

Management Discussion and Corporate Overview

For the financial year ended 31st March 2005, the Group continued to deliver a solid financial and operational performance. In the financial year of 2005, our net profit increased by 169% to approximately HK\$400 million.

This successful achievement attributed from both the property sales during the year and the increase in hotel rooms to meet with the increasing demand of hotel accommodation in Hong Kong. The Group remains extremely well positioned in the property development market and the hotel industry.

Despite the recent weak sentiment on property market in the Mainland, the Board remains positive in the development of middle-class property in the Mainland in long term. Given the well established skilled and experienced property team, the Group is confident in undertaking new property developments in Mainland.

With the introduction of Closer Economic Participation Arrangement ("CEPA"), the hotel industry in Hong Kong had been greatly benefited from increase in demand of accommodation. The Group had experienced prominent increases in both occupancy rates and profit contribution from our hotel portfolio during the year. With the opening of Disneyland, the Board expects stronger demand of hotel accommodation in Hong Kong in coming years. Before the end of December 2005, the Group will make itself as one of the leading 3-4 star hotel operators in Hong Kong with close to 2,000 hotel rooms in operations.

During the financial year, the Group further affirmed its interests in the Macau project with Venetian Group (Venetian) from Las Vegas, the United States, by signing of a Memorandum of Agreement. The final binding agreements with Venetian are expected to be signed before the end of third quarter of 2005. Being a strategic partner with Venetian, the Group will develop a site located in Cotai, Macau, with a total gross floor area of more than three million sq.ft.. The Macau project is divided into two phases. The Group targets to begin construction work in August/September 2005. In anticipation of the completion and commencement of business of Phase I in the second half of 2007, the Group will have four hotels with no less than 2,000 rooms, a shopping and entertainment complex of approximately one million sq.ft., a casino/showroom shell of more than 200,000 sq.ft., and a serviced residential development of approximately 360,000 sq.ft.. The casino/showroom shell will be leased to Venetian, which will operate a casino and related activities. The Group will not involve in gaming operation in this complex. With significant economic growth in Macau, the Board strongly believes that this project will enhance our future recurring income stream.

We will continue to cultivate our future growth based on our two principal businesses in Greater China. The first one is to continue developing affordable quality housing in mainland with middle class as our primary targeted customers. Our second principal business is to develop and operate 3-4 star hotels in Hong Kong and Macau so as to capitalize the opportunity of increasing demand from mainland's travelers in the region. In addition, in order to employ our resources more efficiently and effectively, the Group will continue to dispose its non-core investment assets.

Business Review

1. Property Development Division

Mainland China

Despite the announcement of austerity measures by the central government in May 2004, the Group remains positive in the Mainland's middle-class property market and continuously exploring and assessing good return investment opportunities in property development in several major cities of the Mainland. California Garden, our property development project in Shanghai, will be one of the main revenue contributors for the Group over the next few years. In addition, our two property development projects in Guangzhou, New Time Plaza and Gantangyuan, are scheduled to complete in 2007 and 2008, respectively. Guangzhou will be one of our key focused cities for property development as we believe the property market of Guangzhou will recover in near future.

In March 2005, we sold 60% of the commercial units launched for pre-sale in California Garden. Based on the revenue recognition from the stage of completion method, our estimated gross profit from the property sales was about RMB56 million. However, with the introduction of HK Interpretation 3 "Revenue – Pre-completion Contracts for the sale of Development Properties (previously SSAP-Int24)" issued by the Hong Kong Institute of Certified Public Accountants in May 2005, we were required to exclude such profit from our FY2005 final results. Such profit will be deferred to FY2006 when the occupancy permits for those pre-sold units being obtained.

California Garden, Shanghai – a residential development with a land area of approximately 14.5 million sq.ft. with an approved built-up area of approximately 12.4 million sq.ft.. Upon full completion of the development, this project will boost a total of approximately 8,000 units of a mixture of residential and commercial properties with more than 97% are residential units.

New Time Plaza, Guangzhou – the Group owns 50% of the development. It comprises of an auxiliary building with 8,000 sq.m. and a proposed 29-storey residential tower with a gross floor area of approximately 27,000 sq.m.. Construction work for the residential tower is currently in progress and is expected to be completed by 2007.

Gantangyuan, Huadiwan, Guangzhou – the Group owns 100% of this development. It comprises of 2 blocks of 32-storey residential building with a total gross floor area of approximately 43,000 sq.m., including 40,000 sq.m. of residential area, 2,000 sq.m. of commercial area and 1,000 sq.m. of car parking space. Currently the development is at the planning stage, the construction is expected to start in late 2005 and is scheduled to be completed by 2008.

