

# Business and Financial Review

## Management Discussion and Corporate Overview

The austerity measures imposed by the Central Government had softened the property markets in China over the last three years. These austerity measures should however enhance long-term healthy development in the property markets in China. Given the continuous economic growth and urbanization in China, we continue to believe the demand for middle-class quality housing to remain strong in the long run. In view of the weak sentiment in the property markets, we are now taking a proactive role in exploring and assessing good return investment opportunities to enlarge our land bank in the Mainland.



According to the visitor arrival statistics released by the Hong Kong Tourism Board, the cumulative visitor arrivals in 2005 was about 23.4 million, representing a 7.1% increase from previous year. With the implementation of the Closer Economic Partnership Arrangement (CEPA), more cities in the Mainland will be opened to allow more residents to come to Hong Kong. Benefiting from this favorable condition, the overall performance of the hotel industry remains strong with an average occupancy rate of 86% for all hotels in Hong Kong as a whole. Our hotels have outperformed the market by a substantial margin attributed to our efficient and experienced hotel management teams. With our dedication and commitment, the Group has opened four new hotels, totaling 600 rooms, in Hong Kong during the year. In addition, the Group is planning to open one hotel per year over the next three years. We are well-positioned to capture the increasing number of business and leisure travellers to Hong Kong with our expanding hotel portfolio. We expect the performance of the hotel division to remain strong with increasing gross profit contributions to the Group in the foreseeable future.

### *Senior Management of Hotels*

*From left to right:*

*Ms. Rebecca Kwan  
General Manager – Central Park Hotel  
& Lan Kwai Fong Hotel*

*Mr. Frankie Lai  
Director of Hotel Operation*

*Ms. Anita Chan  
General Manager – Cosmopolitan Hotel  
& Cosmo Hotel*

*Mr. Richard Kwong  
General Manager – Dorsett Seaview Hotel  
& Dorsett Olympic Hotel*

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The Group is in the stage of finalizing the documentation of its Macau project with the Venetian Group (Venetian) from Las Vegas, USA. According to the latest development plan, the Group will possibly form a 50:50 joint-venture company with Venetian to develop a site located in Cotai, Macau, with a total gross floor area of over 3 million square feet. The Macau project comprises of four to five hotels of different brands with a total of no less than 3,000 rooms, a shopping and entertainment complex of about one million square feet, and serviced apartment buildings of 360,000 square feet. In addition, the joint-venture company will also build a casino/theatre shell of approximately 200,000 square feet which will be sold to Venetian upon completion. The construction work is scheduled to commence in the fourth quarter of 2006. With significant economic growth in Macau, the Group believes that this project will enhance our long-term growth.

## Business Review

### 1. Property Division

#### *China*

Because of the austerity measures announced by the Central Government and the change of accounting standards, most of the property development profits will be deferred to the financial year of 2007. An estimated profit of Rmb 54 million is expected to be booked upon the receipt of the occupancy permit in the fourth quarter of 2006.

Presently, we have over 2 million square feet of gross floor area under construction in California Gardens. When the construction is completed, we shall deliver about 1,500 residential units for sale over the next 12 to 18 months. Furthermore, according to the present development plan, California Gardens still has a balance of about 3,500 residential units to be developed over the next 3 to 4 years. The whole project is expected to be completed by 2010.

The Group is confident about the potential future growth in the Guangzhou property market and acquired a residential site in Huadiwan, Guangzhou in September 2005. According to our present plan, we will develop seven blocks of multi-storey residential buildings with a total gross floor area of approximately 800,000 square feet. Including this new property development project, the Group currently has three property development projects in Guangzhou with a total attributable gross floor area of over 1.4 million square feet. The construction and demolition works for these three projects have already begun and all of them are scheduled to be completed in the financial year of 2009.

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Presently, the Group is also finalizing the negotiations of another two property development projects in two different major cities in China which we expect to conclude in the foreseeable future.

