Managing Director's Report

AIA Tower, Macau

BUSINESS REVIEW

I am pleased to report that the Group's total turnover (including share of associates) for the year ended 31 March 2006 was HK$142.1 million, representing a 16.2% increase from the same period in 2005 (2005: HK$122.3 million). The increase in turnover was due mainly to rental contribution from newly acquired assets, advisory fee earned from the sale of Global Gateway (Hong Kong), and revenue growth from Aisawan Resort & Spa.

I am also pleased to report that the Group's net profit for the year ended 31 March 2006 was HK$129.9 million, which is a 25.3% increase over the restated 2005 net profit of HK$103.7 million. The increase in net profit was due primarily to strong performance from unlisted associates and fair value increase of investment properties.

As reported in the interim report, the reason for the restatement of 2005 net profit was because this year's net profit has been affected by the adoption of the new revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards. In the past, all investment property revaluation gains are accumulated under reserves in the balance sheet and only revaluation losses are reflected in the income statement if revaluation falls below book cost. Under the new standards, all revaluation gains (or losses) during the period are reflected in the income statement. The adjustments and impact on the financial statements as a result of change of accounting policies are set out in note 2 to the financial statements.

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2006 World Cup Event
Kowloon City Plaza
Kowloon City, Kowloon

New Arcade, Kowloon City Plaza,
Kowloon City, Kowloon

Property Investments

Overall, the Group's property investments have performed satisfactorily.

The Pioneer Building in Hong Kong contributed rental revenues of HK$19.3 million during the reporting period and continued to enjoy a high occupancy rate (95.6% as at 31 March 2006).

The Shanghai K. Wah Centre has leased well since its launch and the building has achieved full occupancy as at the end of this reporting period.

In 2004, the Group formed a joint venture with Morgan Stanley Real Estate Funds and PamFleet Investments Limited to purchase the 217,625 sq.ft. 68 Yee Woo Street in Causeway Bay and the 640,000 sq.ft. Kowloon City Plaza (KCP) in Kowloon City. The properties were purchased by the JV consortium through a securitization vehicle with an existing debt of HK$1.2 billion. In September 2005, the JV consortium successfully refinanced the debt and increased leverage to HK$1.5 billion. A large portion of the refinancing proceeds have been distributed to the shareholders and the Group's share of the distribution was HK$12.0 million. After renovation works were completed at the main lobby and show suite, 68 Yee Woo Street was re-launched to the market. As of to-date, most interior works at KCP have been completed while all exterior works are expected to be completed by October this year.

During the year, Global Gateway sold its remaining assets in Hong Kong and Singapore for a total consideration of about HK$776.7 million. While the Group's actual share of profit from Global Gateway was HK$57.9 million, the accounting profit reported during this period was only HK$16.0 million as HK$41.9 million of the profit was restated in the previous period under the new accounting standards. In terms of cash receipt, the Group received a distribution of HK$107.7 million from Global Gateway's sale of its assets. In addition to the profit on the sale, the Group has also been paid an advisory fee of HK$7.5 million in connection to this transaction.

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In March and April 2005, the Group purchased a total of 63,840 sq.ft. in Maximall, City Garden, North Point for a total consideration of HK$117.7 million. During the period, the Group transformed the entire basement of Maximall into a themed education center for young children managed by an independent operator under the trade name "QQ Club". Revenues to the Group are in the form of fixed minimum rent plus percentage of turnover. "QQ Club" opened in January 2006 with all of its space 100% pre-leased.

In April 2005, the Group formed a joint venture with an investment fund and a Thai investor (as local operating partner) to acquire a portfolio of houses from the "Non-Performing Assets" portfolio of the Government Housing Bank of Thailand. As at the end of March 2006, 151 houses have been purchased at a total cost of about Baht 195.4 million and out of which 39 houses were re-sold at an average profit margin of 22.2%. The Group's participation is 40% in the joint venture.

In May 2005, the Group entered into a joint venture with Morgan Stanley Real Estate Funds and Wachovia Development Corporation to acquire a 22-storey, 437,000 sq.ft. commercial building in Macau for HK$600.0 million. The joint venture is currently renovating the property into a class-A commercial/retail/entertainment building. In January 2006, the U.S. insurance giant AIA selected the building as its new headquarters in Macau and signed a long term lease to become our anchor tenant. The building has since been renamed as "AIA Tower, Macau". All renovation works at AIA Tower are expected to be completed by August this year.

