

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATION

The Group continued to hold commercial properties for rental income and invest in bond securities for interest income during the year. The Group's turnover for the year ended 31 March 2004 amounted to HK\$92.2 million (2003: HK\$102.4 million), a decrease of 10.0% from last year. The decrease was due to the reduction of rental income and sale of bond securities.

The Group's gross rental income for the year ended 31 March 2004 amounted to HK\$28.6 million (2003: HK\$31.0 million), a decrease of 7.7% from last year. The Group's share of gross rental income from an associate amounted to HK\$9.5 million (2003: HK\$9.8 million), a decrease of 3.8% from last year. The reductions were due to the SARS effect and the general decline in market rental rate in early 2003.

The Group's sale of bond securities for the year ended 31 March 2004 amounted to HK\$63.6 million (2003: HK\$71.4 million), a decrease of 10.9% from last year. At 31 March 2004, the Group held a total of HK\$59.7 million in investments in bond securities, a decrease of HK\$11.8 million from last year. The investments were denominated in U.S. currency, and focused on quality corporate and banking bonds with high yield and comparatively low risk.

RESULT

The Group's profit for the year ended 31 March 2004 amounted to HK\$18.7 million (2003: HK\$29.0 million), a decrease of 35.6% from last year. The decrease was due to lower rental income and bond interest income, lower increase in market value on investments in bond securities and the loss on disposal of an investment property in Shanghai partially offset by lower interest expense during the year. The Group's share of results of associates after taxation amounted to HK\$5.3 million (2003: HK\$6.6 million), a decrease of 19.5% from last year. The decrease was due to lower rental income and higher administrative expenses during the year.

Earnings per share for the year ended 31 March 2004 were HK6.1 cents (2003: HK9.4 cents), a decrease of 35.6% from last year. The proposed final dividend of HK1.8 cents (2003: HK1.6 cents) and special dividend of HK1.2 cents (2003: Nil) per share will make a total distribution of HK4.2 cents (2003: HK2.8 cents) per share for the full year, an increase of 50.0% from last year.

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BANK BORROWINGS AND FINANCE COSTS

At 31 March 2004, the Group's banking facilities amounting HK\$226.1 million (2003: HK\$235.9 million) were secured by its land and buildings and investment properties with an aggregate carrying value amounting HK\$536.6 million (2003: HK\$523.0 million). These facilities were utilised to the extent of HK\$117.2 million (2003: HK\$146.9 million) at 31 March 2004.

At 31 March 2004, the total amount of outstanding bank borrowings net of bank balances and cash of HK\$19.8 million were HK\$97.4 million (2003: HK\$128.0 million), a decrease of HK\$30.5 million from last year. The decrease was due to partial repayment of bank borrowings with proceeds and deposits from sale of investment properties, surplus funds from operation and funds received from the repayment of an amount due from an associate during the year. The gearing ratio, which is the ratio of net bank borrowings to shareholders' funds, decreased to a low level at 13.2% (2003: 18.1%).

Of the total bank loans at 31 March 2004, 94.8% are repayable within one year, 1.0% are repayable after one year but within five years and 4.2% are repayable after five years.

In view of the low gearing, the Group has adopted the policy to minimise finance costs by drawing down revolving bank facilities to finance short term funding requirements and repaying the revolving loans with surplus funds arising from the operation subsequently. The Group's finance costs for the year ended 31 March 2004 were HK\$2.7 million (2003: HK\$4.5 million), a decrease of 39.0% from last year. The decrease was due to lower level of bank borrowings and lower market interest rate during the year.

SHAREHOLDERS' FUNDS

At 31 March 2004, the Group's shareholders' funds amounted to HK\$736.7 million (2003: HK\$700.1 million), an increase of HK\$36.6 million from last year. The net asset value per share was HK\$2.39 (2003: HK\$2.27). The increase in shareholders' funds was due to the increase in the value of the Group's investment properties upon revaluation at the balance sheet date and the retained profit for the year.

RISKS OF FLUCTUATIONS IN EXCHANGE RATE AND INTEREST RATE

Over 95% of the Group's bank borrowings are denominated in Hong Kong dollars. The remaining bank borrowings are denominated in Canadian dollars and are secured by the Canadian properties. Only the equity portion of the Canadian properties is subject to exchange rate risk. The amount involved is 1% of the Group's net assets.

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Most of the Group's bank borrowings are revolving loans with floating interest rate based on HIBOR. Since the Group's gearing ratio is low, the interest rate risk associated with the bank borrowings is not substantial.

The investments in bond securities are denominated in U.S. dollars. There is minimal exchange rate risk accordingly. 20% of the investments in bond securities will mature in August 2004 and is not subject to any interest rate risk. The remaining portion of the investments is subject to interest rate risk. To minimise the interest rate risk, the Group invests in those securities with short to medium maturity period and high coupon rate. The quality and liquidity of the investments are also considered in the Group's investment decisions with market monitoring on a daily basis.

CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

At 31 March 2004, the Group has neither contingent liabilities nor capital commitments.

EMPLOYEES AND REMUNERATION POLICY

At 31 March 2004, the total number of staff of the Group was 11 (2003: 10). The total staff costs including Directors' emoluments amounted to HK\$7.3 million (2003: HK\$7.4 million).

The Group reviews staff remuneration annually. The review is based on individual performance and merit.