

Chairman's Statement



Chairman LAM Kin Ngok, Peter

RESULTS

Benefiting from the continued growth in the economy, the Group operations recorded steady growth. Turnover increased by approximately 1% to HK\$794 million from HK\$789 million in the year to 31st July, 2005. Gross profit rose 3% to HK\$523 million. However, profit from operating activities for the year amounted to HK\$542 million down from HK\$1,171 million for the previous financial year. The sharp decline in profit from operating activities was due to lower gain on revaluation of investment properties of HK\$315 million as compared to HK\$600 million in 2004/05 and the absence of reversal of impairment which in 2004/05 totalled HK\$386 million. Pre-tax profit for the year benefited from a gain of HK\$95 million on the deemed disposal of interest in an associate and the absence of the loss in the previous year of HK\$1,484 million arising from the Bonds Settlement and the eSun Settlement. After tax and minorities, the Group's audited consolidated net profit attributable to equity holders of the Company for the year ended 31st July, 2006 amounted to HK\$513 million as compared to a loss of HK\$706 million for the previous financial year.

DIVIDENDS

The Directors do not recommend payment of a dividend for the year ended 31st July, 2006 (2004/05: Nil).

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BUSINESS REVIEW

The Hong Kong economy continued to expand at a brisk pace during the year under review although in the second quarter of 2006 economic growth did moderate somewhat. Export growth slackened due to weaker consumer demand, particularly in the US market. Notwithstanding the moderation of growth, the Government, in its latest Economic Report, expects that economic growth in Hong Kong in 2006 could be at the high end of the range of the 4-5% growth it had previously forecast and Hong Kong's economic growth in 2006 is likely to be more in line with consensus estimates of around 6% real GDP growth.

Continued economic growth has underpinned the Hong Kong property market which otherwise might have been negatively affected by the rising trend in interest rates. In addition, the Group has benefited by the continued growth of tourism.

Property

The Group's investment property portfolio generated gross rental income of approximately HK\$265 million for the year, representing an increase of about 7% from the HK\$247 million generated in the previous financial year. The Group's investment portfolio has been and remains practically fully let.

The Group's share of property development profits from its associates for the year amounted to approximately HK\$55 million, largely from the sale of our Rolling Hills Phase II project. In the previous financial year, the Group's share of property development profits from its associates amounted to approximately HK\$167 million.

Hotels

In Hong Kong, both The Ritz-Carlton Hong Kong and the Majestic Hotel benefited from the growth in tourist arrivals. For the year under review, The Ritz-Carlton Hong Kong achieved an average occupancy of 84.7% and an average room rate of HK\$2,441 as compared to 84.2% and HK\$2,072 recorded in the previous year. For the Majestic Hotel, the corresponding figures were 93.3% and HK\$592 as compared to 91.7% and HK\$552 in the previous year. The Group's hotel operation in Vietnam has been affected by increased competition. Rising interest expenses also affected divisional profits. Overall, however, the Group's hotel operations performed well.

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eSun Holdings Limited ("eSun")

eSun in which the Group now has a 34.83% interest following a placement of 74,518,000 new eSun shares, announced a net profit of HK\$54 million for the six months ended 30th June, 2006 (2005: HK\$203 million). The decline reflects the much reduced gain on revaluation of the Group's investment property and absence of impairment reversal which has affected eSun's results as eSun is the Group's largest shareholder with a 40.8% interest. During the year, eSun's most important business focus was work related to the development of the Macau Studio City Project in Cotai, Macau. In April 2006, eSun entered into an agreement whereby it will initially dispose of 40% of its interest in its Cotai site in Macau to New Cotai, LLC ("New Cotai") and will develop the Macau Studio City Project jointly with New Cotai.

PROSPECTS

Property and hotels

The global economy has been resilient in the face of numerous potentially negative developments such as rising interest rates, high prices for oil and certain other key commodities and geopolitical uncertainties. While such resiliency persists, one can be sanguine about the economy of Hong Kong on which the Group's performance depends.

The Group continues to upgrade its investment properties and rebalance its tenant mix as tenancies expire so as to strengthen its rental income base. The Group has also been replenishing its land bank and continues to look for development projects of a niche nature where it can add value.