Chengdu, Sichuan – in late 2003, the Group signed a memorandum of understanding with Chengdu government to develop a residential community with a total land area of 1,200 mu or 800,000 sq.m.. The project is expected to consist of a number of phases with an overall development period of six years. Due to the introduction of austerity measures by the PRC government, the negotiations between the Group and the local government have taken longer than expectation. However, the Group intends to finalise all the necessary authority approvals before the end of the current financial year.



front row: Kevin AU
back row (from left to right): Stewart TSUI,
Roland LAU, Ricky LI

Hong Kong

The Group does not maintain a significant land bank but typically only acquires land to satisfy its specific project requirements. During the period, the Group had three property development projects, namely Bakerview, Clear Water Bay Knoll, and Art Del Sol, launched for sales. Another new development project, Terra Nova in Sai Kung, is expected to be launched for pre-sale in the first half of FY2006.

Bakerview, Hung Hom – a 32-storey commercial-residential development with a total gross floor area of approximately 55,000 sq.ft. comprises of 104 residential units, 26 car-parks and 2 floors of shopping units was completed in late 2002. As of the date of this report, approximately 65% of the units have been sold. The Group has withheld remaining units for leasing.

Clear Water Bay Knoll, Sai Kung – a 15 detached house development with a total gross floor area of approximately 18,000 sq.ft. built on a 30,000 sq.ft.

site. Construction was completed in late 2003. As of the date of this report, all the units has been sold.

Art Del Sol, Sai Kung – a proposed development of 24 houses with a total gross floor area of approximately 53,000 sq.ft.. Building work on phase 1 has completed and the group has recently been issued the certificate of compliance. The pre-sales were launched in 2004. Approximately 75% of the units have been sold as of today. Development for other phases will depend on obtaining approvals from relevant government authorities.

Terra Nova, Sai Kung – a 10 detached house development with a total gross floor area of approximately 12,000 sq.ft. built on a 30,000 sq.ft. site. Construction has been completed in early 2005 and sales will be launched upon the issuance of certificate of compliance by the government.

Tan Kwai Tsuen, Yuen Long – this project is a 5-storey apartment development comprises of 96 units with a total gross floor area of approximately 48,500 sq.ft.. The group is in the process of applying for land exchange. Construction work is scheduled to commence by end of 2005.

Hung Shui Kiu, Yuen Long – a 7-storey residential development project comprises of 72 units with a total gross floor area of approximately 36,000 sq.ft.. The group is currently in the process of applying for land exchange. The construction work is scheduled to commence by the end of 2005.

Fung Lok Wai, Yuen Long – This is a joint venture project with Cheung Kong (Holdings) Ltd. and Sun Hung Kai & Co. Limited for residential estate development with a total area of approximately 8,610,000 sq.ft.. No definite plan for this development at present. The group holds 25.33% beneficial interest in this project.

Financial and Operating Review

Australia

The Group has two luxury residential development projects in Melbourne, namely Flinders Wharf and Royal Domain Tower. The Group has a 47.5% interest in Flinders Wharf, of which approximately 95% of the units had been sold. The construction of Royal Domain Tower is expected to be completed by early 2006. Up to the end of the FY2005, approximately 57% of the units had been sold. The Group has a 90% interest in this project.

Flinders Wharf, Melbourne – this is a luxury residential development which consists of 301 units apartments with a total gross floor area of approximately 54,000 sq.m.. It is located next to the Melbourne Exhibition and Convention Centre. The construction works was completed in November 2003.

Royal Domain Tower, Melbourne – this is a 42-storey luxury residential apartment development comprises of 137 units apartments with a total gross floor area of approximately 65,000 sq.m.. Each unit selling for more than A\$1 million. The project is located along St. Kilda Road in the Melbourne City overseeing the Melbourne Botanic Gardens and the Port Philip Bay. Upon the completion, the property will be one of the tallest luxury residential buildings in Melbourne.

2. Hotel Business

With the relaxation of tourist visa approvals for the Mainland's travelers under CEPA, our hotel operations in Hong Kong achieved an average occupancy of over 90% for the year. Furthermore, our hotels marked a double-digit increase in room rates for the year.

Before the end of the year, our Cosmopolitan Hotel, which was converted from the old China News Agency Building in Wanchai, commenced operations with a total of 454 rooms. With its historical background and convenient location, Cosmopolitan



from left to right: Sarah NG, Richard KWONG, Lawrence TSE, Anita CHAN, Andrew LEE, Patrick LAM, Frankie LAI, Barry LO

Hotel has been operating at a high level of both occupancy and room rates since its opening.

