Chairman's Statement

In the year ended 31 March 2004, the Group's leasing operation has been temporarily and adversely affected by the SARS outbreak during which a higher level of vacancy was reported and tenancies were concluded or renewed at lower rentals and more incentives. The overall impact, however, was not significant in retrospect due to the sporadic occurrence of tenancy expiries. Sale of properties during the year under review only amounted to a fraction of the value achieved in the previous year, but sale of properties has not been a core activity of the Group and there will not be a predictable pattern.

RESULTS

The Group's audited turnover for the year under review was HK$220.8 million, a decrease of HK$91.3 million compared to HK$312.1 million for the previous year. The overall decline was due to the decrease in the sale of properties whereas rental and property management income and storage income both chalked up minor improvements.

During the year the Group adopted Statement of Standard Accounting Practice 12 (revised) "Income Taxes" issued by the Hong Kong Society of Accountants and changed its accounting policy for deferred taxation. This change has resulted in an increase of HK$1.0 million in the Group's audited profit attributable to shareholders for the year under review, and a decrease of HK$5.0 million in the comparable profit for the previous year.

On the basis of the changed accounting policy and due to the non-recurrence of profit on sale of properties, audited Group profit attributable to shareholders for the year ended 31 March 2004 was HK$99.3 million, a decrease of HK$16.5 million or 14.2% compared to HK$115.8 million restated for the previous year. Earnings per share for the year under review was HK$0.38, compared to HK$0.45 for the previous year.

BUSINESS REVIEW

Sale of Properties

The decreases in turnover and profit for the year were due mainly to the decrease in the sale of properties. In the previous year, completion of the remaining 172,000 sq.ft. of the committed purchase of spaces in Global Gateway (Hong Kong) realised sales and segment profit of HK$112.2 million and HK$43.3 million respectively. For the year under review, floor spaces in Global Gateway (Hong Kong) and Regent Centre aggregating 22,000 sq.ft. only were sold, generating a turnover of HK$16.4 million. A segment loss of HK$0.4 million was reported but a sum of HK$3.3 million was transferred directly from the land and buildings revaluation reserve to retained earnings. Including a valuation increase of HK$1.8 million in respect of properties for sale, total profit of this segment was HK$1.3 million for the year under review.

Rental and Property Management

Turnover of the rental and property management operations for the year was HK$177.4 million, a slight improvement over the HK$174.3 million achieved for the previous year. New leasing of the unsold units at Global Gateway (Hong Kong) continued to improve during the year and counteracted part of the decrease in rental caused both by property disposals and the SARS outbreak. Reduction in operating costs also helped to raise the profit of this segment from HK$118.2 million to HK$126.8 million. As at 31 March 2004, total floor spaces leased out by the Group aggregated about 2.1 million sq.ft., representing an occupancy rate of 82.4%.

Warehousing

The results of the 95% owned cold storage operation in Shekou reported a turnaround in the year under review and gave an uplift to the overall results of the Group's warehousing operation in Hong Kong and Mainland China. The Group's warehousing operation in Zhangjiagang, Jiangsu, while maintaining a marginally profitable operation, reported further impairment loss during the year.

Investments

The Group's 5.14% interest in Suntec City Development Pte. Ltd. ("Suntec") and 10.06% interest in Suntec Investments Pte. Ltd. ("SIPL"), both incorporated in Singapore and carried in the accounts at Directors' valuation, reported a net valuation decrease of HK$8.7 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 2004 Suntec and SIPL were carried in the Group's accounts at HK$459.8 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. Having doubled its dividends in two previous financial years on account of cash surplus, Suntec resumed its normal dividend payout in its financial year ended 30 September 2002. The Group's dividend income from Suntec during the year in respect thereof has therefore been halved to HK$11.9 million. During the year, an amount of HK$4.7 million was also recovered from debts under liquidation, there being no such receipt in the previous year.

Interest income during the year aggregated HK$7.0 million, mainly accruing on loans advanced by the Group towards investee companies in respect of joint property development projects in Hong Kong and Singapore. The comparative amount in the previous year was HK$4.8 million.

