

The directors herein present their report and the audited financial statements of the Company and the Group for the year ended 31st March, 2004.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company and provides management services to its subsidiaries. Its subsidiaries are mainly engaged in property development and investment. There have been no changes in the nature of the Group's principal activities during the year. Further details of the Company's principal subsidiaries are set out in note 18 to the financial statements.

FINANCIAL RESULTS

The Group's profit for the year ended 31st March, 2004 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 24 to 76.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and financial resources

Total interest-bearing debts of the Group amounted to HK\$1,590 million as at 31st March, 2004 (as at 31st March, 2003: HK\$1,285 million). The increase in total interest-bearing debts was mainly due to property acquisitions and project loans being drawn to finance our property development activities in Hong Kong and the Mainland China.

The Group's interest-bearing debts have a loan maturity profile as follows:

	<i>HK\$ million</i>	%
Within one year	320	20
In the second year	71	4
In the third to fifth years	1,185	75
Beyond five years	14	1
	<u>1,590</u>	<u>100</u>

Total cash on hand was HK\$314 million (as at 31st March, 2003: HK\$99 million). The Group had a total of HK\$285 million committed but undrawn banking facilities at year end.

The gearing ratio of the Group, as measured by total interest-bearing debts of HK\$1,590 million over total assets of HK\$3,049 million, was 52% as at 31st March, 2004 (as at 31st March, 2003: 56%).

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Use of proceeds from the rights issue

The net proceeds of HK\$195 million from the completion of the rights issue in May 2003 have been used for the repayment of the Bonds in accordance with the proposed application as set out in the Company's prospectus dated 30th April, 2003.

Use of proceeds from share placement

The share placement in March 2004 raised net cash proceeds of HK\$107 million for general working capital of the Group. The Group had applied HK\$22 million for general working capital purpose with the remaining sum of HK\$85 million being retained as cash and bank balances at the balance sheet date.

Funding and treasury policies

The Group adopts a prudent funding and treasury policy. Surplus funds are primarily maintained in the form of cash deposits with leading banks.

Acquisition and development of properties are financed partly by internal resources and partly by secured bank loans. Repayments of bank loans are scheduled to match asset lives and project completion dates. Borrowings are mainly denominated in Hong Kong dollars and Renminbi and bear interest at floating rates, except for the Renminbi loan facilities.

Foreign currency exposure is monitored closely by the management and hedged to the extent desirable. As at 31st March, 2004, the Group had no material exposure under foreign exchange contracts or any other hedging instruments.

Pledge of assets

Properties and bank balances with an aggregate carrying value of HK\$1,998 million as at 31st March, 2004 were pledged to secure certain banking facilities of the Group.

Contingent liabilities

Particulars of the Group's contingent liabilities are set out in note 34 to the financial statements.

Employees and remuneration policies

The Group employed approximately 150 employees as at 31st March, 2004. Remuneration is determined by reference to market terms and the qualifications and experience of the staff concerned. Salaries are reviewed annually with discretionary bonuses being paid depending on individual performance. The Group also provides other benefits including medical cover, provident fund, personal accident insurance and educational subsidies to all eligible staff.

DIVIDEND

The Directors recommend the payment of a final dividend of 6 cents per share for the year ended 31st March, 2004 (2003: Nil) to shareholders whose names appear on the Company's register of members on 8th September, 2004.

SUMMARY FINANCIAL INFORMATION

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and restated as appropriate is set out on pages 77 and 78. This summary is not part of the audited financial statements.

FIXED ASSETS

Details of movements in the fixed assets of the Company and the Group are set out in note 15 to the financial statements.

PROPERTIES UNDER DEVELOPMENT

Details of movements in the properties under development of the Group are set out in note 16 to the financial statements.

INVESTMENT PROPERTIES

Details of movements in the investment properties of the Group are set out in note 17 to the financial statements.

PARTICULARS OF PROPERTIES

Particulars of the major properties held by the Group are set out on pages 79 to 82.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 29 to the financial statements and in the consolidated statement of changes in equity, respectively.

SHARE OPTIONS

Details of movements in the share options of the Company during the year, together with the reasons therefor, are set out in note 31 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF CONVERTIBLE BONDS AND SECURITIES

The Bonds were fully redeemed at par during the year as follows:

Date	Principal amount of the Bonds HK\$
22nd April, 2003	159,000,000
21st May, 2003	141,000,000
	<u>300,000,000</u>

Save as disclosed above, there were no purchases, sales or redemptions by the Company or any of its subsidiaries of the Company's securities during the year and up to the date of this report.

DISTRIBUTABLE RESERVES

At 31st March, 2004, the Company's reserves available for distribution, calculated in accordance with the provisions of Section 79B of the Companies Ordinance, amounted to HK\$361,924,000. In addition to the retained profits of the Company, the Company's share premium account of HK\$161,410,000 may be applied under the Companies Ordinance to pay up bonus shares issuable to shareholders of the Company.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year, except that the non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation in accordance with the Company's articles of association.

