

(I) Review and Outlook

Operating results

Turnover and profit attributable to shareholders for the Period was HK\$129 million and HK\$108 million respectively as compared to HK\$174 million and HK\$46 million (excluding discontinued operations of HK\$586 million) for the same period in 2005.

During the Period, the Group has achieved satisfactory pre-sale of its development properties in Hong Kong and Shanghai. However, under the current accounting standards, the revenue of these pre-sale could not be recognised in the financial statements until the time the properties are completed.

Development properties in Hong Kong

The Group launched its premium residential project The Great Hill in March 2006. The project, which comprises 114 apartments and 8 detached houses, has a total floor area of approximately 300,000 sq. ft. Located in Shatin's mid-level and embraced by beautiful greenery and landscape, The Great Hill benefits from the proximity to the amenities in Shatin and the new highway Route 8 connecting to West Kowloon. The project is uniquely designed to provide top quality luxurious residential properties to users who are looking for space, cosy living, exclusivity and living style. Phase 1 pre-sale launched in March with all 65 units of apartment sold out in three weeks. Pre-sale proceeds is expected to be recognised as revenue upon completion of the project in 2007. The management is planning to roll-out Phase 2 for the remaining apartment units and the houses in the second half of 2006.

The Group's another residential project J Residence has a totally different market positioning. Situated in the heart of Hong Kong Island with MTR across the street, J Residence is conveniently located in Wanchai and is only 5 minutes away from Central, Admiralty and Causeway Bay. People living here will find it handy to go out for work and for fun. The (approx.) 235,000 sq. ft. project houses 381 apartment units with size ranges from studio flat to 2-bedroom which are designed to target the needs of the unique user group of young urban professionals who are single or double-income-no-kids. The residents' club, which is situated on the top level of the building, comprises a stylishly designed lounge, cigar bar, outdoor swimming pool and a full-scale gymnasium. J Residence also integrates five 3-storey historical buildings that have been designated by the Antiquities and Monuments Office as preserved monument which makes the project the first of its kind in Hong Kong. Pre-sale of J Residence was a big success where almost all of the units were sold out in two weeks in July 2006. The project is expected to be completed in 2007.

Development and investment properties in Shanghai

Sales of Westwood Phase 1A continues to be satisfactory in wake of the new wave of government policies and measures. Up to 10th September 2006, a total of 594 units representing approximately 61,000 sq.m. has been pre-sold, which is approximately 94% of the total available inventory in this early phase. Phase 1B, which comprises over 600 units representing approximately 69,000 sq.m. will be launched to the market in the second half of the year commencing mid-August. Market response has been very encouraging. Out of the 128 units that were put up for pre-sale in August 2006, 127 units representing approximately 12,850 sq.m. were either pre-sold or reserved. Phase 1 will be completed in 2007 and the management is now working on the planning of Westwood Phase 2.

The relocation of residents in the Group's land bank at Xuhui and Jingan District has been making satisfactory progress during the Period. The management is hopeful that construction could commence in the eastern side of the two respective sites before the end of 2006.

Turning to the office market in Shanghai, the past six months saw continuing influx of foreign and local companies alike into the city. Demand for Grade A office space continues to grow which leads to surge in both office rental and market valuation. Shanghai K. Wah Centre, the Group's 37-storey premium office tower situated on the Huaihaizhong Road in Xuhui District, is one of the most sought after office buildings in Shanghai. With a 100% occupancy and top-of-the-range rental rates, this investment property continues to create a strong steady rental income and increasing value to the Group.

Investment in Galaxy Entertainment Group Limited

The Group's non-current investments represent the Group's strategic investment in GEG which is being carried at fair value. As of 30th June 2006, the closing price of GEG is HK\$7.55 per share as compared to HK\$4.375 per share at 31st December 2005. The change in fair value of approximately HK\$2 billion was recorded as an increase in reserve.

Syndicated Loan of HK\$1,800 Million

The Group has successfully arranged a syndicated loan of HK\$1,800 million on 6th September 2006 with a consortium of 14 international and local bankers. The syndicated loan comprises two tranches — a 3-year HK\$900 million revolving loan and a 5-year HK\$900 million revolving/term loan.

On the back of the Group's reputation, the syndicated loan received oversubscription at the general syndication stage and the amount was increased from HK\$1,500 million to HK\$1,800 million.

(II) Review of Finance

Financial position

The financial position of the Group remains strong. As of 30th June 2006, the equity increased by 42% to HK\$8,029 million from HK\$5,673 million at 31st December 2005.

The number of the issued shares of the Company increased as a result of conversion of convertible bonds and exercise of share options during the Period. The dilution effect, however, was offset by the profits recognised for the Period.

Liquidity and gearing ratio

Cash and bank balances as of 30th June 2006 stood at HK\$596 million and the gearing ratio, defined as the total borrowings outstanding less cash balances to total assets, stayed at a healthy level of 26%.

The Group's liquidity position remains strong and the Group possesses sufficient cash and substantial banking facilities to meet its working capital requirements, future acquisitions and investments.

Treasury policies

The Group continues to adopt a conservative approach regarding foreign exchange exposure, which is managed to minimise risk. The majority of the Group's borrowings are in Hong Kong Dollar. Forward foreign exchange contracts are utilised when suitable opportunities arise and when considered appropriate, to hedge against foreign exchange exposures. Interest rate swap contracts are also utilised when considered appropriate to avoid the impact of any undue interest rate fluctuation on the operation. The Group has not engaged in the use of derivative products.

Charges on Group assets

As of 30th June 2006, investment properties and land and buildings with carrying values of HK\$2,575 million (31st December 2005: HK\$2,016 million) and HK\$111 million (31st December 2005: HK\$112 million) respectively were pledged to banks to secure the Group's borrowing facilities.

Contingent liabilities

The Company has executed guarantees in favour of banks and financial institutions in respect of facilities granted to certain subsidiaries amounting to HK\$3,336 million (31st December 2005: HK\$3,572 million), of which HK\$2,323 million (31st December 2005: HK\$2,079 million) have been utilised.

The Company has executed guarantees in respect of the convertible bonds issued by a subsidiary outstanding amount of which, as of 30th June 2006 was HK\$50 million (31st December 2005: HK\$104 million).

The Company has executed a guarantee in favour of the Government of the HKSAR in respect of the performance by an investee's obligation under a contract with the Government of the HKSAR.

Employees and remuneration policy

As of 30th June 2006, the Group, excluding jointly controlled entities, employs 270 employees in Hong Kong and Mainland China. Employee costs, excluding Directors' emoluments, amounted to HK\$42 million for the period under review.

The Group believes its success and long-term growth and development depends upon the quality, performance and commitment of its employees. The Group's remuneration policy aims to attract, retain and motivate competent individuals based on merits and development potentials. The Group believes the remuneration we offer to our employees is fair and competitive in relation to comparable organisations in the areas in which the Group operates its principal business.

Since 1989, the Group has put in place a share option scheme for executives for the purpose of providing competitive remuneration package and long term retention of management talents. Likewise in Mainland China, employees' remuneration is commensurate with market pay levels and the Group puts emphasis on provision of training and development opportunities.