for the period was a loss of HK\$12.5 million, a significant improvement from a loss of HK\$26.4 million in 2002. As rental yield increases and expenses are trimmed, we expect that Global Gateway's performance will continue to improve in the coming year.

Listed Associate

The Group owns 14.31% of Siam Food Products Public Company Limited ("Siam Food"), making us the largest single shareholder in the company. Siam Food is a leading pineapple producer listed on the Stock Exchange of Thailand. For the fiscal year ended 31 December 2002, Siam Food showed net profit of Baht240.2 million, an increased of 16.4% from the same period in 2001. A total dividend of Baht 4.5 per share was distributed for fiscal 2002 (2001: Baht 4.0 per share). This is due to satisfactory result from the company's main pineapple business and strong performance from its 40% owned joint venture industrial estate, the Eastern Seaboard Industrial Estate, which is the leading industrial estate for the automotive industry in Thailand. We believe that Siam Food will continue to be a strong performer this year due to the company's market leading position and the competitiveness of the Thai agribusiness export industry.

Siam Food contributed profit of HK\$7.9 million as an associate to the Group during the 12 months ended 31 March 2003 (2002: HK\$7 million).

Investments in Hotel Industry

In July 2002, an associate company owned 50% by the Group acquired about 10% of Dusit Thani Public Company Limited ("Dusit Thani"). Dusit Thani is listed on the Stock Exchange of Thailand and is the leading owner and operator of hotels in the country. Under the Dusit brand and the Royal Princess brand, Dusit Thani has 21 hotels with about 5,200 rooms under its management, of which 9 hotels are wholly or majority owned by the company. For the fiscal year ended 31 December 2002, Dusit Thani reported net profit of Baht 441.4 million, a 29.3% increase from the same period last year. A total dividend of Baht 2.75 per share was distributed for fiscal 2002 (2001: Baht 2.25 per share). This result was achieved despite the negative effects to the tourism industry after the terrorist attack in Bali in October 2002.

The Group's unlisted associate, Strand Hotels International Limited, is engaged in a 50/50 joint venture with the government of Myanmar to operate three hotels in Yangon for a period of 30 years. The three hotels are the 32 rooms Strand Hotel, the 238 rooms Renaissance Inya Lake Hotel, and the 58 rooms Thamada Hotel. In December 2002, Dusit Hotels and Resorts (the wholly owned management company of Dusit Thani) took over the management of the Inya Lake Hotel and the property has been renamed Dusit Inya Lake Resort. However, the tourism business continues to suffer from the economic sanctions by the West against the ruling party of Myanmar. During the year, the Group made an impairment provision of HK\$5.9 million for this investment.



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Liquidity and Financial Resources

As at 31 March 2003, the Group had cash balance of HK\$54 million (2002: HK\$62 million) and enjoyed substantial unutilized bank facilities made available to the Group. At the balance sheet date, the Group's total debt to equity ratio was 16% (March 2002: 11%) and the net debt (net of cash and cash equivalent) to equity ratio was 6% (March 2002: 0%). In light of the strong liquidity and sufficient bank facilities available, the Group is in a strong position to further expand its asset base.

PROSPECTS

The telecommunications and IT industries have continued to suffer during the period under review. As such, we do not anticipate meaningful growth at Global Gateway and Pioneer iConcepts in the coming fiscal year. The Group will instead focus its attention on acquiring more income producing property and hotel assets in the region.

The tourism sector has been hit by a number of events in the past year, including the terrorist attack in Bali, the war in Iraq, and the recent SARS crisis. As such, operating results at our hotel investments will be negatively affected in the first 2 quarters of the year. However, with the passing of the SARS crisis, there are signs that hotel occupancy will be returning to normal levels fairly quickly. Due to the events of the past year, a number of attractive hotel assets are now available for sale in the market. The Group is currently looking at a number of acquisition targets in this sector, particularly in Thailand.

On 11 July 2003, a subsidiary of the Group entered into a binding agreement to purchase the Garden Beach Resort, a 382-room beachfront resort hotel in Pattaya, Thailand. The total consideration will be Baht 870 million (approximately HK\$163 million). The Group's share of investment is 51%, representing an amount of Baht 443.7 million (approximately HK\$83 million) and the other 49% shall be invested by the Gaw Family. Subject to certain closing conditions, the completion of the transaction will be on 10 October 2003. Under this Listing Rules, this acquisition constitutes a notifiable transaction and a press announcement was made on 16 July 2003. We believe that the Garden Beach Resort transaction represents a rare and attractive acquisition opportunity due to its beachfront location, its 4.69 acres freehold land and the positive outlook for the tourism industry in Pattaya, Thailand.

Lastly, the Group is currently exploring an opportunity to acquire a portfolio of good income producing property assets and the possibility of forming a joint venture property fund management company with potential partners.

EMPLOYEES

As at 31 March 2003, the number of salaried staff was 49. The Group ensures that its employees' remuneration packages are competitive. Employees are rewarded on a performance-related basis within the general framework of the Group's salary and bonus system. Share options are granted by the Board of Directors to staff members as appropriate.



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APPRECIATION

On behalf of the Board, I would like to express our sincere gratitude to all the employees for their contributions.

Kenneth Gaw
Managing Director

Hong Kong, 15 July 2003