*California Gardens, Shanghai* – a residential development with a land area of approximately 14.5 million square feet with an approved built-up area of approximately 12.4 million square feet. Upon full completion of the development, this project will boost a total of approximately 8,000 units of a mixture of residential and commercial properties with more than 97% are residential units. Since its first phase of development in the late 90's, a total of 2,800 units of residential development have been built with 100% sold. For the financial year ended 31st March, 2006, the company has engaged in the development of 1,430 residential and 190 commercial units. The commercial units will be ready for delivery in the fourth quarter of 2006 whilst the first batch of residential units will be ready by as early as the first quarter of 2007. The balance of approximately 3,500 units are scheduled for completion over the next 3 to 4 years with an average of 1,000 units a year. This project will be the major profit source of the Group till its completion in 2010.

*New Time Plaza, Guangzhou* – the Group owns 50% of the development. It comprises of an auxiliary building with about 86,000 square feet and a 28-storey residential tower. Due to the effect of the transportation network developed by the Government, the total gross floor area of the residential tower has been reduced from 290,000 square feet to approximately 230,000 square feet. Construction work for the residential tower is currently in progress and is expected to be completed by 2008.

*Gantangyuan, Huadiwan, Guangzhou* – the Group owns 100% of this development. It comprises of two 32-storey residential towers with a total gross floor area of approximately 460,000 square feet, including 430,000 square feet of residential area, 20,000 square feet of commercial area and 10,000 square feet of car parking space. The development is currently at its planning stage and construction is expected to start in late 2006 and is scheduled to be completed by 2008.



*Project Team*

*From left to right:  
Mr. Kevin Au  
Project Manager*

*Mr. Ricky Li  
Project Manager*

*Mr. Roland Lau  
Project Manager*

*Mr. K K Tang  
Project Manager*

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*Huadijiayuen, Huadiwan, Guangzhou* – the Group owns 100% of this development. Located next to the Huadi River, the site has an area of approximately 260,000 square feet. The plot will be developed into a residential estate with a total gross floor area of approximately 800,000 square feet. Demolition and site clearance works are in progress. The development is expected to be completed in late 2008.

### *Hong Kong*

Although the Group does not maintain a significant land bank in Hong Kong, we will continue to look for potential property development projects in the market. The additional landscaping and exterior finishing of our luxury residential complex, The Cove, had been completed and launched for sale.

Subsequent to year-end, the Group acquired a property project in Sai Kung. This project consists of 4 detached houses with a total gross floor area of approximately 12,000 square feet. The project is presently at its inception stage and the certificate of completion is expected to be obtained by February 2007.

*Bakerview, Hung Hom* – a 32-storey commercial-residential development with a total gross floor area of approximately 55,000 square feet comprises of 104 residential units, 26 car-parks and 2 floors of shopping units. The Group has withheld 35% of the unsold units for lease.

*Art Del Sol, Sai Kung* – a proposed development of 24 houses with a total gross floor area of approximately 53,000 square feet. Building work on phase 1 has completed and the certificate of compliance was issued. As of the date of this report, approximately 75% of the units have been sold. Development for other phases will depend on obtaining approvals from relevant government authorities.

*The Cove, Sai Kung* – a 10-detached house development with a total gross floor area of approximately 12,000 square feet built on a site of 30,000 square feet. Construction has been completed in early 2005 and sales were launched in April 2006 upon the issuance of the certificate of compliance.

*Tan Kwai Tsuen, Yuen Long* – a 5-storey apartment development with 96 units with a total gross floor area of approximately 48,300 square feet. The Group is in the process of applying for land exchange and building plan submission.

*Hung Shui Kiu, Yuen Long* – a 7-storey residential development project with 72 units with a total gross floor area of approximately 38,000 square feet. The Group is currently in the process of applying for land exchange and building plan submission.

*Fung Lok Wai, Yuen Long* – a joint venture project with Cheung Kong and Sun Hung Kai & Co. Limited for residential estate development with a total area of approximately 8,610,000 square feet. No definite plan for this development has been made at present. The Group currently holds 25.33% beneficial interest in this project.