Q Q Club
Main Reception

Q Q Club
Nursery Playground

Q Q Club
Children's Library

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During the year, the Group became a strategic partner in Gateway China Fund I, a US$198.9 million real estate fund focused on China, Hong Kong and Macau. Under the preference share subscription, the Group shall receive a fixed dividend per annum from the Fund's manager. Gateway Capital and a share of the incentive fees paid to Gateway Capital by the Fund. Separately, a 50% owned associate company of the Group has also committed US$10 million of capital to the Fund.

Investments in Hotel Industry

Despite the devastation of the December 2004 tsunami that hit many beach resorts in the Andaman Sea and Indian Ocean and the delay in the opening of the new Suvarnabhumi Airport in Bangkok, the Pattaya hotel market has experienced strong growth. For the 12 months ended 31 March 2006, the Aisawan Resort & Spa produced revenues of Baht 285.1 million (2005: Baht 177.9 million) and gross operating profits of Baht 156.2 million (2005: Baht 83.0 million). With the expected opening of the Suvarnabhumi Airport in July this year which will cut travel time to Pattaya for international travelers landing in Bangkok by 50% (to approximately 60 minutes), the management expects the Aisawan Resort & Spa to continue to perform strongly. In order to continue upgrading the resort to take advantage of the growing market, Aisawan Resort & Spa will renovate all of its Garden Villa rooms, including the construction of new pool and deck areas, during the summer months. Through an associate company, Aisawan Resort & Spa contributed HK$10.9 million to the Group during the period (2005: HK$4.9 million).

The Group's associate company Pioneer iNetwork Limited owns 10.3% of Dusit Thani Public Company Limited ("Dusit Thani"), the leading owner and operator of hotels in Thailand. During the 12 months ended 31 December 2005, Dusit Thani had revenues of Baht 2.83 billion (2004: Baht 2.58 billion) and net income of Baht 245.1 million (2004 (restated): Baht 576.4 million which included a debt restructuring gain of Baht 364.1 million).

Other Investments

The Group's investment in Siam Food Products Public Company Limited was sold for HK$56.8 million on 29 March 2006. The disposal resulted in a gain of HK$9.7 million with details provided in a circular to shareholders on 27 April 2006.

The Group owns about 4.1% of Asia Financial Holdings Ltd ("AFH"), a listed financial institution in Hong Kong. In February 2006, AFH entered into a share sale agreement with JCG Holdings Limited in relation to the disposal of the entire share capital of AFH's wholly owned subsidiary, Asia Commercial Bank Ltd ("ACB"). The consideration of the share sale was about HK$4.5 billion which represents 2.5 times the unaudited consolidated net assets of ACB as at 30 June 2005. AFH estimated that the disposal will generate a profit of about HK$2.5 billion for the year ending 31 December 2006. The Group's investment in AFH was recorded at HK$159.7 million based on the closing price of AFH on 31 March 2006.

LIQUIDITY AND FINANCIAL RESOURCES

As of 31 March 2006, the Group continued to enjoy a strong financial position, maintaining substantial unutilized bank facilities. At the balance sheet date, the Group's total debt to shareholders' fund ratio was 20.6% (March 2005: 26.0%) and the net debt (net of cash and cash equivalents) to shareholders fund ratio was 17.8% (March 2005: 18.7%).

PROSPECTS

In May 2006, the Group acquired a Hong Kong incorporated company for HK$82.0 million. The acquired company is a holding company which owns the whole of 1st, 2nd, 22nd, 25th, 27th, 29th, 31st and 35th floors of Morrison Plaza, Wanchai, Hong Kong. The total GFA is about 29,540 sq.ft. and except for the 1st and 2nd floors, all space has been leased. Subsequently in June 2006, the Group entered into a provisional sale and purchase agreement to dispose of the vacant 1st and 2nd floors. The expected sale will generate a gain of about HK$7.0 million before taxation. Details of the disposal were provided in a circular to the shareholders on 26 June 2006.

During the period, the Group has made a number of new property investments and all of these new projects are progressing in accordance with plan. Going forward, the Group plans to enhance its existing portfolio of assets while continuing to look selectively for attractive real estate and hotels investments in the region.

EMPLOYEES

As at 31 March 2006, the number of salaried staff at the holding company level was 18 (2005: 15). The Group ensures that its employees' remuneration packages are competitive. Employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system. Share options are granted by the Board of Directors to staff members as appropriate.

APPRECIATION

On behalf of the Board, I would like to express our sincere gratitude to all the employees for their contributions.

Kenneth Gaw
Managing Director
Hong Kong, 11 July 2006