Managing Director's Report

POSITIONING FOR A RECOVERY

In FY2021, the world economy continued to grapple with the damage caused by the global COVID-19 pandemic. Many countries, states and cities were hit by unexpected and sporadic lockdowns and/or curfews and, travel was severely restricted or even forbidden in numerous regions. Many governments and central banks did intervene and proactively provided support in the form of fiscal stimuli and loose monetary policy, including quantitative easing. Whilst these actions helped to mitigate the impact of COVID-19, many segments of the global economy remained critically impacted.

The Group's businesses were hit by COVID-19 in FY2021, and this for the first time for the entirety of the financial year.

The property development business was partly unscathed thanks to the strong demand for residential properties and our very geographically diversified portfolio of projects. The hospitality segment of the economy was particularly hard hit which affected our hotel and gaming businesses with lower occupancy/rates, and temporary casino closures, respectively. Our car parking business was also affected with reduced business and travel activities. But despite the above, the Group recorded satisfactory financial results with an increase in net profit attributable to shareholders. A summary of our key achievements is set out below:

The construction site, Aspen at Consort Place, London

Key Achievements and Business Progress Update

Property Development

- We recorded cumulative presales of HK$13.8 billion as at 31 March 2021 which provides the Group with a good visibility of revenue in the coming years, after recognition of HK$5.9 billion revenue for FY2021.

- We added development land in Manchester and Sydney (via a 50/50 joint venture with The Star) to our development pipeline and maintained a healthy total GDV pipeline of approximately HK$55.6 billion as at 31 March 2021.

- We launched successfully a number of new projects including New Cross Central and Victoria Riverside in Manchester and maintained healthy presales for the recently launched projects such as Aspen at Consort Place in London and Queen's Wharf Residences (Tower 4) in Brisbane as well as various projects in Australia and Hong Kong.

- We commenced construction of Aspen at Consort Place in London and made good progress on all of our residential developments with a number now near completion. This includes Mount Arcadia in Hong Kong, West Side Place Stage 1 in Melbourne, Hornsey Townhall and Meadowside in UK.

Hotel Operations and Management

- We continued in FY2021 where we left last year and pushed through additional rationalisation actions to control costs across different geographies resulting in a sustainable cost structure that will be effective even under a prolonged period of COVID-19 pandemic.

- We were one of the first hotel groups to target the quarantine business and secured a number of contracts in different geographies, including Hong Kong, Singapore and UK.

- We continued with a number of hotel construction projects with Ritz-Carlton Melbourne, Dorsett Gold Coast and Dorsett Shepherds Bush extension (which will be operated as serviced apartments) earmarked for completion in the second half of FY2022.

Dorsett Gold Coast, Australia

Car Park Operations

- After a number of years of investment to upgrade our technological platform for car park management, our car park division now has a sophisticated operating and monitoring system which will enable it to effectively scale up its operations.

- Despite operating under a difficult business environment which resulted in many of our competitors recording losses, Care Park managed to stay EBITDA positive with the successful implementation of a rationalisation programme.

- The division has also started to implement an asset recycling programme selling down some smaller non-core assets in our portfolio. The financial effect of this initiative will be reflected in the current financial year.

Care Park

Gaming Operations

- The gaming division managed to deliver EBITDA positive results despite having to close its operations in the Czech Republic for a significant part of the financial year. This profitability was achieved through a combination of resilient attendance, costs control efforts as well as government support during the year.

- In order to continue to service our customers even under a COVID-19 environment and to broaden our targeted customer base, TWC initiated ground work for the award of a Malta online gaming license. This will allow us to target players in certain European countries initially.

- Destination Brisbane Consortium continued to make good progress in the construction of the world class Queen's Wharf Brisbane integrated resorts project. The first gaming component of the resorts is scheduled to open in FY2023.

Route 55 Casino, Czech Republic

Managing Director's Report

Mortgage Financing Business

- BC Group's mortgage loan portfolio reached a total size of AUD1.2 billion (HK$7.1 billion) as at 31 March 2021, an increase of AUD190 million (HK$1.1 billion) from a year ago.

- The business expanded into UK market and the initial response from the market has been extremely positive.

- In November 2020, BC Group completed successfully an inaugural A$416 million RMBS issue, effectively recycling in the public market parts of its portfolio. We expect more RMBS issuance this year and in the coming years.

- The business delivered strong growth momentum and is expected to deliver an even faster growth rate in the coming years as the business expands into new geographies and segments of the mortgage market outside the non-resident market.

Other new businesses

- During the year, First International Property, the Group's newly established property agency business progressed well. The Group also commenced a safe deposit box business through a newly set up subsidiary, Far East Vault, with a total of 4,500 boxes in Tsuen Wan, Hong Kong.

Far East Vault, Hong Kong

FarEast Vault 遠東保庫

Results Highlights

In FY2021, the Group recorded revenue of HK$5.9 billion (FY2020: HK$7.5 billion), a reduction of 20.2% given the backdrop of very challenging operating conditions, especially in the hospitality segments. Despite lower revenue, all our divisions reported positive EBITDA. Adjusted gross profit and net profit of the Group were HK$2.2 billion and HK$806 million, respectively which, represented a decrease of 17.1% and an increase of 46.2% change compared to the year before.

