On behalf of the board of directors, I am pleased to report the following results and operations of the Group for the year ended 31 December 2004.

## RESULTS

The audited consolidated profit after tax for the year was HK$102.9 million and the earnings per share amounted to HK12.9 cents, as compared to net profit of HK$28.4 million and the earnings per share of HK3.6 cents for the year ended 31 December 2003. The net profit after tax for 2004 represents a 262.2% increase from 2003.

## DIVIDENDS

The directors recommend the payment of a final dividend of HK2.0 cents per share for the year ended 31 December 2004. Subject to the approval of shareholders at the forthcoming annual general meeting, it is expected that the final dividend will be paid on 9 May 2005 to shareholders registered on 29 April 2005. No interim dividend was paid during the year. In respect of the preceding year, a final dividend of HK1.5 cents per share was paid and no interim dividend was declared.

## NET ASSET VALUE

The consolidated net asset value per share of the Group as at 31 December 2004 was HK$2.46 based on the 797,157,415 shares in issue, as compared to HK$2.30 per share and 797,157,415 shares in issue as at 31 December 2003.

## BUSINESS REVIEW

The Group's net profit attributable to shareholders for the year was HK$102.9 million as compared to a net profit of HK$28.4 million in 2003. Turnover for the year was HK$89.8 million as compared to HK$105.6 million reported in 2003. The decrease in turnover was mainly attributed to reduced turnover of properties held for sale and decrease in rental income resulting from the disposal of an investment property in a commercial complex which ownerships are under strata-titles.

Revaluation of the Group's portfolio of properties resulted in a surplus of HK$74.5 million, of which HK$70.3 million was written back as profit for the year (2003: net loss of HK$17.2 million). In 2004, the Group's share of net profit after tax from an associated company, namely The Cross-Harbour (Holdings) Limited, was HK$38.8 million (2003: HK$24.1 million), representing a 61% increase from the prior year.

# CHAIRMAN'S STATEMENT

## Property Business

The Group's major investment properties include:

Century Square
Prestige Tower

Gross rental income for the year amounted to HK$78.0 million which represents a decrease of about 11.2% when compared with last year's income of HK$87.8 million. The decrease in rental income in 2004 was mainly due to the disposal of certain investment property and a resultant effect of a major tenancy change in Prestige Tower during 2003.

The economy of Hong Kong continued to stride on its recovery path throughout the last financial year and therefore provided a suitable opportunity for the Group to conclude its remaining consolidation of assets. During the period under review, the Group had largely disposed of its non-core assets and the proceeds so raised were used mostly to improve the Group's gearing ratio which is currently at a very healthy level. We felt the need to adopt such a strategic move in order to strengthen the Group's financial position for possible future business acquisition and further expansion into the premium property market for the coming years.

During the year under review, virtually all the economic indicators pointed to a broad-base market rebound. The weak U.S. dollar has attracted fund inflows into Hong Kong, not only leading to lower interest rates but stimulating businesses and retail activities at the same time. The unemployment rate dropped to a three-year low of 6.5%. The most salient economic impetus was perhaps the record arrivals of tourists, predominantly from the Mainland. This helped to boost the consumer confidence and therefore the retail property market in the prime commercial and tourist areas including Tsimshatsui and Central where the Group's major properties are located. Benefiting from the increased retail activities, the Group's retail portfolio recorded satisfactory upward adjustment of rental when concluding lease renewals during 2004.

Leveraging on the continuous improvement of retail sentiment and with the objective of maximising the potential of investment return, the Group during the last twelve months accelerated the pace in transforming its offices into commercial and retail usage. Currently, over 94% of the tenants in our major portfolio are of retail or commercial background. When implementing such strategic shift of tenants' profile, prudent and flexible approaches are always adopted to ensure a constant higher level of occupancy rate in buildings. As at the end of 2004, the overall occupancy rate of the Group's property stood at 96%.

