(A) REVIEW OF 2003/04 RESULTS AND SEGMENTAL PERFORMANCE

(I) Profit attributable to shareholders

The Group reported a profit attributable to Shareholders of HK$2,302.6 million for the year ended 31 March 2004 against HK$34.7 million for the previous year. Earnings per share were 113.3 cents (2003: 1.7 cents).

The Group's full year results for 2002/03 and 2003/04 comprise an attributable impairment provision of HK$1,565.7 million for properties and a net write-back of provisions of HK$27.1 million respectively. Excluding the above-mentioned provision and write-back in the respective years, the Group's net profit would be HK$2,275.5 million for the financial year under review, an increase of HK$675.1 million or 42.2% compared to HK$1,600.4 million in 2002/03. The aforesaid improvement reflects the increased profit contribution principally from the sale of Sorrento units by the Group and the sale of Parc Palais units by an associate.

(II) Group turnover

The Group's turnover for the year was HK$7,115.9 million, a significant decrease of HK$2,752.1 million or 27.9% from HK$9,868.0 million achieved in 2002/03. The reduction was mainly attributable to the Group's disposal in February 2003 of all its retail businesses, which contributed revenue of HK$1,912.2 million in the previous year. Lower property sales were recognised from the sale of Bellagio in 2003/04.

Property development

Property sales for the year was HK$6,522.4 million (2003: HK$7,441.9 million), derived mostly from the sale of residential units at Sorrento and Bellagio and also Grange Residences units in Singapore. In the year under review, 721 units at the Sorrento, 384 units at the Bellagio and 61 units at Grange Residences were sold. Other property sales covered residential units at Palm Cove, The Astrid, Forest Hill, The Regalia and industrial units at Metro Loft owned by New Asia Realty group ("NART"). Sale of Metro Loft units was launched in August 2003 resulting in 99 units (out of the total 255 units) sold as at 31 March 2004.

Property investment

Despite a steady improvement in the business environment following subsidence of the SARS impact in mid-2003 and in the light of new supply of offices in Hong Kong, the office leasing market remained very competitive. Chiefly as a result of the fall in rental levels, the Property Investment segment generated a total revenue of HK$330.7 million, a decrease of HK$19.5 million or 5.6% from HK$350.2 million earned in the previous year. Wheelock House was approximately 83% occupied while Fitfort and Lane Crawford House and also Wheelock Place in Singapore were over 95% leased at satisfactory rental rates.

(III) Group operating profit

The Group's operating profit before borrowing costs and property provisions was HK$1,423.4 million, an increase of HK$602.4 million or 73.4% from that reported in 2002/03. The marked increase was due to the resilient performance of the Group's Property Development and Investment segments.

Property development

The Property Development segment recorded a profit of HK$980.3 million, an increase of HK$417.5 million as compared to HK$562.8 million reported in the previous year. Property development profit for the year was largely contributed by the sale of Sorrento units, the profit of which mainly resulted from release of property provision made in 2002/03, reflecting a general surge in prices of Hong Kong residential property market especially for the urban areas.

Property investment

The operating profit of the Property Investment segment decreased by HK$17.3 million to HK$235.8 million given the soft office leasing market in Hong Kong as mentioned above.

Others

The Investment and Others segment recorded a profit of HK$215.0 million, an increase of HK$177.0 million as compared to that reported in 2002/03 of HK$38.0 million which included principally a loss of HK$192.6 million on disposal of certain non-trading securities.

Performance of the listed subsidiaries (already consolidated into the Group's results)

NART reported a profit attributable to its shareholders of HK$1,053.7 million for the year ended 31 March 2004 against a loss of HK$792.9 million for the previous year. The loss for the previous year's results was chiefly due to an attributable impairment provision totalling HK$1,377.4 million for properties, including its attributable interests in the Bellagio and Sorrento development projects. The improvement in NART's results in 2003/04 is partly attributable to the increase in sharing of profits from sale of the Sorrento and Parc Palais units by its associates undertaking the respective developments.

Marco Polo Developments group ("MPDL") reported a profit attributable to shareholders of S$90 million for the year ended 31 March 2004, as compared to S$45.6 million achieved in 2002/03. MPDL's profit for the year was mainly derived from the sale of 61 Grange Residences units. Its profit for the previous year was largely contributed by the sale of Ardmore Park units though there was a property provision totalling S$84 million principally made for Wheelock Place. All Ardmore Park units were sold and the remaining profit of the project was finally recognised in 2002/03.

Attributable profit for the year to the Group from NART (which owns 75% of MPDL), before property provision and dividend income from NART's 7% holdings in The Wharf (Holdings) Limited ("Wharf"), was HK$694.0 million (2003: HK$339.4 million). During the year under review, the Group received a cash dividend totalling HK$107.5 million (2003: HK$107.5 million) from NART.

(IV) Borrowing costs

Borrowing costs charged to the profit and loss account for the year were HK$137.0 million, a substantial decrease of 46.2% from HK$254.8 million in the previous year. This was mainly due to the persistent low interest rate environment as well as the Group's declining debt level, resulting from the attributable cash inflows generated from the sale of Sorrento and Bellagio units distributed by the project companies among their shareholders in proportion to their equity interests in the respective projects. For the year under review, the Group's effective borrowing rate was approximately 1.8% per annum, against 2.5% per annum for the preceding year.

