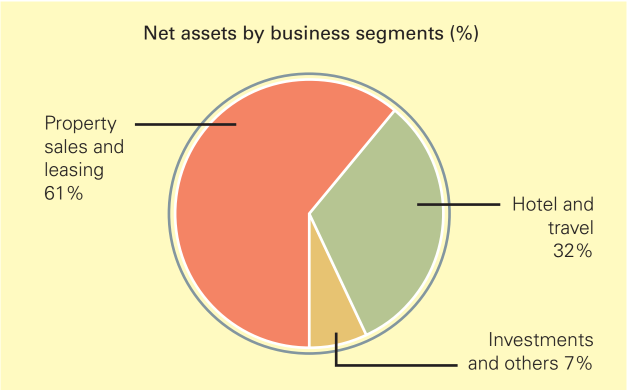
Chairman's Statement

I am pleased to present the annual report of the Group for the year ended 31st March 2004 to the shareholders.

Results

Turnover for the year amounted to HK$767 million, representing a decrease of 37% from last year. Loss attributable to shareholders has reduced to HK$228 million, compared with HK$374 million last year.



Review of operations

Property sales and leasing

The Group's shareholding in Asia Standard International Group Limited ("Asia Standard") decreased slightly by 0.6% to 52.8% as at 31st March 2004. Although affected by the SARS outbreak, Asia Standard recorded a loss attributable to shareholders of HK$142 million, much improved from last year's loss of HK$277 million.

Asia Standard sold a total of 178,000 sq.ft. of properties against 150,200 sq.ft. last year. Property market showed a strong recovery during the second half of the financial year. Major sales were from the 50% owned luxury apartment No. 8 Shiu Fai Terrace and another 50% owned residential development Bijou Apartments. Total revenue from these two projects amount to HK$700 million and HK$213 million respectively. Despite that, turnover on property sales dropped to HK$168 million compared with HK$470 million last year, as the turnover of these associated companies projects were excluded from the consolidated financial statement by accounting conventions. Inventory properties were also disposed of, including the remaining units of Oakridge in Shaukeiwan, and Royalton II in Pokfulam. Another 50.1% owned joint venture luxury development, Grosvenor Place in Repulse Bay was sold in April 2004 for HK$940 million. The attributable profit of approximately HK$90 million will be accounted for in the coming financial year.

No. 8
Shiu Fai Terrace

Grosvensor Place,
117 Repulse Bay Road

Rental income attributable to Asia Standard decreased by 10% compared with last year to HK$65 million, mainly due to the declining rental market during the year. Occupancies remained high at an average of 86%. We believe the situation will improve upon renewal of these tenancies given the recovering market conditions.

With improving market sentiment, the Group has concluded land premium negotiations for two residential development sites totalling approximately 233,000 sq.ft. gross floor area in Ping Shan and Yau Tong. Construction work will commence shortly and we expect pre-sale to commence towards the end of the coming financial year.

The Group is still pursuing the lease modifications and land premium negotiations for three other development sites totalling approximately 760,000 sq.ft. gross floor area and is also actively negotiating the acquisition of some residential development sites to replenish its land bank.

Hotel

Our hotel operations have experienced the worst operating environment since its commencement in 1994. Following the SARS outbreak at the beginning of the financial year, occupancy dropped drastically to a historic low and by the end of the interim period, turnover had fallen by 26% with a loss of HK$19 million compared with HK$9 million profit of the corresponding period last year.

With the SARS behind us and the much effort spent by the government including the signing of CEPA and the support of Mainland China in their Individual Visit Scheme, both leisure and business visitors are returning to Hong Kong. Occupancies of the two hotels in Hong Kong increased from 41% and 51% in the first half of the financial year to 84% and 88% in the second half. The business of Empire Landmark in Vancouver also declined but effect was partially offset by the strengthening of the Canadian dollar. By the end of the financial year, the hotel subsidiary had narrowed the loss for the full year to HK$12 million.

Chairman's Statement

Investments

The 32% owned associate, Q9 Technology Holdings Limited succeeded in reversing its loss making trend since listing on the GEM board and recorded its first month operating profit in September 2003. Turnover for the year 2003 increased by 126% compared to year 2002. Steady progress have been made in securing orders from OEM manufacturers of mobile phones, desk-top phones and digital set-top boxes. In the first quarter 2004, Q9 signed two additional OEM licensing agreements and reported a 75% increase in turnover over the same period last year, while loss for the same period decreased by 80%. The company is making a good start towards the coming year.

Applications for Q9

The business activities of the Group's other investee companies in the medical and health and energy saving sectors were dampened during this year with the outbreak of SARS. Development progress were lagging behind the original business plan. The Group has made prudent provisions totalling HK$67 million on impairment in values of these investments.

Financial review

At 31st March 2004, the Group's net asset value was HK$2.09 billion compared with HK$2.24 billion at 31st March 2003. During the year, HK$28.4 million convertible notes of the Company were converted into ordinary shares, increasing the number of issued shares by 15.8%. Net asset value per share decreased from HK$14.96 at 31st March 2003 to HK$12.05 at 31st March 2004.

Gearing ratio is 62% (2003: 62%) with a net debt of HK$2,748 million (2003: HK$2,818 million) and shareholders' funds plus minority interests of HK$4,442 million (2003: HK$4,532 million). Finance costs were reduced by 15% compared with last year as a result of further interest rate drops.

All the Group's borrowings are in Hong Kong dollars except for the mortgage loan of the Vancouver hotel which is denominated in Canadian dollars. This loan is served by the Canadian dollars receipts of the hotel and so the exchange risk exposure is reduced. Over 86% (2003: 82%) of the Group's borrowings were repayable after one year, with repayment schedules spreading over a long period of time to over 10 years.

As at 31st March 2004, properties with an aggregate net book value of HK$6,055 million (2003: HK$5,897 million) were pledged to secure banking facilities of the Group. The Group has also provided guarantees to banks and financial institutions on credit facilities to jointly controlled entities, associated companies and third parties of HK$246 million (2003: HK$482 million).

Employees and remuneration policies

As at 31st March 2004, the Group employed a total of 635 full time employees, with over 54% working for the hotel subsidiary group and 36% for building management services. Their remuneration packages, which commensurate with their job nature and experience level, include basic salary, annual bonus, retirement and other benefits.

Prospects

The property market eventually hit the bottom in the third quarter 2003 and started to pick up in the fourth quarter. It gained further momentum in first quarter 2004, especially in luxury residential and retail sector. Improving job market, ample liquidity, low mortgage interest rates continue to fuel the demand. The declining new supply of residential property in the coming years suggests that prices should increase over the period. The Group is responding by actively replenishing its land bank holdings through various means and accelerating the progress of its existing projects. China's soaring economic growth create a burgeoning sector seeking higher quality products and accommodation, a reflection of driving for higher living standard. The Group will further move into the PRC market in the very near future.

The addition of more PRC cities to the Individual Visit Scheme boost Hong Kong's retail business and tourism. The measured hotel room supply in the coming several years guarantees a promising return, baring unforeseen circumstances.

By Order of the Board
Fung Siu To, Clement
Chairman

Hong Kong, 19th July 2004