AUDIT COMMITTEE

The Company has established an audit committee, comprising William Chung-Yue Fan, Daniel Chi-Wai Tse, Patrick Yen-Tse Tsai and Kenneth Kin-Hing Lam. The audit committee includes the three independent non-executive directors in compliance with the Code of Best Practice, and is established for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. In establishing the terms of reference for the committee, the directors have made reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Society of Accountants in December 1997.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

James Sai-Wing Wong
Madeline May-Lung Wong
William Chung-Yue Fan
Herman Man-Hei Fung
Daniel Chi-Wai Tse*
Patrick Yen-Tse Tsai*
Zuric Yuen-Keung Chan (appointed on 11th December, 2003)
Kenneth Kin-Hing Lam* (appointed on 26th March, 2004)
Roderick Sue-Cheun Wong (resigned on 14th January, 2004)

* Independent non-executive directors

In accordance with article 95 of the Company's articles of association, Zuric Yuen-Keung Chan and Kenneth Kin-Hing Lam will retire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

In accordance with article 104 of the Company's articles of association, Daniel Chi-Wai Tse and Patrick Yen-Tse Tsai will retire by rotation at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the directors of the Company and senior management of the Group are set out on pages 10 to 12.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

DIRECTORS' INTERESTS IN SECURITIES

At 31st March, 2004, the interests and short positions of the directors of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), were as follows:

DIRECTORS' INTERESTS IN SECURITIES (Continued)

(a) Directors' interests in the shares of the Company

Name of director	Note	Nature of interest	Number of ordinary shares held	Approximate percentage of shareholding
James Sai-Wing Wong	1	Corporate	231,438,553	57.83
Madeline May-Lung Wong	1	Corporate	231,438,553	57.83

All the interests stated above represent long positions.

(b) Directors' interests in the shares of associated corporations

Name of director	Notes	Name of associated corporation	Nature of interest	Number of ordinary shares held	Approximate percentage of shareholding
James Sai-Wing Wong	2	Chinney Investments	Corporate	306,959,324	55.67
	3	Chinney Holdings	Corporate	9,900,000	99.00
			Personal	100,000	1.00
		Lucky Year	Personal	10,000	50.00
Madeline May-Lung Wong	2	Chinney Investments	Corporate	306,959,324	55.67
	3	Chinney Holdings	Corporate	9,900,000	99.00
			Personal	10,000	50.00
		Lucky Year	Personal	10,000	50.00
William Chung-Yue Fan		Chinney Investments	Personal	1,902,285	0.35
	4	Wise Pacific Investment Limited	Corporate	2,000	20.00
Zuric Yuen-Keung Chan		Chinney Contractors Company Limited	Personal	2,645	13.95

All the interests stated above represent long positions.

Notes:

1. These shares are beneficially held by Chinney Investments which is a subsidiary of Chinney Holdings. More than one-third of the equity capital of Chinney Holdings is owned by Lucky Year of which James Sai-Wing Wong and Madeline May-Lung Wong are directors and have beneficial interest therein.
2. These shares are beneficially held by Chinney Holdings. By virtue of note 1, James Sai-Wing Wong and Madeline May-Lung Wong are deemed to be interested in these shares.
3. These shares are held by Lucky Year. By virtue of note 1, James Sai-Wing Wong and Madeline May-Lung Wong are deemed to be interested in these shares.
4. These shares are held by Gold Sound Enterprises Limited, of which William Chung-Yue Fan is both a director and a shareholder.

DIRECTORS' INTERESTS IN SECURITIES (Continued)

Save as disclosed herein, as at 31st March, 2004, none of the directors of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which are required to be recorded in the register kept by the Company under Section 352 of the SFO, or which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save for the Company's share option scheme as disclosed in note 31 to the financial statements, at no time during the year was the Company or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Company's directors or their respective spouse or minor children to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

- (a) On 12th February, 2003, Chinney Investments entered into an underwriting agreement with the Company on a rights issue of 200,123,100 rights shares at a subscription price of HK\$1.00 per share (the "Rights Issue"). Pursuant to the agreement, Chinney Investments undertook to subscribe for 94,842,711 rights shares and agreed to underwrite the remaining portion of 105,280,389 rights shares at a commission of 2.5%.

Upon completion of the Rights Issue on 21st May, 2003, Chinney Investments was issued and allotted a total of 168,210,078 rights shares and received HK\$2,632,000 from the Company as underwriting commission.

- (b) In April 2001, Chinney Investments subscribed for the Bonds in the principal amount of HK\$141 million (the "Chinney Bonds") under the same terms and conditions as other bondholders. The Bonds bore interest at a fixed rate of 10% per annum and were due for maturity on 22nd April, 2003.