(V) Property provision/provision written back

Included in the Group's results is a property provision written back of HK$40.0 million following a valuation review at 31 March 2004. The provision of HK$2,428.5 million for the previous year comprised HK$1,159.4 million made by NART in respect of the properties held by Realty Development group (HK$773.3 million) and MPDL (HK$386.1 million), the Bellagio project (HK$540.1 million) and the Sorrento project (HK$706.2 million) plus some attributable deficits for the Group's investment properties.

(VI) Share of profits less losses of associates

The share of profit of associates before taxation was HK$2,047.3 million, substantially contributed by Wharf, against HK$1,671.0 million for the previous year. Wharf, the major listed associate of and profit contributor to the Group, reported a profit attributable to shareholders of HK$3,043 million for its financial year ended 31 December 2003, compared to HK$2,259 million achieved in 2002. Included in Wharf's results for 2003 is a deemed profit of HK$312 million recognised by Wharf in respect of its distribution of scrip dividend in the form of shares in i-CABLE Communications Limited ("i-CABLE") which formed part of the 2003 interim dividend of Wharf. Since the distribution effectively did no change to the Group's attributable interest in i-CABLE, the said deemed profit was not recognised by the Group and was fully eliminated in accordance with the Group's accounting policies. Excluding the said deemed profit, Wharf's net profit contribution to the Group was HK$1,314.2 million. Aggregate dividends received from Wharf by the Group during the year under review amounted to HK$747.5 million (2003: cash dividend of HK$968.3 million), comprising cash dividend of HK$493.6 million and the above mentioned scrip dividend of HK$253.9 million.

(VII) Other items

A taxation charge of HK$536.8 million was reported for the year against HK$349.8 million in 2002/03. The significant increase in tax charge primarily resulted from the inclusion in the previous year of a write-back of tax provision for the Ardmore Park project of HK$102.7 million subsequent to a reduction of the Singapore income tax rate from 24.5% to 22.0%. The increase was also partly due to the effect of the increased Hong Kong profits tax rate to 17.5% (2003: 16%), which impacted not only the current tax charge but also the deferred tax liabilities, the latter of which had been enlarged upon the adoption of the revised SSAP 12 "Income taxes" in the financial year under review.

For the year under review, profit shared by minority interests amounted to HK$534.3 million. There was, however, a net loss shared by minority interests in the previous year of HK$575.8 million, which was mainly attributable to the loss incurred by NART and the Bellagio and Sorrento projects.

(B) LIQUIDITY AND FINANCIAL RESOURCES

(I) Shareholders' funds

At 31 March 2004, the Group's shareholders' funds totalled HK$26,544.2 million or HK$13.06 per share, against HK$22,790.3 million or HK$11.22 per share at 31 March 2003. The improvement largely reflects the upward revaluation of investment property portfolio of the Group's major associate, namely, Wharf.

(II) Net debt and gearing

At 31 March 2004, the Group's net debt amounted to HK$6,114.5 million, comprising total debts of HK$8,131.7 million less deposits and cash of HK$2,017.2 million, as compared with a net debt of HK$8,798.0 million at 31 March 2003. The decrease in the Group's net debt was mainly due to net cash generated from the Group's operating activities amounting to HK$4,688.6 million, which included net inflow from sale of the Sorrento and Bellagio units. For the year under review, net cash inflow of HK$5.9 billion generated from the sale of Sorrento and Bellagio units were distributed by the project companies among their shareholders in proportion to their equity interests in the respective projects and the Group including NART hence had received HK$3.6 billion. During the second half of the year, MPDL completed the acquisition of Sea View Hotel and Times House sites in Singapore at a total consideration of approximately S$410 million (equivalent to about HK$1.9 billion).

Excluding NART group's net debt of HK$112.2 million, the Company together with its other subsidiaries had a net debt of HK$6,002.3 million (2003: HK$7,787.5 million), benefiting from its share of attributable cash inflow from sales of Sorrento and Bellagio but partly offset by the reduction in the cash dividend received from Wharf. Total cash dividends, being the Group's main sources of recurring cash flow received from Wharf and NART, dropped from HK$1,075.8 million in 2002/03 to HK$601.1 million in 2003/04.

At 31 March 2004, the ratio of the Group's net debt to shareholders' equity was 23.0% (2003: 38.6%), while the ratio of net debt to total assets was 15.7% (2003: 22.7%).