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## *Australia*

*Flinders Wharf, Melbourne* – the Group owns 50% of this high-class residential development with 301 units with gross floor area of approximately 54,000 square meters. It is located opposite to the Melbourne Exhibition and Convention Centre and The Crown Casino. The construction commenced in February 2002 and was completed in November 2003. 100% of the project has been sold.

*Royal Domain Tower, Melbourne* – this is a 42-storey high-rise complex comprised of 133 units luxury residential apartments with gross floor area of approximately 65,000 square meters. Each of the luxurious standard apartment ranges over A\$1 million. The project is located along St. Kilda Road in the City overlooking the Melbourne Botanical Gardens. This will be one of the tallest and most prestigious residential buildings in Melbourne. The construction commenced in early 2003 and was completed in early 2006. Up to the end of the year, over 50% of the 133 units have been sold. The Group owns 90% interest of this project.

## 2. Hotel Division

During the year, the Group opened four new hotels, namely Central Park Hotel, Dorsett Olympic Hotel, Cosmo Hotel and Lan Kwai Fong Hotel, in Hong Kong. Our hotel portfolio has increased from 1,042 rooms to 1,629 rooms to the market, all four hotels have performed well above our expectations and the market average.

In order to capture more overseas business and leisure travellers and to enhance our profitability, we decided to add the HIP hotel line to our existing 3- and 4-star hotel portfolio. Cosmo Hotel is our first HIP hotel, and has been an immediate success since its opening in October 2005. Its occupancy has been over 90% on average since its opening. Lan Kwai Fong Hotel is our second HIP hotel. We expect this hotel to perform as well as Cosmo Hotel.



*Senior Management of Cosmopolitan Hotel  
& Cosmo Hotel*

*From left to right:  
Mr. Kenneth Poon  
Director of Sales*

*Mr. Eddie Liu  
Assistant Financial Controller*

*Ms. Anita Chan  
General Manager*

*Mr. Andrew Lee  
Director of Rooms*

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Senior Management of Dorsett Seaview Hotel  
& Dorsett Olympic Hotel

From left to right:  
Ms. Ava Tse  
Director of Sales & Marketing

Mr. Richard Kwong  
General Manager

Mr. Stevy Mok  
Rooms Division Manager

Mr. Barry Lo  
Resident Manager

We have another three new hotels in the pipeline. Dorsett Far East Hotel in Tsuen Wan with 243 rooms, is expected to open within the next two months. The newly acquired sites in Tai Kok Tsui and Kennedy Town are proposed for hotel developments. Both hotels will have no less than 250 rooms each and are expected to commence operation by early 2008 and early 2009. With the opening of the Dorsett Far East Hotel, we will be operating a total of 7 hotels, making us the largest 3-4 star hotel group in Hong Kong.

### *Hotels in Operation*

*Dorsett Seaview Hotel, Yau Ma Tei* – a traditional 3-star hotel with a total of 268 rooms. It has been operated and managed by our Group since 2001. The hotel is located in Yau Ma Tei, one of the bustling commercial, shopping, eating and entertainment centers in Hong Kong and is within walking distance to vibrant district of Tsim Sha Tsui.

*Cosmopolitan Hotel, Wanchai*, – the largest hotel of the Group with a total of 454 rooms. The hotel was converted from the “old” New China News Agency Building and commenced operation in late 2004. With its unique location right amidst the commercial district in Wanchai and the major shopping attractions in Causeway Bay, this 4-star hotel is perfect location for both business and leisure travellers.

*Central Park Hotel, Central*, – a contemporary business boutique hotel. This 142-room hotel was converted from a commercial building and opened in April 2005. It is located in the heart of the financial and commercial district in Sheung Wan and Central with easy access to extensive dining, entertainment and sightseeing venues at Soho, Lan Kwai Fong, Man Mo Temple and the famous antique street, Hollywood Road.

