Overview

The Group's net profit for the year ended 31 December 2004 was HK$93.3 million as compared to HK$18.5 million in 2003. Turnover for the year was HK$1,455.8 million, against HK$1,470.6 million in 2003.

In 2004, Hong Kong's economy showed a healthy recovery from the nadir reached in mid-2003 due to the SARS pandemic. Benefiting from increased domestic consumption and the boom in tourism sparked by the Mainland's "Individual Visit Scheme", business sentiment and consumer confidence strengthened and property prices surged throughout the year, particularly at the luxury end of the market. Taking advantage of the strong property market, the Group generated approximately HK$3.7 billion in property sales in 2004, of which our revenue share is approximately HK$1.5 billion (including attributable revenue in associates). Profits from these sales will be reported over the next two years in accordance with our accounting policies and will serve as a solid base for the financial performance of the Group in coming years.

Operations Review

The Group is organised into three divisions: Property, which comprises investments in quality industrial and commercial properties, residential property development in Hong Kong and property management; Apparel, which includes garment manufacturing and branded products distribution; and Strategic Investments.

The residential property market in Hong Kong continued its recovery throughout 2004. The value of Tower 5 of the Waterfront project (now known as Tower V on Union Square) has appreciated by HK$457 million to HK$1,930 million (i.e. reaching an average price of HK$7,200 per square foot at 31 December 2004). Upward trend in property prices continued into early 2005, at which time we launched the strata-sale of Tower V on Union Square. Up-to-date, we have sold approximately 50% of the residential units in Tower V, achieving an average of HK$8,000 per square foot for gross revenue totalling approximately HK$940 million. The Group has a 7.5% interest in this development. In accordance with the Group's accounting policy, the Group's share of the change in the fair market value of Tower V on Union Square of HK$457 million is reported as a profit in the 2004 accounts whereas revenues and profits pertaining to the sales will be recognised in the 2005 accounts. Together with the profit generated from the sales of other projects, the Group reported an increase in net profit from HK$38.1 million in 2003 to HK$94.1 million in 2004 for its property development business.

The Group was able to capture the upswing by launching the pre-sale of The Grandville, in which the Group has a 40% interest, towards the end of the year. Over 90% of the development was sold within approximately one month, with an average price of approximately HK$7,500 per square foot. Special luxurious units within the development were able to command prices averaging up to HK$13,000 per square foot. So far, The Grandville has generated revenue of approximately HK$3.4 billion, of which the Group's 40% share approximates HK$1.36 billion. As it is the Group's accounting policy to recognise revenue at project completion, revenues and profits pertaining to The Grandville are not expected to impact our accounts until 2006.

On the development side, construction of The Grandville is progressing well and on track for delivery to the purchasers in June 2006. Sales of The Giverny, which is a low-density residential development located in Hebe Haven, Sai Kung and comprising 63 two-storey houses totalling approximately 150,000 square feet, are set to begin in the second half of 2005. The Group has a 50% interest in this project.

In June 2004, Morgan Stanley Real Estate Funds acquired a 40% interest in 133 Leighton Road from the Group. The property is being refurbished as a high-end luxurious boutique hotel/serviced residences. Due to open in the second half of 2005, it will be managed by the Group's hospitality management division, Lanson Place.

In January 2005, the Group was successful in its HK$250 million bid for 157 Argyle Street. Subject to our respective independent shareholders' approval, Winsor Properties Holdings Limited will become our joint-venture partner by taking up 20% interest in the project. This will further strengthen our strategic alliance in line with our established strategy. It is anticipated that the development will be completed in or around 2007 to complement the Group's portfolio of quality property products.

The recovery in property prices is also evident from the rebound in the value of our industrial properties. Increase in fair market value amounted HK$39.9 million was reported as profit in the 2004 accounts.

The Group's garment manufacturing operations, through Shui Hing Textiles International Limited and Unimix Holdings Limited, contributed an operating profit, excluding restructuring and other one-time costs, of HK$30.4 million in 2004 as compared to HK$50.0 million for the year 2003. At HK$1,032.8 million, turnover showed a small increase in 2004, as against HK$989.7 million in 2003.