In September 2004, the Group paid HK\$118 million to acquire an office building located at 263 Hollywood Road for hotel development. The conversion work was completed in about six months. The new hotel, Central Park Hotel, with 142 rooms was opened in mid-April 2005. The operating performance of the hotel has met our expectation and continuous improvement is expected.

In December 2004, we further expand our hotel portfolio by acquiring the Gold and Silver Tower in Wanchai for HK\$122 million. The Gold and Silver Tower was again an office building and located two buildings away from our Cosmopolitan Hotel. The building will be developed into a HIP hotel with 142 rooms. The conversion work is under its way and is expected to be completed by August 2005. The new hotel is named Cosmo Hotel with a targeted opening in September 2005.

In late April 2005, the Group opened its third new hotel, Dorsett Olympic Hotel, in Tai Kok Tsui. This is a 3-star hotel with a total of 141 rooms. Despite its

short history of operation, the hotel has been enjoying an occupancy rate of 90% since its opening.

The Group targets to open three more new hotels with a total of 560 rooms within the next six months. They are Cosmo Hotel, Lan Kwai Fong Hotel and Dorsett Tsuen Wan Hotel. After these three hotels opened, the Group will have a total of eight hotels, including Dorsett Regency Hotel in Kuala Lumpur, Malaysia, with close to 2,000 rooms in operations. This will make us as one of the major hotel groups listed in Hong Kong.

In addition to the hotels mentioned above, the Group recently paid HK\$81 million to acquire an industrial site with a site area of 5,528 sq.ft. in Tai Kok Tsui. The Town Planning Board had granted the approval to convert the site for hotel development use. According to the present development plan, we expect to complete a 3-star hotel with around 285 rooms within two and a half years. The sale and purchase transaction is expected to be completed in August 2005.

Significant Events

In the first half of the year, the Group sold Far East Bank Mongkok Building which carried a book value of approximately HK\$205 million and a fair market value of approximately HK\$271 million at a cash consideration of approximately HK\$469 million; a gain of approximately HK\$191 million was recognized on such disposal.

As announced on 20 June 2005, the Group was informed that the interests in Riverside South Project ("Project") in Manhattan, the United States, were agreed to sell for US\$1.76 billion to an independent third party. The book cost of our investment is approximately HK\$70 million. We expect the transaction to be completed before the end of August 2005.

In relation to the recent Complaint filed in the District Court of the United States against investors of the Project, the Group is seeking for legal advice in this regards. As legal proceeding has been commenced, the management will closely monitor the status of this legal proceeding. Further announcement will be made by the Company in accordance with the Listing Rules.

Material acquisitions and disposals of subsidiaries and associated companies

In September 2004, the Group acquired the entire issued share capital of and shareholders loan to Caragis Limited and Vicsley Limited which jointly owned the office building located at 263 Hollywood Road which was subsequently converted into Central Park Hotel.

In February 2005, the Group acquired the entire issued share capital of and shareholders loan to Grand Expert Limited which owned the Gold and Silver Tower. The Gold and Silver Tower will be converted and operated as Cosmo Hotel.

In 2004, the Group acquired 100% of the issued share capital of Tang City Properties Pte Limited for a consideration of S\$1.

The subsidiaries acquired during the year do not have any material impact of the Group's results for the year.

Save as disclosed above, there was no material acquisition and disposal of subsidiaries and associated companies by the Group during the year.

Financial Resources and Liquidity

Borrowings and charge on Group assets

The business activities of the Group are funded by bank borrowings unsecured loans and cash generated from operating activities. The Group's total bank and other borrowings and convertible

Financial and Operating Review

bonds amount to approximately HK\$2,457 million as at 31st March, 2005 (2004: HK\$1,667 million), in which approximately HK\$615 million was payable within one year and approximately HK\$1,842 million was payable after one year. Approximately HK\$1,603 million of the borrowings was secured while the remaining HK\$89 million was unsecured. The Group's borrowings are primarily denominated in Hong Kong dollars.

Zero Coupon Bonds

On 13th April, 2004, the Group completed the US\$67 million zero coupon convertible bond issue. The purpose of the issue was for the repayment of existing loans and the general working capital. Based on the adjusted conversion price of HK\$2.18, the convertible bonds are convertible into approximately 237 million shares of HK\$0.1 each in the share capital of the Company. Presently, approximately 97% of these convertible bonds have been converted into shares.