The results for the year were supported by higher contribution and margin on our residential projects offset by lower contribution from the other divisions given the full impact of COVID-19. The results were supported by a revaluation gain thanks to entering into a new significant long-term lease for our retail assets in Wuhan.

The Group net cash profit was HK$722 million (FY2020: HK$842 million) demonstrating resilient cash generation capability of the Group's businesses. To demonstrate the Group's long-term commitment to dividend payout, the Board recommended a final dividend of HK$15 cents per share. Together with an interim dividend of HK$4 cents per share, the total dividend for the year will amount to HK$19 cents per share.

Net asset value per share increased by 12.9% to HK$13.09 as a result of profits for the year and favourable currency movements.

For more details on our financial results, please refer to the section entitled "Management Discussion and Analysis".

Positioning the Group for a Recovery

We have maintained a conservative position in liquid assets such as investment in listed securities and cash deposits in order to safely steer through an uncertain period of time. With governments and central banks around the world providing significant amount of liquidity to stimulate the economy, we are increasingly feeling confident that the global economy will emerge very strongly with the property segment benefiting from both the stimulus and the low interest rate environment.

During this year, the Group decided to push ahead with a number of larger projects whilst putting on hold temporarily some smaller ones. In particular, we are now in a good position to benefit from any recovery in the hospitality segment.

The recent monetisation of some of our assets will enable us to recycle our capital and crystalize development gains and we shall continue the initiative in the current financial year.

The Group's robust development pipeline is supported by a strong balance sheet and we are in a good position to benefit from a recovery in business activities.

Capital Structure and Balance Sheet Management

During the year, we issued a 3-year US$235 million bond which was well received by the market. We also secured HK$9.6 billion of bank facilities to refinance our short-term loans due and for new projects. With the staged completion of West Side Place, we repaid over A$220 million construction loans. The construction loan of Artra in Singapore was also fully repaid during the year.

The Group continues to hold 8 hotels unencumbered valued at HK$3.9 billion and approximately HK$4.1 billion of various unsold inventory. These could be monetized or used as collateral to raise more funds. Furthermore, the Group continues to review its portfolio of assets and does not exclude the possibility that some assets may be monetized if the consideration is deemed attractive. Our net gearing level also remained at a relatively low level of 54.9% measure on the basis of net debt to total assets adjusted for hotel revaluation surpluses.

Post Year-End

The Group invested in a HK$129.5 million 8% coupon convertible bond secured on the equity of the holding company that holds Bonjour Tower and guaranteed by Bonjour Holdings Limited. As part of the deal, the Group was given a right of first refusal to acquire the property which has the potential to be redeveloped into residential units in Tsuen Wan.

The Star, the Group's joint venture partner in Queen's Wharf Brisbane alongside Chow Tai Fook Enterprise Ltd, and in which the Group has an approximately 4.9% stake, made a merger proposal to Crown Resorts Ltd. In the event that a merger is consummated, it would create the largest gaming and entertainment company in Australia.

The Group entered into an agreement on 15 June 2021 to sell both holding company and operating company of Dorsett City London for an enterprise value of GBP 115 million. The Group expects to record a net profit of GBP 50 million (HK$533 million) upon completion of the sale.

BCG completed its second RMBS offering raising AUD 500 million at a blended interest rate of 2.1% per annum. A number of high profile investors again supported the transaction.

West Side Place, Melbourne

BCG took a 19.9% stake in Novatti's dedicated banking subsidiary with a view of providing more services to its existing customers once the banking licence is obtained and being the provider of choice for all mortgages. Novatti is a Fintech company listed in Australia. BC Group is also considering a number of additional acquisition opportunities to accelerate its growth.

CORPORATE GOVERNANCE AND ENVIRONMENTAL SOCIAL GOVERNANCE

The Group firmly believes that a high standard of corporate governance is key to facilitating sustainable development. We adopt an active approach to investors' communication and provide a high degree of transparency to our investors and our shareholders. In recognition of the Group's efforts in its investor relations functions, corporate governance and environmental social governance, the Group received a number of international awards during the year.

Examples of awards include:

- Six awards in "FinanceAsia's 2021 Asia's Best Companies", including "Asia's Overall Best Managed Company" and "Best Managed Listed Company in Hong Kong";
- Four awards in "10th Asian Excellence Award 2020", including "Best Investor Relations Company" and "Best Environmental Responsibility";
- Six awards in "HKIRA 6th Investor Relations Awards", including "Best IR Company", "Best ESG (E)", "Best ESG (S)" and "Best ESG (G)";
- Gold Award at "The Asset ESG Corporate Awards 2020";
- "Best IR website" at "IR Magazine Awards Greater China 2020"; and
- Two awards in "4th China Excellent IR Award".

Last but not least, I am very honoured to have received the "Directors Of The Year Awards 2020" by The Hong Kong Institute of Directors. This recognition highlights our commitment to the highest standards in the pursuit of good corporate governance, transparent and regular investor relations, superior environmental social governance and sustainable development.