## FINANCING AND LIQUIDITY

Financial expenses for the year ended 31 December 2004 amounted to HK$13.0 million (2003: HK$23.1 million), a 43.6% decrease as compared to last year. The decrease in financial expenses was due to the overall lower interest rate environment in Hong Kong and the Group's effort to reduce bank loan balance in 2004. As at the end of 2004, the bank loan balance was HK$595.5 million (2003: HK$839.0 million).

The bank loans are secured by mortgages on certain investment properties with an aggregate carrying value of HK$1,740 million (2003: HK$1,760 million) and the assignment of rental income from these properties.

The following is the maturing profile of the Group's bank borrowings as of 31 December 2004:

| | |
|---|---|
| Within one year | 33.0% |
| In the second year | 6.4% |
| In the third to fifth year | 26.5% |
| After the fifth year | 34.1% |
| Total | 100.0% |

The gearing ratio, which is calculated as the ratio of the net bank borrowings to shareholders' funds, was substantially reduced to 27.7% (2003: 43.5%). Revolving loans with outstanding balance of HK$160 million will be renewable within the next financial year. Term loan instalments repayable within one year is HK$36.5 million which will be serviced mainly by the Group's rental income. Since the Group's borrowings are denominated in Hong Kong dollars and its sources of income are primarily denominated in Hong Kong dollars, there is basically no exposure to foreign exchange rate fluctuations.

At the end of 2004, the Group's cash and cash equivalents was HK$52 million. With its cash, available banking facilities and recurring rental income, the Group has sufficient resources to meet foreseeable funding needs for its working capital and capital expenditure.

# CHAIRMAN'S STATEMENT

## PROSPECTS

The Group is optimistic about the economic development of Hong Kong in the coming years. Benefiting from its strategic position at the gateway of the greatest developing nation of China, Hong Kong will continue to be able to act as a useful business platform for the international market entering China. Within Asia, only Hong Kong is endowed with some unique advantages, which are important in attracting foreign investments. Being part of China and in the Pan-Pearl River Delta Region but under the concept of "One Country, Two Systems", Hong Kong will continue to be developed into a free and pluralistic society based on the rule of law. The Group is confident in Hong Kong for its mature market economy and world-class infrastructure, its clean government, and a highly professional and dedicated civil service plus a simple tax system with low taxes. Most importantly, Hong Kong has a very high degree of social stability and has always had the staunch support from the Mainland. In the last eighteen months, we saw strong economic benefits that were brought about by the relaxation of travel restrictions by the Mainland authority. We anticipate a further escalation of economic activities and financial benefits after the opening of The Disney Land in Lantau Island later this year, and the completion of a number of tourist theme parks and gaming facilities in our neighbouring city Macau between 2005-2008. Against these optimisms, there are some underlining worries such as the threat of rising interest rates, the unstable currency movements and the escalating oil price. On the whole, we anticipate that Hong Kong will continue to advance on its recovery path in the coming year, though it may be at a moderate pace after having stridden quickly in the last eighteen months.

The Group will continue to regard Hong Kong as a major base for long-term investment. We will continue to strive to preserve and enhance the value of our assets by implementing necessary renovation and improvement programmes in our buildings. The Group will maintain property investment as our core business but will also actively explore opportunities to further broaden our asset base, both in property assets as well as other quality investments with stable recurrent return. We believe suitable diversity of business may spread the investment risks and can yield stable return while sustaining our business growth under whimsical market climate.

## STAFF

At 31 December 2004, the Group employed a total of 30 staff. Staff remuneration is reviewed by the Group from time to time. In addition to salaries, the Group provides staff benefits including medical insurance, life insurance, provident fund and discretionary vocational tuition/training subsidies. Share options and bonuses are also available to employees of the Group at the discretion of the directors and depending upon the financial performance of the Group.

## APPRECIATION

I would like to take this opportunity to thank our shareholders and business partners for their continuing support, and the Group's dedicated management and staff for their valuable contributions during the past year.

**Cheung Chung Kiu**
*Chairman*

Hong Kong, 11 March 2005