Many apparel manufacturers aggressively increased capacity in 2004 in anticipation of the abolishment of import quotas on China-origin textile and clothing products in 2005, following China's accession to the World Trade Organisation. This rapid increase in supply, together with inflation of key production costs including increase in minimum wages is one of our major challenge and caused margins to decrease rapidly. Furthermore, both the U.S.A. and the E.C. have announced an intention to review the impact of a surge in textile imports from China. As it now stands, the re-imposition of quotas (under the so-called "anti-surge" provisions) is likely for key garment categories. Confusion in the market place and higher operating costs appear unavoidable and uncertainty will likely reign in the foreseeable future.

With a view to achieving greater operating efficiencies, the Group has been building up a production base in RuYuan, which is on the Hunan border in Northern Guangdong province, over the past few years. RuYuan is further away from Hong Kong than our traditional production base of Dongguan, but it has the advantage of lower labour and other production costs. By early 2005, the Group had completed an additional 240,000-square-foot facilities in RuYuan for the manufacture of woven shirts and fine knitted products.

Gieves & Hawkes plc ("G&H"), the Group's menswear retail and licensing operation in the U.K., recorded a 25.3% increase in sales in 2004 (2004: HK$214 million vs. 2003: HK$170.8 million). The strong performance of the Savile Row flagship store, together with the wholesale operation that commenced in mid-2003, also boosted turnover in 2004.

SUNDAY Communications Limited ("SUNDAY") continues to enhance its profitability through improved efficiency. While developments in the mobile telecommunications market have not been favourable in recent years, SUNDAY has been far-sighted in putting in place strategies and infrastructure for success in 3G and the opportunity beyond 3G. For the year ended 31 December 2004, SUNDAY reported its second consecutive full-year net profit of HK$6 million, after the deduction of HK$43 million 3G roll-out costs. Its 2G operation recorded a remarkable 81% year-on-year increase in operating profit for a total of HK$49 million.

Strategic Direction

Since entering the residential property market in 1996, the Group has been steadily forging strategic partnerships and establishing the value and market position of the WingTai Asia brand. The successful launches of The Grandville and Tower V on Union Square have reinforced our position as a developer of premiere residential products. In the future, the Group will continue to look for quality residential project opportunities that will enable us to further strengthen the WingTai Asia brand and grow our property development capabilities.

On the Apparel side, it is becoming evident that the market will remain chaotic as a result of the uncertainties surrounding the application of the anti-surge provisions. As always, the Group will continue to improve its customer base and production efficiencies. In preparation for the threat of import-restrictive measures on our products with the triggering of anti-surge provisions on China, we have already completed a re-alignment of production facilities, including the expansion of our Macau PPE (Processo Produtivo No Exterior) facilities.

Prospects

2004 was a successful year. We have confidence in the long-term outlook of the Hong Kong economy. However, uncertainties still remain as to interest rates, inflationary pressure and oil prices, as well as the sustainability of the current recovery cycle in the U.S.. We believe that our strategies will allow the Group to weather any short-term down cycle while capturing opportunities to create value for our shareholders.

The coming year will be a busy one for the Property Division, with the launch of The Giverny and continuing sales of units at Tower V on Union Square, as well as the opening of the Lanson Place luxurious boutique hotel/serviced residences at 133 Leighton Road. Given the continued strength of the residential property market and our record of sales to date, year 2005 looks promising.

The Group's garment manufacturing operation now faces a deteriorating operating environment which is not likely to improve until the excess capacity situation in the market has been resolved through, for example, market consolidation. However, we remain confident in the long-term profitability of our business as we continue to focus on improving production quality and responsiveness while seeking opportunities to expand sales and target new market niches here and overseas.

Vote of Thanks

On behalf of the Board of Directors, I would like to thank our management, staff and consultants for their determination and continuing efforts to build a solid foundation for growth and prosperity.

Cheng Wai Chee, Christopher
Chairman