Associated Companies

For the year under review, the combined net results of the Group's associated companies was a loss of HK$0.2 million. Their carrying value in the Group's balance sheet has increased by about HK$52.2 million to HK$106.9 million, mainly on account of the 20% interest in Winwill Investment Pte Ltd, Singapore taken up during the year.

Property held for Development

In response to the Group's application in October 2003, the Town Planning Board revised its approval for an office/hotel development on the 95,940 sq.ft. site at 102 How Ming Street, Kwun Tong wholly owned by the Group. Lease modification for changing the use of part of the gross floor area from office to hotel is in progress. The development plan and the timing of its implementation are under scrutiny, and the financial arrangement for the development is at an advanced stage of negotiation. For the time being 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 2004 was HK$1,750.7 million, reporting a valuation increase of HK$73.3 million. After adjusting for minority interests, the valuation increase attributable to the Group in the sum of HK$65.8 million has been credited to the Group's investment properties revaluation reserve.

The professional valuation of the 102 How Ming Street site at 31 March 2004 was HK$887.0 million, resulting in a valuation increase of HK$427.5 million which has been credited to 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 2004 resulted in a valuation increase of HK$1.8 million, which was credited 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 2004 and resulted in an impairment loss of HK$5.6 million which was charged to the profit and loss account.

NEW INVESTMENT AND PROJECT PROGRESS

"Kovan Melody", Singapore

In November 2003 the Group took up 20% interest in Winwill Investment Pte Ltd for a 12% effective interest in Winhome Investment Pte Ltd, a multi-party joint venture for the development of a 99-year leasehold residential land parcel at Flower Road / Kovan Road in Singapore. The other effective interests in the joint venture are held as to 36% by the Wing Tai Group in Singapore, 12% by the USI Group in Hong Kong, and 30% and 10% respectively by two other Singapore parties.

The land parcel has a site area of about 270,000 sq.ft. and the maximum permissible gross floor area is about 952,000 sq.ft. It will be developed into condominium apartments for sale and the development is planned for completion in mid 2006. The shareholders of the joint venture have contributed 35% of the land cost and associated stamp duty, and the Group's 12% proportionate share thereof is S$10.9 million. The joint venture company has obtained bank financing to the extent of S$200 million and expects to finance the remaining development cost of about S$143 million via pre-sale proceeds. Foundation work is in progress and completion of the development is targeted for June 2006.

"The Grandville", Hong Kong

The Group has a 10% indirect interest in this residential development at Sha Tin Town Lot 526 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 with superstructure works and pre-sale will be launched later this year.

"Draycott Eight", Singapore

The Group has a 15% interest in Winworth Investment Pte Ltd, the developer of this prime residential development with a proposed gross floor area of about 340,000 sq.ft. upon completion. The other shareholder is the Wing Tai Group in Singapore. This development is also progressing with superstructure works and completion is targeted for the latter half of 2005. During the year, Winworth Investment Pte Ltd refinanced part of its shareholders' loans with additional bank borrowings and S$5.1 million was repaid to the Group.

Change in Group Structure

Other than the aforesaid investment in 20% of the issued share capital of Winwill Investment Pte Ltd and the formation of a new wholly-owned subsidiary in the name of Winsor Estate Management Limited, there are no other changes in the Group's structure.

Employees

As at 31 March 2004, the Group employed a total of 180 employees of which 68 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.

DISPOSALS AFTER 31 MARCH 2004

Fibres & Fabrics Industrial Centre, Kwun Tong

On 30 June 2004, the Group sold the entire building known as Fibres & Fabrics Industrial Centre, 7 Shing Yip Street, Kwun Tong, Hong Kong to an independent third party. The consideration for the disposal in the sum of HK$250 million payable in cash has been received in full. The said property is an industrial development with a total gross floor area of 305,462 sq.ft. and has been leased out to outside parties for rental income since completion of its construction in 1986. Its book value was HK$240 million as at 31 March 2004 and at the date of disposal. Including revaluation reserves realized, the estimated profit attributable to shareholders from the disposal is approximately HK$210 million and will be recognized in the financial year ending 31 March 2005. The proceeds from the disposal have been partly applied by the Group to reduce the Group's bank borrowings and partly retained as the Group's working capital as well as funding for the Group's development projects on hand.