*Dorsett Olympic Hotel, Tai Kok Tsui* – a modern 3-star hotel situated in one of Kowloon’s new booming areas-Tai Kok Tsui, with 141 comfortably designed guest rooms. It was developed by the Group and opened in May 2005. The hotel is close to famous tourist points in Mongkok shopping districts such as the Ladies’ Market, the Goldfish Market, the Flower Market, and the Bird’s Street etc.

*Cosmo Hotel, Wanchai* – our first HIP hotel with 142 color-coded rooms. It is adjacent to “New China News Agency Building” and two buildings away from our Cosmopolitan Hotel. This hotel reflects hip and modern chic style that outgrows the traditional hotel model. Like Central Park Hotel, this hotel was also converted from an office building. The performance of this hotel has been excellent since its opening in October 2005.

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*Lan Kwai Fong Hotel, Central* – a HIP boutique hotel, uniquely designed in decor, modern in style with Chinese accents, was opened in March 2006. Its 162 bedrooms and individually designed suites are furnished with a distinctive touch of oriental style. The convenient location is perfect for the trendy dining, nightlife and entertainment area of Soho with only 5-minute walk from the Central District.

### *Hotels in Overseas*

*Dorsett Regency Hotel, Kuala Lumpur* – this 320-room hotel is located right at the central business district of the busy Kuala Lumpur and is also within walking distance to major shopping complexes in the city. The Group expects the hotel to maintain its status as one of the top performing 4-star hotel in Kuala Lumpur.

*Dallas Grand Hotel, Dallas, USA* – the Group is considering three different proposals for this hotel. The first proposal is to engage an international hotel management company to operate the hotel. The second proposal is to team up with a local property developer to redevelop the hotel into a residential building for lease or for sale. The last option is to sell the hotel without further investment. The Group will make a decision on the proposed directions shortly.

### *Hotels under Development*

*Dorsett Far East Hotel, Tsuen Wan* – a hotel is converted from the “Far East Bank Building” and designed to be a 3-star hotel with a total of 243 rooms. It is scheduled to complete the refurbishment work (with 230 rooms) and commence operation in the third quarter of 2006.

*Dorsett Kowloon Hotel, Tai Kok Tsui* – a developing hotel project located one block away from our Dorsett Olympic Hotel. The existing industrial building is in its demolishing process. It is our plan to develop a 3-star hotel with a total of 299 rooms. It is scheduled to complete and commence operation by early 2008.

*Dorsett Hong Kong Hotel, Kennedy Town* – another developing hotel project, located at Davis Street. The existing residential blocks will be demolished and the area will be re-developed into a 3-4 star hotel with a total of 280 rooms. Currently, it is under planning and submission stages. The hotel is scheduled to open by early 2009.



*Senior Management of Central Park Hotel  
& Lan Kwai Fong Hotel*

*From left to right:  
Mr. Lawrence Tse  
Front Office Manager*

*Ms. Rebecca Kwan  
General Manager*

*Ms. Vanessa Chung  
Director of Business Development*

*Ms. Lorraine Chan  
Director of Sales & Marketing*

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## Significant Events

Reference is made to our Annual Report 2005 in relation to the Riverside South Project (“Project”), in Manhattan in the United States, of which the Group held an indirect minority interest. The Group was informed that the selling of interests transaction in the Project for US\$1.76 billion to CRP/Extell Riverside L.P., an independent third party, was completed in November 2005. The manager of the Project is still working on the details of the Final Sale Model of the transaction.

In relation to the Compliant filed at the Supreme Court of the State of New York against investors of the Project, legal proceeding has been commenced in New York. The management will closely monitor its status and further announcements, if any, will be made by the Company in accordance with the Listing Rules.

## Financial Review

For the year ended 31st March, 2006, the Group achieved a strong operating performance. Turnover of the Group reached HK\$1,140.9 million, up 104% from the last year. This increase was primarily driven by the expansion of our hotel portfolio and increased treasury investments despite the drop of our property sales.