PROSPECTS

Under the current global economic environment, the Group has remained prudent and cautious whilst slowly preparing for a re-opening of the global economy. At the same time, we have remained committed to planning, developing and building all our residential and hotel developments and seeking avenues to grow our car park business and our mortgage lending business.

Many of the growth opportunities available to us are organic in nature. Leveraging our existing footprint and teams, we have explored and will continue to explore a number of exciting investment opportunities, providing attractive investment returns. The Group will also entertain acquisitions. In particular, we have seen many opportunities in the hospitality business, car park business and mortgage lending business. Naturally, we will continue to replenish our land bank across all regions where we are active, with a renewed focus on Hong Kong.

Over the years, we have built an attractive portfolio of assets where significant development profits has been generated. In addition, in a low interest rate environment, these assets have grown in value post completion of their construction. We plan to continue to monetize some of our assets to crystalize the gains and redeploy the capital into projects delivering higher returns on capital. As the economy re-opens, a number of third parties have approached us wanting to discuss potential purchases of our assets. This is a good sign that we have built attractive properties.

COVID-19 is not yet fully eradicated and could continue to disrupt the global economy with partial lockdowns and restrictions on business and leisure travel. Yet, the Group is getting prepared to face the pent-up demand that will drive, in particular, the hospitality segment.

The Group's hotel business continues to expand with 3 new hotels coming online this year and a further 10 hotels still in their planning and construction phase. These hotels will contribute to our expanding footprint and will, hopefully, capture the return of business and leisure travelers. We are seeing a strong rebound in travel in regions where high levels of vaccinations have been achieved. In Hong Kong, once the COVID-19 situation has further improved, we hope that borders will re-open and the quarantine regime will be alleviated. This will encourage travelers to come shopping, attend conferences and exhibitions and join business meetings in person. This is particularly true for Mainland China, which remains the largest contributor of business and leisure travelers to Hong Kong. Overall, the Group remains optimistic that the hospitality sector is due a strong come back and has a bright future. We are positioning our existing and new hotels to capture the upcoming increase in business.

We continue to see strong interest in the residential properties we develop globally. Our projects are selling well and settlements are going through relatively smoothly, despite COVID-19. We are focused on replenishing the land bank in locations that we deem very attractive. The key selling points typically include, to name a few; strong population growth/migration, education hubs, up and coming cities. We have a strong preference for jurisdictions that we understand well, including the legal system, and where we can easily deploy our teams on the ground. The Group intends to continue to participate in land auctions but also to look for original methods to secure new developments, such as partnering with corporates to redevelop their properties.

Managing Director's Report

Care Park

Our Car Park operations have weathered the storm relatively better than most of our competitors. The Group had already been very focused on minimizing costs and expenses, using technology to grow revenues and reduce overheads and, very importantly, avoiding contracts or leases that commit to large minimum payments to landlords. Yet, inevitably, the traffic in our owned and managed car parks was diminished partly due to lockdowns and a major switch to "work from home" arrangements. Encouragingly, users are coming back to our car parks as many are coming back to work and avoiding public transportation. In addition, we see numerous opportunities to grow as many owners of car park spaces are seeking ways to monetize their assets via straight disposals or by entering into long term concession arrangements.

Performance in our gaming operations was impacted by the intermittent closure of our casinos located in the Czech Republic. Based on past experience, we are confident that patrons will return to our venues in great numbers. We are also exploring the possibility of seeking an online gaming license in Malta which would allow the Group to target a far larger audience and leverage its existing offline infrastructure. In Australia, the construction of Queen's Wharf Brisbane's integrated resort is on track. The opening is planned for FY2023 and once opened, we expect to receive solid recurring income from that property.

BCG reached a number of milestones in FY2021 and it's just the beginning. We expect BCG to continue to seek growth opportunities by entering new segments in existing markets or by further diversifying geographically, through organical grown and via acquisitions. The response to our launch into UK has been very encouraging. BCG also issued its first RMBS, totaling A$416 million, in November 2020 and its second, totaling A$500 million, in June 2021. BCG well funded and ready to embark on its next growth phase.

The Group has continued to manage its liquidity and indebtedness with prudence and discipline. As at 31 March 2021, the Group had a healthy liquidity position of approximately HK$8.6 billion and a net gearing ratio of 54.9%. Throughout the year, the Group repaid or refinanced notes and loans and sought to extend the maturity profile of its indebtedness. This active management of our liabilities will continue going forward. Overall, the Group stands on solid foundations with available undrawn credit facilities of HK$5.2 billion and a number of hotel and property assets unencumbered.

In conclusion, through the quick implementation of cost cutting and repositioning initiatives, all the efforts of our staff and the support of our stakeholders, the Group has weathered the COVID-19 pandemic relatively well. The Group remained profitable and built a strong and liquid balance sheet to continue to seize growth opportunities. The focus on monetizing selected assets will illuminate the value of our portfolio and unblock capital to be redeployed in higher return investment opportunities. Our portfolio diversification remains a core strength of the Group. We are well positioned to capture the rebound in economic activity expected in the next 12 months and are committed to deliver a sustainable and progressive dividend to our shareholders.