Chairman's Statement

2005 was a year in which the Group's Hong Kong office properties began to emerge from the negative rental reversion cycle of the preceding several years. The growing importance of Hong Kong as a capital fund-raising centre for Greater China enterprises has led to a major increase in investment banking activities. The strong build-up of wealth in the Asia region in recent years and favourable policies of the Hong Kong Government have also supported an accelerating growth of the wealth management sector.

At the same time, China trade has also sustained a healthy level of growth. These significant factors, amidst the growth in the economy of Hong Kong, have created strong demand for office space in Hong Kong at a time when the volume of new supply has actually been decreasing. The resulting shortage has led to a jump in office rent rates during 2005. In the two preceding years we adopted a disciplined leasing strategy whereby we only entered into those leasing transactions that have no restrictions on the upward rental reversionary potential for the landlord. As a result of this strategy, though the vacancy rate at our flagship property Citibank Plaza was temporarily higher than the market average in 2005, we have placed ourselves in a strong position to benefit from the current upturn in rent rates.

Another of the Group's major long term investment project, Langham Place urban renewal development, which was completed in the second half of 2004, made its first full-year revenue contribution to the Group in 2005. It has now firmly established itself as a new hub for retailing and commerce in the busy district of Mongkok. This landmark development has also brought about a visible upgrade of commercial activities in the neighbourhood. Occupancy at the Langham Place Mall remained at a very high level throughout the year. Four floors of the Office Tower were contracted for disposal and approximately 300,000 sq. ft. in the lower portion was let up to year-end 2005. The remainder has been put into an active Kowloon office leasing market which is in short supply. The rental income from the Langham Place Mall and Office Tower will further strengthen the Group's recurring income base and continuously contribute to the Group's long term results.

The continued economic growth in Hong Kong and close association with the Mainland has underpinned the performance of our Hong Kong hotels. The strong demand from high yielding international business travelers led to double-digit REVPAR growth at Langham Hotel, Hong Kong and Eaton Hotel in 2005. Although the growth of Mainland visitor arrivals slowed down in 2005, it had not created adverse impact on our business, as that segment only makes up a small proportion of our total revenues. The Langham Place Hotel made its first full-year contribution in 2005 and its performance outgrew our expectation. The performance of our overseas hotels in 2005 was uneven partly because of the effects of the re-branding exercise. The lag in contributions of the overseas hotels as a whole was however more than made up for by the increased contributions from the Hong Kong hotels.

In the year, the Group adopted a number of revised and new Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards and Interpretations, which resulted in some very significant changes to our reported results for 2005. Some of the important items include a HK$12,867 million surplus on revaluation of our investment properties as at 31st December 2005 and a related HK$2,163 million deferred taxation charge, as well as a HK$155 million depreciation charge on hotel buildings. Further explanations and details of the new HKFRSs and their impacts are shown in Note (3) to the Financial Statements.

Operations Review

1 Rental Properties

Hong Kong Rental Properties

(a) Rental Income

	Gross Rental Income HK$million	
	2005	2004
Citibank Plaza	**330.5**	335.3
Great Eagle Centre	**54.6**	53.0
Langham Place	**362.6**	37.2
Eaton Houses	**35.3**	29.5
Convention Plaza Apartments	**3.1**	2.6
Others	**2.4**	5.0
	788.5	462.6

(b) Occupancy and Rental Trend

	Occupancy at 31st December 2005		
	Office	Commercial	Residential
Citibank Plaza	86.1%	100.0%	–
Great Eagle Centre	96.4%	100.0%	–
Langham Place	46.7%	98.5%	–
Convention Plaza Apartments	–	–	100.0%
Eaton Houses	–	–	84.7%

Following the upward trend in the first half of 2005, rent rates of Hong Kong office properties continued to climb at a fast pace in the second half. The trend was particularly acute in the Central business district where a small amount of new supply of office space was far outstripped by very strong demand from the banking and fund management sectors. The vacancy rates of Grade-A office properties in Hong Kong dropped significantly across the board during 2005. The year on year increase in spot rent rates during 2005 was as much as 70% at some of the prime buildings in Central.

