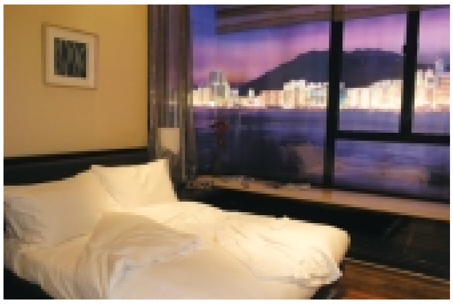
Operational and Financial Review



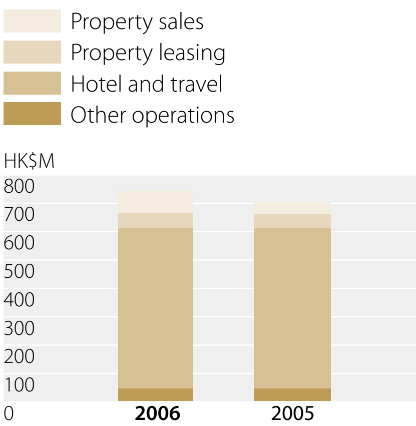
Canaryside

Properties sales and development

During the year, the Group has achieved property sales of approximately HK$525 million, which includes HK$450 million from presale of the Canaryside project. According to the new accounting policy, the income and the corresponding profit from such presale will be recognised in the profit and loss account in the coming financial year when the development is completed. As a result, turnover from property sales only amounted to HK$75 million, which was mainly from the sale of about 15,400 sq. ft. of office space at No.28 Marble Road together with some residential inventory flats.

The Phase I sales campaign of Canaryside has received good response in the local property market with 60% of the residential flats pre-sold. The seaside development will provide 210 residential units and two storeys of retail shops, with a total GFA of 190,000 sq. ft.. Completion will be around the last quarter of year 2006. Another low-rise 43,000 sq. ft. GFA residential development in Ping Shan of

Turnover



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Ping Shan

Asia Orient Tower

Yuen Long will also be completed in the next few months. Sales of properties will be launched soon after completion with estimated revenue of over HK$650 million.

The 200,000 sq. ft. joint venture luxury residential development in Castle Peak Road with our strategic partner, Grosvenor, is in foundation stage. Land premium of HK$347 million was paid. Negotiation with Hong Kong Government for land premium of a commercial and residential development in Aberdeen is close to finalisation, while that for development in Hung Shui Kiu and Lam Tei in New Territories are still being conducted. Currently the Group has 1.1 million sq. ft. GFA of properties under development.

Leasing

Rental income attributable to the Group for the year was approximately HK$67 million, an increase of 10% from previous year. This is mainly due to slightly increase of average occupancies to 91% from 89% and the increase of unit rate upon renewal of old tenancy. In coming year, tenancies of 38% of leased area will be renewed and we expect that the rate will be continuously improving, with the rising rental income to be reflected in coming years.

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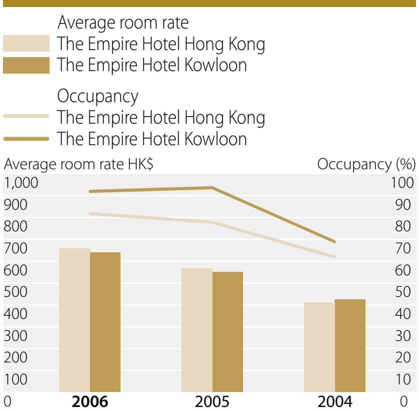
Hotel

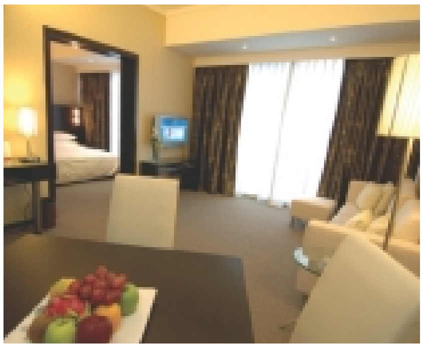
The Hotel group's performance is encouraging. The number of tourist arrivals to Hong Kong reached record high of 23 million in year 2005. As a result, the turnover for Hong Kong based hotels increased to HK$193 million from HK$163 million while contribution increased by 19%. The turnover of our Empire Landmark Hotel in Vancouver also increased by 14%, partly due to exchange rate appreciation. Overall, the Hotel group generated 30% increase in gross operating profit to HK$136 million. However, due to the provision of depreciation and amortisation on hotel properties together with other charges arising from the adoption of new accounting standards, the Hotel group reported a loss of HK$21 million for the year.