Warehousing operation in Zhangjiagang, Jiangsu

This operation has been sold in June 2004 at its net book value of HK$5.4 million.

FINANCIAL REVIEW

New bank loans amounting to HK$50.6 million were drawn down during the year to finance the Group's investment in Kovan Melody. Taking into account of all financing activities, the Group's total bank borrowings as at 31 March 2004 have increased by HK$43.4 million to HK$815.8 million. Cash and bank balances on the other hand have increased by HK$83.6 million during the year to HK$126.2 million, representing a net borrowing position of HK$689.6 million as at 31 March 2004. The bank loans are secured by certain investment properties and other properties for sale with a total book value of HK$1,645.0 million as at 31 March 2004.

Computed as the ratio of total bank borrowings to shareholders' funds, which amounted to HK$2,614.7 million at 31 March 2004, the Group's gearing was 31.2% as at that date. By utilizing the cash and bank balances and the proceeds from the disposal of the Fibres & Fabrics Industrial Centre, the Group's bank borrowings presently stand at HK$461.5 million. Other things being equal, the Group's gearing has been further reduced to 17.7%. The Group will actively seek business opportunities to enhance investment returns.

As at 31 March 2004 the Group's total bank borrowings comprised short term revolving loans and overdrafts of HK$52.3 million and long term loans of HK$763.5 million and were all on a floating rate basis with the exception of the overdrafts. The equivalents of short term loans of HK$9.3 million and long term loans of HK$228.4 million respectively were denominated in Singapore dollar and were backed up by the Group's assets in Singapore.

As at 31 March 2004, 15.4% or HK$117.9 million of the long term bank loans would fall due within the next 12 months. The repayment has been and will be met by the proceeds from the disposals reported above and by the funds generated by the Group's operations.

During the year the Group entered into interest rate hedge instruments for an aggregate notional principal amount of HK$380 million, representing about 46.6% of the Group's total bank borrowings as at 31 March 2004.

The Group also carries other long term loans amounting to HK$145.5 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$10.2 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 The Grandville, the Company has provided a repayment guarantee and entered into a completion guarantee and funding agreement on 25 June 2002 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.

In respect of the banking facilities obtained by Winhome Investment Pte Ltd for the Kovan Melody development, Wing Tai Holdings Limited has provided in full on behalf of Winwill Investment Pte Ltd the proportionate guarantees and undertakings to be given by Winwill Investment Pte Ltd on a several basis under the terms of the banking facilities. In consideration of Wing Tai Holdings Limited so doing, the Group has undertaken to indemnify Wing Tai Holdings Limited to the extent of 20% of its obligations to provide cash to Winhome Investment Pte Ltd thereunder.

The Group did not have any material capital commitments as at 31 March 2004.

OUTLOOK

The financial position of the Group has been strengthened considerably by the proceeds from the disposal of the Fibres & Fabrics Industrial Centre. There will be a loss of recurring rental income as a result of the disposal but the short term impact thereof will be partly mitigated by reduced interest expenses and improved rental income from the remaining properties, the latter benefiting from the take-up of spaces in Global Gateway (Hong Kong) induced by the strong upturn in the Hong Kong economy.

Investment income in terms of Suntec's dividend and interest income should report some increase in the current financial year. More substantial investment returns will depend on the completion timetables and sale progresses of The Grandville, Kovan Melody and Draycourt Eight.

It is planned that the development of 102 How Ming Street will commence in the current financial year.

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 7 cents per share for the year ended 31 March 2004. Subject to approval of the Annual General Meeting to be held on 26 August 2004, the final dividend will be payable on 8 September 2004 to all shareholders on register as at 26 August 2004.

CHENG Wai Chee, Christopher
Chairman

Hong Kong, 15 July 2004.