With the abovementioned convertible bonds being almost fully converted, the Group launched another zero coupon convertible bond issue of HK\$754 million in December 2004. The issue was primarily purposed to finance the upcoming development project in Macau. Based on the adjusted conversion price of HK\$4.06, the convertible bonds are convertible into approximately 186 million shares of HK\$0.1 each in the share capital of the Company.

Contingent Liabilities and Commitments

Contingent Liabilities

As at 31st March, 2005, the Group had the following contingent liabilities:

- (a) The Group has given guarantees to secure banking and other facilities granted to an investee company amounting to approximately HK\$102,536,000 (2004: HK\$64,185,000).
- (b) The Group has given guarantee in respect of mortgage loans provided to the home buyers of a property project in the PRC. At 31st March, 2005, the total amount of mortgages outstanding which are subject to these guarantees was approximately HK\$115,539,000 (2004: HK\$35,537,000).
- (c) In previous year, a subsidiary of the Company (the "Subsidiary") was sued by two consultants providing management, consulting and advisory service concerning business strategy and corporate finance activities of the Subsidiary. The two consultants entered into a consulting contract with the Subsidiary in 1999 in lieu of cash for service rendered. The two consultants alleges that the Subsidiary fraudulently misrepresented and concealed material facts regarding the proposed investment from them and claim for compensation of damages amounting to approximately HK\$5,843,000. Moreover, the two consultants also alleges that the Subsidiary owes them salaries, payment in lieu of notice for early termination of the contract and the reimbursement for expenses regarding to the employment contract as the board of directors of the Subsidiary amounting to approximately HK\$5,865,000. Motion of dismiss was filed to the United States court and the claim is still in progress. While the outcome of these proceedings cannot be estimated with certainty at this stage, based on independent legal advice obtained, the directors are of the opinion that the outcome of this case would not have a material adverse impact on the financial position of the Group.
- (d) The State Administration of Taxation of the PRC issued a circular as Guo Shui Han [2004] No.938 on 2nd August, 2004 to strengthen levy of land appreciation tax on property developers. In the opinion of the directors, after consulting the tax consultants and the tax bureau of the relevant city, land

appreciation tax will not be levied in respect of properties already completed and accordingly, full provision for land appreciation tax has not been made in the financial statements. The Group, has not, however, been able to secure written confirmation of those individual city policies, and the directors consider that there is a small possibility that land appreciation tax might be fully levied in accordance with the rule of State Administration of Taxation. Should such levies take place, additional land appreciation tax would be approximately HK\$80 million.

Commitments

At the balance sheet date, the Group had capital commitments contracted but not provided for property development projects of approximately HK\$1,101 million (2004: HK\$561 million). At 31st March, 2004, the capital commitments authorised but not contracted for property development projects, hotel refurbishment and upgrade and jointly controlled property development project of approximately HK\$346 million.

Gearing ratio

The gearing ratio (total bank and other borrowings and convertible bonds to shareholders' equity) as at 31st March, 2005 was 65% (2004: 62%).

Current ratio

The current ratio as at 31st March, 2005 was 2.5 (2004: 1.4). The Group has maintained sufficient liquid assets to finance its operations.

Exchange rate

The Group was not exposed to material exchange rates fluctuations during the year.

Pledge of assets

- (a) The Group's properties, bank deposits and investments in securities with an aggregate carrying amount of approximately HK\$2,497,046,000 (2004: HK\$2,603,798,000), HK\$3,901,000 (2004: HK\$5,539,000) and HK\$1,556,000 (2004: HK\$2,334,000) respectively, together with properties of associates and third parties were mortgaged or pledged to the Group's bankers and loan creditors to secure banking and loan facilities granted to the Group and its associates to the extent of approximately HK\$2,572,480,000 (2004: HK\$2,021,216,000) and HK\$5,000,000 (2004: HK\$5,000,000), respectively.

The Group's bank deposits of approximately HK\$3,000,000 (2004: HK\$2,945,000) were pledged to a Group's banker to secure a guarantee given by the banker in favour of certain subsidiaries of the Company.

- (b) The Group's investments in securities of approximately HK\$237,746,000 (2004: HK\$37,517,000) were pledged to the Group's financial institutions to secure margin trading facilities granted to the Group in respect of securities transactions to the extent of approximately HK\$37,613,000 (2004: HK\$7,800,000), of which HK\$32,449,000 (2004: HK\$2,411,000) were utilised.
- (c) Interests in certain subsidiaries of the Company have been pledged as part of the security to secure certain bank borrowings granted to the Group and its subsidiaries.
- (d) The Group has subordinated its amount due from an investee company of approximately HK\$119,995,000 (2004: HK\$119,995,000) to a financial institution to secure general credit facility granted to the investee companies.