During the year, the Hotel group has raised HK$246 million new capital through the issue of new shares. Our shareholding in Hotel group was reduced to 57% from 70% and a loss on deemed disposal of HK$20 million is recorded. The new capital was used to repay bank loans.

Average room rate and occupancy



The Empire Hotel, Hong Kong



New Accounting Policies

The Group has adopted new accounting policies due to the new/revised Hong Kong Financial Reporting Standards. While these accounting policies changes do not affect the Group's underlying business and, in particular, have no effect on the cashflow, the Group's reported earnings and net asset value are substantially changed. The major effect of these changes is summarised as follows:

1. Owner-operated hotel properties are stated as cost less depreciation and leasehold land on which they are situated is amortised to profit and loss account over the lease period. Previously, they were carried at open market value and were not depreciated.

2. Revaluation surplus of investment properties are recorded in profit and loss account instead of revaluation reserve. Deferred income tax has to be provided for the revaluation surplus of investment properties notwithstanding the fact that capital gain on properties in Hong Kong is not taxable.

3. Profit on presale of development property is not recognised until after the completion of the development, which is different from the percentage of completion method adopted in prior years.

4. Fair value of share options granted is expensed in the profit and loss account.

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Financial Review

At 31st March 2006, the Group's total assets stood at HK$7.0 billion (2005 restated: HK$6.8 billion), and the net assets amounted to HK$4.1 billion (2005 restated: HK$3.7 billion). Due to the adoption of new/revised accounting standards, both total assets and net assets were reduced by HK$1.3 billion for 2005, while the effect on 2006 amounts to HK$1.5 billion and HK$1.7 billion respectively. Taking into account the market value of hotel properties, the revalued net assets of the Group would be HK$5.4 billion for year 2006 and HK$4.7 billion for year 2005.

Net borrowing was reduced substantially to HK$1.9 billion (2005: HK$2.2 billion) of which HK$0.8 billion (2005: HK$1.2 billion) belonged to the separately listed hotel group. Net debt to revalued net asset value was significantly reduced to 34% (2005 restated: 48%).

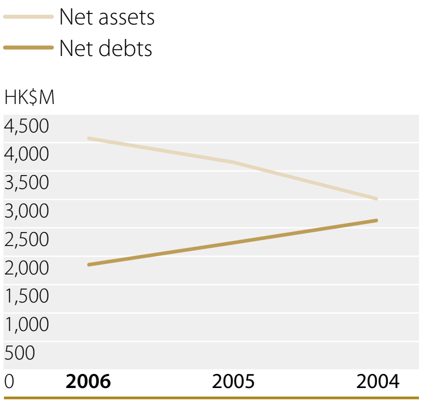
All our Group's borrowings are in Hong Kong dollar except the Empire Landmark Hotel in Vancouver which is denominated in Canadian dollar. All the debts, except the convertible bonds, were at floating rates and in order to mitigate the increase of interbank rate, interest rate swaps totaling HK$825 million were contracted to fix the borrowing rate for three to five years. The maturity of our debts spread over a period of up to eleven years, and over 50% were repayable after five years. During the year, the Group redeemed HK$100 million convertible bonds issued in 2002 which carry coupon at 7%. In May 2006, it issued HK$94 million 3-year convertible notes with coupon rate at 4% to further repay part of the outstanding convertible bonds.

As at 31st March 2006, assets with an aggregated net book value of HK$5,550 million (2005 restated: HK$5,275 million) were pledged to secure banking facilities of the Group. The guarantees provided to financial institutions for jointly controlled entities, associated companies and third parties was HK$141 million (2005: HK$159 million).

Employees and Remuneration Policies

As at 31st March 2006, the Group employed 397 employees and approximate 90% worked for the separately listed hotel subgroup. The remuneration packages including basic salary, annual bonus, retirement and other benefit are commensurate with their job nature and experience level.

Net assets and net debts



Debts maturity