On 12th February, 2003, the Company and Hon Kwok Land Treasury II Limited entered into a payment arrangement deed with Chinney Investments, whereby all parties agreed that the redemption monies of HK\$141 million for the Chinney Bonds be applied towards payment of part of or the whole of the subscription monies for the shares subscribed by Chinney Investments under the Rights Issue. The deed was subsequently amended on 31st March, 2003, whereby all parties agreed that the redemption of the Chinney Bonds be deferred upon completion of the Rights Issue with interest being charged at normal commercial terms.

The Chinney Bonds were fully redeemed at par by the Company on 21st May, 2003. Interest paid on the Chinney Bonds during the year amounted to approximately HK\$1,227,000 (2003: HK\$14,100,000).

DIRECTORS' INTERESTS IN CONTRACTS (Continued)

- (c) On 31st March, 2003, the Company entered into an agreement for a bridging facility with Chinney Investments whereby Chinney Investments agreed to provide financing to the Company to partly finance the redemption of the Bonds.

Interest paid on the bridging finance facilities provided by Chinney Investments during the year amounted to approximately HK\$2,486,000 (2003: Nil).

- (d) In May 2001, the Group obtained bank loan facilities of HK\$150 million through cash collateral provided by Lucky Year, the ultimate holding company of the Company. In consideration of Lucky Year's provision of the cash security, the Group agreed to pay a commission of 1.75% per annum on the average principal amount of the cash security outstanding during the term of the bank loans to Lucky Year and counter-indemnify Lucky Year in respect of the cash security by mortgaging the entire issued share capital of two of the Group's subsidiaries and assigned shareholders' loans in an aggregate amount of HK\$220,245,000 to Lucky Year.

In December 2003, Lucky Year extended the cash security arrangement for a further period of 30 months under the same terms and conditions, save for the release of all securities provided by the Group.

Commission paid to Lucky Year during the year amounted to HK\$2,625,000 (2003: HK\$2,625,000).

- (e) Fan & Fan, Solicitors provide legal and other professional services to the Group and receive normal professional fees for such services. Total fees paid by the Group during the year amounted to approximately HK\$1,049,000 (2003: HK\$534,000).

James Sai-Wing Wong and Madeline May-Lung Wong are deemed to be interested in transactions (a) to (d) above because they are directors of and have beneficial interests in both Chinney Investments and Lucky Year.

William Chung-Yue Fan is deemed to be interested in transactions (a) to (c) above by virtue of the fact that he is a director of and has beneficial interests in Chinney Investments and in transaction (e) above by virtue of his capacity as a consultant of Fan & Fan, Solicitors.

Save as disclosed above, no director had a beneficial interest in any material contract to which the Company or any of its subsidiaries was a party during the year.

MANAGEMENT CONTRACT

The Company has entered into a management contract with Chinney Investments for the provision of general corporate management services. The contract is for an unspecified duration and may be terminated by either party by giving two months' written notice.

During the year, the Company paid a management fee of HK\$2,000,000 to Chinney Investments (2003: Nil) after the obligations to pay management fees have been waived by Chinney Investments in the past two financial years. James Sai-Wing Wong, Madeline May-Lung Wong, William Chung-Yue Fan and Herman Man-Hei Fung, directors of the Company, are also directors of Chinney Investments.

SHARE OPTION SCHEME

Particulars of the Company's share option scheme are set out in note 31 to the financial statements.

SUBSTANTIAL SHAREHOLDERS

As at 31st March, 2004, so far as is known to the directors of the Company, the following substantial shareholders and other person (other than directors of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name	Number of ordinary shares held	Approximate percentage of shareholding
Chinney Investments	231,438,553	57.83
Chinney Holdings	231,438,553	57.83
Lucky Year	231,438,553	57.83

All the interests stated above represent long positions. Chinney Investments, Chinney Holdings and Lucky Year are deemed to be interested in the same parcel of shares by virtue of Section 316 of the SFO.

Save as disclosed herein, as at 31st March, 2004, none of the substantial shareholders or other persons (other than the directors of the Company) had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year, Madeline May-Lung Wong is a director of HKR International Limited whose group's businesses consist of property development and property investment. In this respect, Madeline May-Lung Wong is regarded to be interested in a competing business of the Group.

Save as disclosed above, none of the directors of the Company is interested in any business, apart from the Group's businesses, which competes or is likely to compete, either directly or indirectly, with businesses of the Group.

MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, purchases from the Group's five largest suppliers accounted for 85% of the total purchases for the year. Purchases from the Group's largest supplier included therein totalled 67%. Sales to the Group's five largest customers accounted for less than 30% of the total sales for the year.

Save as disclosed above, none of the directors, their associates or any shareholders (which, to the knowledge of the directors, owned more than 5% of the Company's share capital) had a beneficial interest in the Group's five largest customers and suppliers.

AUDITORS

Ernst & Young retire and a resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board
Herman Man-Hei Fung
Vice-Chairman

Hong Kong, 13th July, 2004