Gross profit rose to HK\$353.7 million, a 94% increase as compared to last year. Such growth was mainly attributable to the increased number of hotels and their exceptional performance.

Without any one-off gain from substantial asset disposal during the year, the net profit was reported at HK\$332.2 million, dropped from HK\$409.7 million of last year. If the one-off gains, totalling HK\$238.5 million, were excluded from the final results of last year, the Group would have reported a net profit growth of 94% in this financial year.

In addition, both zero coupon convertible bonds were designated as “financial liabilities at fair value through profit or loss” under the newly adopted Hong Kong Accounting Standards. As a result, an increase of HK\$113.1 million in fair value of financial liabilities through profit or loss was charged to the Group’s income statement.



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## Financial Resources and Liquidity

### Borrowings and charge on Group assets

	2006 HK\$'000	2005 HK\$'000
Bank loans	1,622,087	1,487,272
Bank overdrafts	285	2,898
Convertible bonds	–	765,134
Financial liabilities at fair value through profit or loss	914,969	–
Mortgage loans	348,440	142,348
Obligations under finance leases	1,068	726
Other loans	11,478	59,000
	<b>2,898,327</b>	<b>2,457,378</b>
Analysed as:		
Secured	1,971,880	1,606,078
Unsecured	926,447	851,300
	<b>2,898,327</b>	<b>2,457,378</b>

The above borrowings are repayable as follows:

On demand or within one year	1,915,531	1,380,402
Amount due after one year	982,796	1,076,976
	<b>2,898,327</b>	<b>2,457,378</b>

### Zero Coupon Convertible Bonds

The US\$67 million zero coupon convertible bonds issued by the Company on 13th April, 2004 was purposed for repayment of existing loans and general working capital. At the balance sheet date, over 98% of these convertible bonds have been converted into ordinary shares of the Company. On or at anytime after 13th April, 2006 and prior to 13th April, 2009, the Company can exercise its option to redeem the outstanding convertible bonds at a predetermined early redemption amount.

Presently, the Company has another zero coupon convertible bonds amounting to HK\$754 million remain outstanding at the balance sheet date. The primary purpose of the issue is to finance the upcoming development project in Macau. Based on the adjusted conversion price of HK\$3.16, the convertible bonds are convertible into approximately 239 million ordinary shares of the Company of HK\$0.1 each.

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Under HKAS32 and HKAS39, both zero coupon convertible bonds are designated as “financial liabilities at fair value through profit or loss”. At each subsequent balance sheet date, “financial liabilities at fair value through profit or loss” are measured at fair value with changes in the fair value recognised directly in the income statement of the Company in the period in which they arise. Accordingly, the balances of the US dollar denominated and Hong Kong dollar denominated convertible bonds are adjusted from HK\$9.6 million and HK\$754 million to HK\$9.7 million and HK\$905 million, respectively, at the balance sheet date. Such adjustments are recognised as a charge to the income statement resulting from the increase in the fair value of financial liabilities. In subsequent period up to maturity date of the convertible bonds, the increase or decrease in the fair value of such financial liabilities will be charged or credited to the income statement of the Company in the corresponding period.

## Contingent Liabilities and Commitments

### *Contingent Liabilities*

The Group had the following contingent liabilities at the balance sheet date:

- (a) The Group has given guarantee to bankers to secure banking and other facilities made available to an investee company of HK\$154,322,000 (2005: HK\$102,536,000).
- (b) The Group has given a guarantee in respect of mortgage loans provided to the home buyers of a property project in China. At 31st March, 2006, the total amount of mortgages outstanding which are subject to these guarantees was HK\$2,769,000 (2005: HK\$115,539,000).
- (c) In previous year, a subsidiary of the Company (the “Subsidiary”) was sued by two consultants providing management, consulting and advisory service concerning business strategy and corporate finance activities of the Subsidiary. The two consultants entered into a consulting contract with the Subsidiary in 1999 in lieu of cash for service rendered. The two consultants alleges that the Subsidiary fraudulently misrepresented and concealed material facts regarding the proposed investment from them and claim compensation for damages amounting to approximately HK\$5,843,000. Moreover, the two consultants also allege that the Subsidiary owes them salaries, payment in lieu of notice for early termination of the contract and the reimbursement for expenses regarding the employment contract as the board of directors of the Subsidiary amounting to approximately HK\$5,865,000. A motion of dismiss the claim was filed in the United States court and the claim is still in progress. While the outcome of these proceedings cannot be estimated with certainty at this stage, based on independent legal advice obtained, the directors are of the opinion that the outcome of this case would not have a material adverse impact on the financial position of the Group.

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- (d) The State Administration of Taxation of the PRC issued a circular as Guo Shui Han [2004] No.938 on 2nd August, 2004 to strengthen the levy of land appreciation tax on property developers. In the opinion of the directors, after consulting its legal adviser and the tax bureau of the relevant city, land appreciation tax will not be levied in respect of properties already completed and full provision for land appreciation tax has not been made in the financial statements. The Group has not, however, been able to secure written confirmation of those individual city policies, and the directors consider that the chance that full land appreciation tax might be levied is less than probable in accordance with the rule of State Administration of Taxation. Should such levies take place, land appreciation tax would be approximately HK\$49 million.

## Capital Commitments

	2006 HK\$'000	2005 HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of:		
Properties under development	475,256	1,064,600
Hotel properties	2,781	36,190
	478,037	1,100,790
Capital expenditure authorised but not contracted for in respect of:		
Hotel properties under development	–	–
Hotel properties	8,400	–
	8,400	–
	486,437	1,100,790

## Gearing ratio

The gearing ratio (total bank and other borrowings and financial liabilities at fair value through profit or loss and convertible bonds to shareholders' equity) as at 31st March, 2006 was 82% (2005: 77%).

## Current ratio

The current ratio as at 31st March, 2006 was 1.1 (2005: 1.5). The Group has maintained sufficient liquid assets to finance its operation.

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## Exchange rate

The Group was not exposed to material exchange rate fluctuations during the year.

## Pledge of assets

At the balance sheet date, the Group had pledged the following assets:

- (a) The Group's properties, bank deposits and investments held for trading with an aggregate carrying amount of approximately HK\$3,399,431,000 (2005: HK\$2,074,641,000), HK\$55,102,000 (2005: HK\$3,901,000) and HK\$1,576,000 (2005: HK\$1,556,000) respectively, together with assignments of sales proceeds, insurance proceeds, rental income, revenues and all other income generated from the relevant properties and properties of associates and third parties were pledged to the Group's bankers and loan creditors to secure banking and loan facilities granted to the Group and an associate to the extent of approximately HK\$2,822,947,000 (2005: HK\$2,572,480,000) and HK\$5,000,000 (2005: HK\$5,000,000), respectively.

The Group's bank deposits of approximately HK\$2,765,000 (2005: HK\$3,000,000) were pledged to a Group's banker to secure a guarantee given by the banker in favour of subsidiary of the Company.

- (b) The Group's investments held for trading, available-for-sale investments and derivative financial instruments, other financial assets and deposits with an aggregate carrying amount of approximately HK\$414,182,000 (2005: HK\$237,746,000) were pledged to the Group's financial institutions to secure margin trading facilities granted to the Group in respect of securities transactions to the extent of approximately HK\$645,095,000 (2005: HK\$37,613,000), of which HK\$54,427,000 (2005: HK\$32,449,000) were utilised.
- (c) Interests in certain subsidiaries of the Company have been pledged as part of the security to secure certain bank borrowings granted to the Group.
- (d) The Group has subordinated its amount due from an investee company of approximately HK\$119,995,000 (2005: HK\$119,995,000) to a financial institution to secure general credit facility granted to the investee company.