(III) Committed and uncommitted facilities

(a) The Group's committed and uncommitted loan facilities amounted to HK$10.6 billion and HK$1.9 billion respectively. The debt maturity profile of the Group at 31 March 2004 is analysed as follows:

	2004 HK$ Million	2003 HK$ Million
Repayable within 1 year	**2,267.6**	1,945.0
Repayable after 1 year, but within 2 years	**700.0**	5,200.0
Repayable after 2 years, but within 5 years	**5,164.1**	4,835.7
	8,131.7	11,980.7
Undrawn facilities	**4,400.0**	5,200.0

(b) The following assets of the Group have been pledged for securing bank loan facilities:

	2004 HK$ Million	2003 HK$ Million
Investment properties	**1,658.9**	2,407.4
Properties under development/for sale	**1,827.1**	5,349.3
	3,486.0	7,756.7

(c) To minimise exposure to foreign exchange fluctuations, the Group's borrowings are primarily denominated in Hong Kong dollars except that the borrowings for financing Singapore assets are denominated in Singapore dollars. The Group has no other significant exposure to foreign exchange fluctuations except for its net investments in Singapore subsidiaries. Forward exchange contracts are entered into by MPDL for hedging its foreign currency deposits and investments.

(IV) Long-term investments

At 31 March 2004, the Group maintained a portfolio of long-term investments with a value of HK$1,166.5 million, which primarily comprised blue chip securities with a market value of HK$1,104.4 million (2003: HK$746.3 million).

In accordance with the Group's accounting policies, non-trading securities classified as long-term investments are stated in the balance sheet at fair value. Changes in fair value are recognised in the investment revaluation reserves until the security is sold. At 31 March 2004, there was attributable surplus of HK$31.8 million on revaluation of the Group's long-term investments compared to a deficit of HK$316.3 million at 31 March 2003. The performance of the investment portfolio is generally in line with the stock markets.

(C) MAJOR PROPERTY DEVELOPMENT PROJECTS

(I) Sorrento and Bellagio

Sale of Sorrento and Bellagio units is continuing with good progress. For the year under review, 721 units at the Sorrento and 384 units at the Bellagio were sold. At 31 March 2004, the 1,272 Phase I units of Sorrento were all sold and 799 units or 93% of Phase II were sold. The accumulated sales of Bellagio reached 1,677 units or 98% of the 1,704 Phase I and II units.

At 31 March 2004, the cash deposits in the stakeholders' account of Sorrento amounted to HK$0.4 billion, which would be sufficient to fully cover the outstanding construction costs for completion of the whole project. Following the completion of the Phase I and II units, the cash deposits of HK$1.2 billion kept in the stakeholders' account of Bellagio at 31 March 2003 were distributed in April 2003 to the shareholders of the project company, namely, the Company, Wharf and NART, in proportion to their equity interests in the project. Construction works for Bellagio Phases III and IV are underway in accordance with schedule and the estimated outstanding costs for completion of these phases are approximately HK$0.9 billion. The two project companies did not have any bank borrowings at 31 March 2004.

(II) Parc Palais

Pre-sale of the Parc Palais, 20%-owned by NART, was first launched in August 2003 with a good market response. At 31 March 2004, sales accumulated to 491 units or 70% of the entire 700 units.

At 31 March 2004, sale proceeds received by the project company were partially used for full repayment of the project loan and placing of deposits in the stakeholders' account for meeting the outstanding construction costs of the project, with the surplus cash distributed to the shareholders of the project company in proportion to their equity interests in the project.

(III) Grange Residences

Sale of Grange Residences upto 31 March 2004 accumulated to 61 units (out of the total 164 units). The Grange Residences obtained a Temporary Occupation Permit on 12 March 2004.

(D) CONTINGENT LIABILITIES

(I) Guarantees given by the Group in respect of banking facilities available to associates amounted to HK$63.2 million (2003: HK$560.9 million) of which HK$55.8 million (2003: HK$349.9 million) had been drawn at the balance sheet date.

(II) The Company together with two non wholly-owned subsidiaries and two associates have jointly and severally guaranteed the performance and observance of the terms by another subsidiary under an agreement for the development of the Sorrento project.

(E) ACQUISITION OF PROPERTIES

(I) Sea View Hotel sites

MPDL completed the acquisition of the Sea View Hotel site in Singapore at a purchase price of S$255 million in December 2003. In addition, MPDL also acquired the 30 China Airlines apartments which are adjacent to the Sea View Hotel site for S$35 million. These sites will be amalgamated for a proposed residential condominium development of approximately 546 apartments.

(II) Times House site

MPDL completed the acquisition of the Times House site in Singapore for S$119 million in March 2004. The site has been acquired for a proposed residential condominium development of 228 apartments.

(III) No. 6 Scotts Road

On 7 June 2004, MPDL entered into a sale and purchase agreement to acquire a property known as No. 6 Scotts Road, Singapore at a total consideration of S$345 million. A 10% deposit of the purchase price or S$34.5 million was paid. The property is proposed to be redeveloped into a new residential and commercial development. The residential segment of the new development will be for sale while the commercial segment will be held by MPDL as an investment property for leasing. The acquisition is expected to complete by September 2004.

(F) EMPLOYEES

The Group has approximately 759 employees at 31 March 2004. Employees are remunerated according to nature of the job and market trends, with a built-in merit component incorporated in the annual increment to reward and motivate individual performance. The Group also sponsors external training programmes that are complementary to certain job functions. Total staff costs for the year ended 31 March 2004 amounted to HK$143.6 million.