

MANAGING DIRECTOR'S REPORT

BUSINESS REVIEW

For the year ended 31 March 2004, the total turnover (including subsidiaries and share of associates) amounted to HK\$127.6 million (2003: HK\$106.7 million). Net profit for the Group improved significantly to HK\$21.8 million, compared to profit of HK\$2.6 million in 2003. The increase in net profit was due mainly to lower expenses, leading to higher operating profit, as well as significantly improved result from Global Gateway and contribution from the newly acquired Garden Beach Resort in Pattaya, Thailand.

Properties

During the period under review, the Group disposed of the investment properties at Mandarin Plaza, Tsim Sha Tsui, Evergreen Villa, Hong Kong and Tower Park in Thailand. The sale of these assets generated profit of HK\$6.9 million. As a result of the disposals, rental income from the Group's investment properties decreased to HK\$24.3 million (from HK\$27.2 million in 2003) while operating profit stayed roughly the same at HK\$8.9 million (HK\$9.0 million in 2003). The Pioneer Building in Kwun Tong has continued to achieve a high occupancy rate of 96%.

The Pacific Plaza on Huaihai Zhong Road, Shanghai is a joint venture property development 7.7% owned by the Group. Construction for the 790,000 sq.ft. grade A office tower is on-going and is expected to be completed in the first quarter of 2005.

Investments in Hotel Industry

On 10 October 2003, an associate company owned 49.5% by the Group purchased 100% interest in a Thai property fund (now named PGG Siam Property Fund) which owns the Garden Beach Resort, a 382 rooms beachfront resort hotel in Pattaya, Thailand, for a total consideration of Baht 870 million. Since the purchase by the Group, the asset has performed strongly. From the purchase date to 31 March 2004, the Garden Beach Resort reported revenues of Baht 127.8 million and gross operating profit of Baht 84.2 million. Profit contribution to the Group during the period was HK\$5.9 million before tax.



Garden Beach Resort
Pattaya, Thailand



MANAGING DIRECTOR'S REPORT

An associate company owned 50% by the Group holds 10.28% of Dusit Thani Public Company Limited ("Dusit Thani"). Dusit Thani is a company listed on the Stock Exchange of Thailand and is the leading owner and operator of hotels in the country. For the year ended 31 December 2003, Dusit Thani achieved net profit of Baht 314.4 million (2002: Baht 441.4 million) on revenues of Baht 2.25 billion (2002: Baht 2.43 billion). The drop in revenues and profit were attributable mainly to the SARS epidemic in the second quarter of 2003, and also the US-Iraq war as well as renovations of the Dusit Thani Bangkok and Dusit Resort Pattaya during the year. The Thai tourism sector has since rebounded strongly from the SARS epidemic. It is expected that the company's performance will continue to grow going forward, especially upon the completion of the renovation of its flagship Dusit Thani Bangkok hotel later this year.

The Group's unlisted associate, Strand Hotels International Limited, is engaged in a 50:50 joint venture with the government of Myanmar to own and operate three hotels in Yangon for a period of 30 years. The three hotels are the 32 rooms Strand Hotel, the 238 rooms Dusit Inya Lake Resort, and the 58 rooms Thamada Hotel. In addition to the US-Iraq war and the SARS epidemic, tourism in Myanmar was also affected by the US led economic sanctions on the country starting July 2003. As the political impasse appears unlikely to ease in the foreseeable future, the directors have decided to make a provision in the amount of HK\$6.8 million for its investment in Strand Hotels International Limited. Despite the challenging circumstances, the management is hopeful that the situation has stabilized, as evidenced by a 16% increase in tourist arrival in the first five months of 2004.



Global Gateway

Global Gateway is the 20:80 telecom infrastructure joint venture between the Group and Morgan Stanley Real Estate Funds. Currently Global Gateway owns and operates facilities totaling 834,000 sq.ft. in Hong Kong and Singapore. Our customers include high quality tenants from the logistics and industrial sectors as well as telecom users. Occupancy at Global Gateway's facilities in Hong Kong and Singapore are 82% and 32.2% respectively.

For the 12 months ended 31 March 2004, the Group's share of results in Global Gateway was a loss of HK\$1.8 million, compared to a loss of HK\$12.5 million in the year earlier period. The company reported a net loss due to the impairment loss of the Singapore property. Without this one time charge, Global Gateway produced positive operating results during the period.

Listed Associate

With a 14.31% stake, the Group is the largest single shareholder of Siam Food Products Public Company Limited, a leading pineapple producer listed on the Stock Exchange of Thailand. For the fiscal year ended 31 December 2003, Siam Food reported revenues of Baht 2.46 billion and net profit of Baht 205.5 million, compared to revenues of Baht 2.1 billion and net profit of Baht 240.2 million in 2002. Despite higher revenues in 2003, Siam Food's net profit decreased by 10% due to (1) the 8.2% increase of the Thai Baht against the US\$, (2) high fruits costs, and (3) the worldwide increase in raw material prices. In addition, the global rise in fuel cost triggered by the US-Iraq war resulted in higher transportation cost and can manufacturing cost.

MANAGING DIRECTOR'S REPORT

As an associate company to the Group, Siam Food contributed profit of HK\$7.0 million during the 12 months ended 31 March 2004 (31 March 2003: HK\$7.9 million).

IT Services

Pioneer iConcepts Limited, the Group's 55% owned IT services subsidiary, continued to operate in a difficult business environment. For the year ended 31 March 2004, the company suffered a decline in revenues to HK\$5.1 million, from HK\$9.4 million in 2003. Despite the continued decline in revenues, the management was able to achieve a small profit of HK\$0.5 million, versus a loss of HK\$3.9 million in 2003, through stringent cost control measures. However, in view of the company's inability to grow into a sizeable business, the management has decided that it will wind down the operations of Pioneer iConcepts in an orderly manner.

LIQUIDITY AND FINANCIAL RESOURCES

As of 31 March 2004, the Group enjoyed a strong financial position, maintaining substantial unutilized bank facilities. At the balance sheet date, the Group's total debt to equity ratio was 9.3% (March 2003: 16.2%) and the net debt (net of cash) to equity ratio was 5.9% (March 2003: 6.0%).

PROSPECTS

In May 2004, the Group entered into a joint venture with Morgan Stanley Real Estate Funds and PamFleet Investments Limited to purchase two properties in Hong Kong. The two properties are the 217,625 sq.ft. Paliburg Plaza in Causeway Bay and the 640,000 sq.ft. Kowloon City Plaza in Kowloon City. Details of the transaction were provided in a circular to shareholders dated 15 June 2004.

In June 2004, the Group disposed its remaining investment property at Evergreen Villa for HK\$19.6 million. The transaction produced a profit of HK\$16.1 million for the Group. Details of the transactions were provided in a circular to shareholders dated 28 June 2004.

Paliburg Plaza
Causeway Bay, Hong Kong



MANAGING DIRECTOR'S REPORT



Kowloon City Plaza
Kowloon City, Kowloon

Garden Beach Resort is currently undergoing an extensive renovation program of its guestrooms and the addition of a full destination spa for the repositioning of the hotel into a 5-star resort and spa. While the occupancy of the resort will suffer during the renovation period from May to September 2004, the management is confident that with the completion of the renovation program, the property will become a significant contributor to the Group in the future.

In the coming year, the Group plans to continue to pursue attractive investment opportunities in the property and hotel sectors in the region.

EMPLOYEES

As at 31 March 2004, the number of salaried staff was 28. 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.

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, 20 July 2004