Occupancy at **Citibank Plaza** improved from 80.9% at the beginning of 2005 to 86.1% at 31st December 2005. The year-end occupancy level was below the Core Central market average as a result of our selective leasing strategy to optimize the rental rates of individual leases in anticipation of further rise in rent rates at the expense of a slower pace of letting. As rent rates have continued to rise in 2006, we believe this strategy would have a positive impact on our income in the medium term. As reported in our Interim Results, the gross rental income from Citibank Plaza of HK$146.6 million for the first 6 months of 2005 was 21.2% lower than that of the corresponding period in 2004. However with the rapid rise in achieved rent rates, Citibank Plaza has solidly entered a positive rental reversion cycle in the second half of 2005. Together with a higher occupancy rate, the rental income of Citibank Plaza for the second half of 2005 made up for a lot of the slack of the first half, so much so that its full-year income of HK$330.5 million was almost level with that of HK$335.3 million for 2004.

The **Great Eagle Centre** offices remained well occupied during 2005 with a year-end occupancy rate of 96.4% as compared to 98.9% as at 31st December 2004. As the renewal of the larger tenancies in 2005 took place earlier in the year at lower rent rates, the rental income from Great Eagle Centre of HK$54.6 million for 2005 was only marginally higher than that of HK$53.0 million in 2004.

The **Langham Place Mall** had its first full year of operations in 2005. With its unique design and its strategic location, it has become an important shopping centre in Kowloon as well as a popular tourists spot. Occupancy of the Mall at the end of 2005 was at a high level of 98.5%. We are in the process of adjusting the tenant mix to enhance the Mall's attraction to shoppers. Out of the 772,500 sq. ft. of space in the **Langham Place Office Tower**, approximately 327,900 sq. ft. or 46.7% were leased as at 31st December 2005. To reduce the gearing ratio of our Group, four floors comprising approximately 69,600 sq. ft. were contracted for disposal. Completion of disposal of two floors took place in 2005, with the remaining two floors in 2006. In view of the strong demand for quality office

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space for letting, we have put up the remaining 375,000 sq. ft., mainly in the high and top zones of the Tower, for leasing in early 2006. The initial market response has been encouraging. In all, the Langham Place Mall and Office Tower contributed HK$362.6 million in gross rental income in 2005, as compared to HK$37.2 million in 2004.

The **Eaton House furnished apartments**, which were reclassified as investment properties in financial year 2005, achieved an average occupancy of 84.2% in 2005 as compared with 81.6% in 2004. Rental income increased by 20% from HK$29.5 million in 2004 to HK$35.3 million in 2005, mainly due to strong demand from the corporate segment.

U.S. Commercial Properties

Net rental income from the U.S. Office portfolio decreased by 30% to HK$83.8 million in 2005 from HK$119.4 million in 2004, mainly because of the reduction in income resulting from the sale of 888 West Sixth Street in Los Angeles in September 2004.

The California markets which bottomed-out in 2004 are experiencing favorable improvement in rental rates, with rates increased by 10% in 2005. However, since rental rates are still below historic levels, there should be some negative rental rate reversions continuing in 2006.

On 20th December 2005, we acquired a Class-A suburban office building located at 2700 Ygnacio Valley Road, in Walnut Creek, California. The property has 106,000 sq. ft. in gross floor area and was 87% occupied. The purchase consideration was US$22.25 million.

2 Hotels

2005 was a milestone year which marked the completion of the Langham re-branding exercise for the Group's five-star hotels. We continued efforts to reinforce Langham as a global luxury hotel brand with the launch of various marketing initiatives throughout the year. To expand our customer reach, we also entered into a number of loyalty, airline and travel consortia partnership programs as well as developed an effective e-business platform to drive web business.

Our strategic focus remains in building our brand and driving greater global recognition of our luxury position. The Hotel Division continues to look for business opportunities to increase our hotel presence in major international cities over time.