The Group is currently studying the possible redevelopment of The Ritz-Carlton Hong Kong site. Given the strong demand for prime office premises in Central and the dearth of new supply in this district, prime office rentals in Central are likely to remain firm and could increase further. The Ritz-Carlton Hong Kong site of approximately 15,000 square feet has excellent potential for redevelopment to provide not less than 225,000 square feet of office accommodation under current building regulations. According to the current lease terms neither land premium payment nor lease modification is required. Redevelopment of The Ritz-Carlton Hong Kong site would have impact on the Group's hotel division, but is likely to significantly enhance recurring rental income after completion of the redevelopment.



Causeway Bay
Plaza II



Cheung Sha Wan Plaza



Macau Studio City
(artist impression)



Majestic Hotel



The Ritz-Carlton
Hong Kong

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eSun

The Macau Studio City development will dramatically transform eSun, considering the financial scale of the project and hence will also be materially beneficial to the Group. The Group, through its equity interest in eSun, shall share eSun's profit arising from the disposal of 40% interest of the Cotai site subject to the completion of the transaction. In the long term the Group shall participate through eSun in the future recurring income from the development of the Cotai site.

eSun and its joint venture partner, New Cotai, are finalizing a Master Development Plan for the Macau Studio City Project in Cotai, Macau and upon approval from the Macau authorities, construction work is expected to commence in 2007.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st July, 2006, the Group had consolidated net assets of approximately HK\$3,937 million (as at 31st July, 2005: HK\$3,432 million).

As at 31st July, 2006, the Group had outstanding borrowings of approximately HK\$2,547 million (as at 31st July, 2005: HK\$2,954 million) comprising (i) secured bank loans and other borrowings of approximately HK\$2,544 million and; (ii) an outstanding amount of approximately HK\$3 million, being residual amount payable under the Guaranteed Secured A Bonds due 2005 ("A Bonds"). The debt to equity ratio as expressed as a percentage of the total outstanding borrowings to consolidated net assets was approximately 65%. The maturity profile of the bank and other borrowings of HK\$2,544 million was spread over a period of more than 5 years with HK\$310 million repayable within 1 year, HK\$386 million repayable in the second year, HK\$1,809 million repayable in the third to fifth years and HK\$39 million repayable beyond 5 years.

As at 31st July, 2006, certain investment properties with carrying amounts of approximately HK\$4,113 million, certain property, plant and equipment with carrying amounts of approximately HK\$1,187 million, a prepaid land lease payment of approximately HK\$31 million and certain bank balances and time deposits with banks of approximately HK\$96 million were pledged to banks to secure banking facilities granted to the Group. At the same date, certain investment properties with carrying amounts of approximately HK\$5 million and certain property, plant and equipment with carrying amounts of approximately HK\$24 million were pledged to a bank to back up certain corporate guarantee

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issued by the Company in respect of a banking facility granted by the bank to a subsidiary of the Group. In addition, the entire holding of the shares of Peakflow Profits Limited together with its 10% shareholding in and its advance to Bayshore Development Group Limited, the joint venture company for the AIG Tower, and certain shares in subsidiaries held by the Group were also pledged to banks and other lender to secure loan facilities granted to the Group. Certain shares of associates held by the Group were pledged to a bank for a loan facility granted to certain associates of the Group. In addition, pursuant to the terms and conditions of the A Bonds, A Bonds were secured by charges over the Group's entire 10% interest in The Waterfront, Hong Kong. The secured bank and other borrowings were also secured by floating charges over certain assets held by the Group.

All of the Group's borrowings are denominated in Hong Kong dollars or US dollars. On the interest rate front, the majority of the bank borrowings are being maintained as floating rate debts.

CONTINGENT LIABILITIES

Details of contingent liabilities of the Group as at the balance sheet date are set out in note 34 to the financial statements.

EMPLOYEES AND REMUNERATION POLICIES

The Group employed a total of approximately 1,300 (as at 31st July, 2005: 1,300) employees as at 31st July, 2006. Pay rates of employees are maintained at competitive levels and salary adjustments are made on a performance related basis. Other staff benefits included a number of mandatory provident fund schemes for all the eligible employees, a free hospitalization insurance plan, subsidized medical care and subsidies for external educational and training programmes.

APPRECIATION

The Group has undergone an active rationalisation and development process during the year under review, and credit for the success of this process is due to the perseverance and unfailing efforts of the Company's management and staff. I would also like to thank the shareholders and business associates for their support during the year.

Lam Kin Ngok, Peter
Chairman

Hong Kong
10th November, 2006