

BUSINESS REVIEW AND OUTLOOK

Despite a series of interest rate cuts, property market remained weak during the period under review. A number of units of The Colonnade had been sold and profit derived from such sale was reflected in this interim result. Demolition works for the joint development at Nos. 33 and 35 Island Road, in which the Group has 57% attributable interest, has been completed. Subsequent to the period under review, site formation and foundation works had commenced. The Group received a premium offer from the Government in respect of the Group's application for lease modification of the caption lots. The Group considered that the premium was too high and subsequently an appeal for reduction of premium was submitted.

Both the occupancy rate and rental income from the Commercial Podium at Elizabeth House remained stable. However, loss has arisen from the write down of the Group's carrying value of Paul Y. – ITC Construction Holdings Limited to the market value. Subsequent to the period under review, the Group has disposed the entirety of its interest in Paul Y. – ITC Construction Holdings Limited.

The tragedy on 11th September and the Afghanistan war have further weakened the US as well as the global economies. Impact on the Group's hotel business was immediate and severe. Hopefully, the relaxation of quotas for tourists from the Mainland recently announced by the Government would alleviate the general decline of tourist arrivals. There are signs that the local property market has gained some support as a result of a series of interest rate cuts and the moratorium announced by the Government in respect of sales of HOS flats subsequent to the period under review. Significant improvement in property price is not expected since supply of new units in the territory is plentiful in the coming two years. Nevertheless, low interest rate, continued low oil-price, China's continuous growth in economy and her successful accession into the WTO are fundamentals for the stable recovery of our economy in the near future.