Hong Kong Operations

Langham Hotel, Hong Kong

Performance in 2005 was a healthy increment over the previous year with strategic focuses being placed on high yielding corporate business, which was the main contributor to both occupancy and rate growth, making up more than 65% of rooms revenue.

For the year 2005, the hotel achieved an average occupancy of 83% (2004: 81%) and an average room rate of HK$1,145 (2004: HK$977).

Langham Place Hotel, Hong Kong

The Hotel, which opened in August 2004, had its first full year of operation in 2005. The year ended with positive results supported by strengthening room rates and occupancy. This modern, full service, hi-tech hotel has had excellent market acceptance and has been applauded by a number of awards including "Best New City Hotel in Asia – TTG Asia". The luxury oriental spa, Chuan Spa, was launched in the first quarter of 2005 to enrich the hotel's remarkable list of signature services offered to our guests, which underpin its five-star rating.

For the year 2005, the hotel achieved an average occupancy of 74% (Aug – Dec 2004: 71%) and an average room rate of HK$905 (Aug – Dec 2004: HK$758).

Eaton Hotel, Hong Kong

Taking advantage of improved market sentiments, emphasis remained on lifting room rates in all market segments and, in particular, the high yielding corporate business. While occupancy stayed in line with last year, overall room rates improved by 14%. Food & Beverage continued to be a major revenue contributor of the hotel, supported by a 10% growth in the number of restaurant guests and an 18% increase in the average spend per person in banquets.

For the year 2005, the hotel achieved an average occupancy of 87% (2004: 87%) and an average room rate of HK$624 (2004: HK$550).

International Operations

Langham Hotel, London

Having operated for a full year under the Langham brand, both occupancy and room rates had surpassed pre-rebranding levels with an 11.2% increase in REVPAR in 2005, although the improvement was negatively affected by the July bombings in London. The hotel's focus on rate growth strategies will continue, supported by enhancements in electronic distribution which made up 36% of total hotel business in 2005. A phased renovation of the hotel is underway to position the hotel as the Group's flagship luxury property.

For the year 2005, the hotel achieved an average occupancy of 71% (2004: 66%) and an average room rate of £155 (2004: £149).

Langham Hotel, Boston

Overall performance of the hotel remained stagnant with room rate edging ahead by 5% over last year while occupancy dropped marginally. Focus remains on improving occupancy to pre-re-branding levels whilst growing rates through improvement of the corporate and group market during the week and driving marketing for leisure business on the weekends. To further enhance the Langham brand standard in the hotel, refurbishment and redecoration have been scheduled for the coming year for guest rooms and public areas.

For the year 2005, the hotel achieved an average occupancy of 67% (2004: 69%) and an average room rate of US$207 (2004: US$197).

Chairman's Statement

Langham Hotel, Melbourne

Both occupancy and room rates were affected by the re-branding at the beginning of 2005 and that impact mainly arose from the corporate segment. REVPAR ended 4% behind last year. Business regained some lost ground in the latter part of the year as the Langham brand awareness continued to improve and our advertising and sales efforts gained momentum.

For the year 2005, the hotel achieved an average occupancy of 69% (2004: 71%) and an average room rate of A$199 (2004: A$201).

Langham Hotel, Auckland

The Auckland lodging market experienced a gradual slowdown in occupancy for the year 2005 with the Langham Auckland sharing a similar trend. Strong marketing support coupled with an extensive luxurious refurbishment, will enable the hotel to gain momentum and recover market share.

For the year 2005, the hotel achieved an average occupancy of 69% (2004: 74%) and an average room rate of NZ$133 (2004: NZ$135).

Delta Chelsea Hotel, Toronto

The hotel experienced marginal growth in both occupancy and room rate for 2005. The Delta Chelsea's performance remained stable and in line with the market trend and its competitors.

For the year 2005, the hotel achieved an average occupancy of 76% (2004: 73%) and an average room rate of C$127 (2004: C$126).

3 Trading

Property developers' reduced spending on building materials during 2005 had adversely affected the performance of our Trading Division. Revenue slightly increased by 3% to HK$112 million in 2005. To diversify from a highly volatile project business, we started to invest in the retail business. In 2005 we launched Samsung Staron® solid surfaces and 4 new electrical home appliance brands. We will need to invest on brand building to enhance public awareness and look for returns starting 2006.

4 Property Management

Management remuneration received in 2005 amounted to HK$17.2 million representing an increase of 5.52% as compared to that of last year. The increase was due to an additional income of HK$1.1 million generated from the management of Langham Place. Income deriving from the management of other properties remained at the same level of 2004.

Despite the keen competition in the market, income for the engineering division for 2005 rose to HK$23.71 million, an increase of 16.74% as compared to that in 2004. Majority of the revenue was generated from service contracts and medium size jobs. The division commenced the provision of facilities management services for tenants of Langham Place in 2005. There was an increase in the number of jobs after mid-year as a result of higher occupancy at the Group's rental properties.

Financial Review

1 Debt

Consolidated Net Attributable Debt as of 31st December 2005 was HK$14,311 million, a decrease of HK$352 million over that at year-end 2004. No major capital expenditure was incurred in 2005 after the completion of Langham Place. During 2005, two floors in the Langham Place Office Tower were sold for net sales proceeds of HK$292 million, of which HK$107 million was applied towards repayment of debt and HK$185 million was retained for general working capital.

Due to the general uplift in property values during 2005, in particular a significant appreciation in value of Citibank Plaza on the back of a rapid rise in rent rates in Core Central, Consolidated Net Asset Value attributable to Equity Holders of the Parent, based on professional valuation of the Group's investment properties as of 31st December 2005 and other assets at cost, amounted to HK$24,339 million (2004: HK$15,498 million). The gearing ratio at 31st December 2005 improved to 59% as a result.

As at 31st December 2005, we had outstanding interest rate swaps with total notional principal of HK$1,720 million, representing 14.5% of our HK dollar-denominated debts. The rest of our HK dollar debts were on floating-rate basis.

Our foreign currency debts as of 31st December 2005 amounted to the equivalent of HK$4,046 million. These foreign currency borrowings are fully hedged by the value of the underlying properties. Of this, the equivalent of HK$1,260 million, or 31.1% of our foreign currency debts, was on fixed-rate basis as of 31st December 2005.

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2 Finance Cost

The net finance cost incurred during 2005 was HK$728.3 million, an increase of HK$336.7 million over that of HK$391.6 million in 2004. The increase was partly caused by the general rise in interest rates and partly because no finance cost had been capitalized in 2005 (2004: HK$131.9 million) after the completion of the Langham Place development.

Overall interest cover for 2005 was 1.58 times, as compared to that of 1.63 times for 2004.

3 Liquidity and Debt Maturity Profile

As of 31st December 2005, our cash, bank deposits and committed but undrawn loan facilities amounted to a total of HK$2,503 million. The majority of our loan facilities is medium-term in nature and is secured by properties. During 2005, we successfully refinanced the bank loans related to the Langham Place and Langham Hotel, London, extending the final maturity of those loans. In additions, we obtained new bank loans related to the acquisition of 2700 Ygnacio Valley Road. The following is a profile of the maturity of outstanding debts as of 31st December 2005:

Within 1 year	8.76%
1 – 2 years	8.77%
3 – 5 years	72.22%
More than 5 years	10.25%

4 Pledge of Assets

As at 31st December 2005, properties of the Group with a total carrying value of approximately HK$46,286 million (2004: HK$33,809 million) together with assignments of sales proceeds, insurance proceeds, rental income, revenues and all other income generated from the relevant properties and deposits of approximately HK$489 million (2004: HK$3.6 million) were mortgaged or pledged to secure credit facilities granted to the Group.

5 Commitments and Contingent Liabilities

As at 31st December 2005, the Group had authorised capital expenditures not provided for in these financial statements amounting to approximately HK$12 million (2004: HK$34 million) of which approximately HK$9 million (2004: HK$19 million) were contracted for.

Other than set out above, the Group did not have any significant commitments and contingent liabilities as at 31st December 2005.

Outlook

Notwithstanding the relatively significant rise in office rent rates in Hong Kong during the past year, the shortage of new supply, especially in the key commercial districts, should lead to further appreciation in rental values. We have the stock available in Citibank Plaza and Langham Place Office Tower to fully capitalize on this office bull market.

The business momentum at our three hotels in Hong Kong has been favourable in recent months. The sustained surge in business travel is supporting a continued growth in room rates. We are therefore expecting another strong performance of our Hong Kong hotels in 2006. After two years of brand building, the Langham name has been gaining recognition in the international travel market. We expect to see further improvement in the results of the Langham hotels in London and Boston after they have emerged from the effects of re-branding and other negative international events. The two southern hemisphere hotels are expected to take some more time to improve their performance.

The significant rise in interest rates during the past year had adversely affected the Group's financial results, though the impact was mitigated by the incremental revenue from Langham Place. Looking forward, interest rates are likely to move further upwards in the coming months. With the anticipated substantial increase in rental revenue from our Hong Kong rental and hotel properties, our cashflow should stay at a healthy position. Nonetheless, we remain committed to our goal to significantly reduce our financial gearing through asset divestiture, so as to enhance our financial maneuverability. We are at present diligently pursuing various alternatives to achieve that objective and will keep shareholders informed as and when appropriate.

Staff

The total number of employees in the Group was 3,739 as at 31st December 2005. Salary levels of employees are competitive and discretionary bonuses are granted based on performance of the Group as well as performance of individual employees. Other employee benefits include educational allowance, insurance, medical scheme and provident fund schemes. Senior employees (including executive directors) are entitled to participate in the Great Eagle Holdings Limited Share Option Scheme. In order to enhance employee relations and communications, certain recreation activities and regular meetings of general staff with senior management were arranged during the year.

Dividends

The Board has resolved to recommend to Shareholders at the forthcoming 2006 Annual General Meeting (the "2006 AGM") the payment of a final dividend of HK20 cents per share for the year ended 31st December 2005 (2004: HK13 cents per share), to be satisfied by way of a scrip dividend with a cash option, to Shareholders whose names appear on the Register of Members on 5th June 2006. Together with the interim dividend of HK3.5 cents per share paid on 20th October 2005, on the assumption that every Shareholder elects to receive all final dividend in cash, the total dividend for the full year will be HK23.5 cents per share (2004: HK16.5 cents per share), amounting to not less than HK$119,128,661 (2004: HK$97,650,449).

Subject to the approval of Shareholders at the 2006 AGM and the Listing Committee of The Stock Exchange of Hong Kong Limited granting listing of and permission to deal in the new shares to be allotted and issued pursuant to the proposed distribution of a scrip dividend mentioned herein, each Shareholder will be allotted fully-paid shares having an aggregate market value equal to the total amount which such Shareholder could elect to receive in cash and will be given the option to elect to receive payment partly or wholly in cash instead of the allotment of shares. Dividend warrants and share certificates in respect of the proposed dividend are expected to be despatched to Shareholders on or about 11th July 2006. Full details of the scrip dividend will be set out in a letter to be sent to Shareholders together with a form of election for cash soon after the 2006 AGM.

Closure of Transfer Books

The Register of Members of the Company will be closed from Monday, 29th May 2006 to Monday, 5th June 2006, both days inclusive, during which period no share transfers will be effected.

For those Shareholders who are not already on the Register of Members, in order to qualify for the final dividend, all share certificates accompanied by the duly completed transfers must be lodged with the Hong Kong Branch Registrars of the Company, Computershare Hong Kong Investor Services Limited of 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m. on Friday, 26th May 2006.

Annual General Meeting

The 2006 AGM of the Company will be held on Monday, 5th June 2006 and the notice of 2006 AGM will be published in China Daily and Hong Kong Economic Times and despatched to shareholders on or about 28th April 2006.

Finally, I would like to take this opportunity to address my sincere gratitude to my fellow Directors for their guidance and to all staff members for their dedication and hard-work contributed to the Group in the past year.

LO Ka Shui
Deputy Chairman
and Managing Director
Hong Kong, 20th April 2006