

## I now present to the shareholders my report on the operations of the Group for the year.

### BUSINESS RESULTS

The Group's consolidated profit after taxation for the year ended 31 December 2006 amounted to HK\$121.7 million, representing a decrease of 50% from the consolidated profit after taxation of HK\$243.2 million in 2005. The decrease in profit was mainly due to the High Court's judgment in favour of the Hong Kong Government relating to the litigation on the proposed development of the Central Ferry Piers resulting in the Company making a provision of HK\$100 million. The profit per share was 34.2 cents for the year as compared to 68.3 cents in the previous year.

### DIVIDENDS

The Board of Directors recommended a final dividend of 24 cents per share to equity shareholders whose names appear in the register of members on 3 May 2007. This dividend, together with the interim dividend of 9 cents per share already paid, will make a total distribution of 33 cents for the full year.

### LITIGATION

The Company was engaged in a High Court litigation commenced by the Hong Kong Government in late 1999 claiming under an indemnity agreement entered into in late 1993 involving the proposed development over the Central Ferry Piers. Government claims a sum of HK\$77 million and an unliquidated amount plus interest and costs. The Company defended the Government's claim and counterclaimed. A liability hearing was held during October to December 2006 culminating in a judgment in the Government's favour. During the hearing, the Company submitted to the court that:

1. The major reason the development did not proceed was because Government and the Group had been unable to reach agreement over the land premium. This was despite Executive Council having given in-principle approval to the proposed development in July 1994 and approval of the agreed general terms of the pier development package in July 1995.
2. In June 1998, the amount of land premium offered by Government to the Group was HK\$1.77 billion. The Group appealed on the premium as it was considered to be unreasonably excessive.
3. In July 1998, Government set a deadline for the Company to accept the premium of HK\$1.77 billion apparently on the grounds that, amongst other things, the ferry franchise was to expire the following year. This was despite the Group's offers to extend the franchise.



Silvermine Beach Hotel



Harbour Cruise – "Bauhinia"



## Chairman's Statement (Continued)

4. Prior to the deadline, Government dealt with the appeal and internally reassessed the premium to be HK\$1.059 billion. At that time the Group was not notified about the result of the appeal, nor did Government write to the Company with a revised premium offer. Government's revised premium figure was not reported to the Executive Council, which deliberated on the incorrect premium of HK\$1.77 billion. Government unilaterally terminated the negotiations in August 1998 upon the Group's refusal to accept the premium of HK\$1.77 billion by the deadline.
5. The amount of land premium was the most critical factor. Government did not follow its normal practice of offering a revised land premium on appeal, resulting in a missed opportunity for any further negotiations and possible conclusion of a deal on the development on the part of our Group.
6. The proper interpretation of the indemnity agreement meant that Government's claims in respect of certain items were not valid nor sustainable. For example, inter alia, the Company should not be held liable to reimburse Government for items which it never became liable to pay; and the Company should not be required to pay for certain works which the Company argued were for maintenance and improvement purposes, and were not claimable under the indemnity agreement.

The High Court did not accept the Company's submissions and gave judgment in favour of the Government, but the amount of the Company's liability is still to be determined at a further hearing on quantum which will include the Company's claim on the defective bored pile extensions that was not dealt with at the liability hearing. The Group has filed an appeal against the judgment and the hearing of the appeal is scheduled for March 2008. The outcome of the appeal may affect the Group's liability under the judgment.

### **BUSINESS REVIEW**

During the year, the local economy had registered growth. The influx of tourist from China led to the satisfactory increase in the rental of office and retail shops. The selling prices of the residential units of the Group were satisfactory. The price of Metro Harbour View was an average of approximately HK\$4,500 per sq. ft., a 5% increase as compared with year 2005. The Group's rental income for the year was HK\$25.5 million, a 58% increase when compared with last year. The Group's profit for the year was mainly derived from the sale of the residential units of Metro Harbour View.

### Property Development and Investment Operations

#### *8 Fuk Lee Street ("Metro Harbour View")*

The Group recorded an operating profit of HK\$136 million from the sale of the residential units of Metro Harbour View. Properties sold during the year amounted to approximately HK\$265 million comprising approximately 220 residential units. The number of unsold units was approximately 80. Rental income from the commercial arcade, Metro Harbour Plaza, amounted to HK\$24.3 million for the year. The opening of the Citistore at Metro Harbour Plaza last September brought about a new image of the commercial arcade and enhanced the value of the property. The occupancy rate at the end of the year was approximately 92%, but taking into account of the committed tenancies, stood at approximately 98% at the end of the year.

#### *222 Tai Kok Tsui Road*

The construction works were in good progress. The site will be developed into a residential-cum-commercial property with a total gross floor area of approximately 320,000 sq. ft. comprising approximately 270,000 sq. ft. for residential use and 50,000 sq. ft. for non-residential use. This project is expected to be completed by late 2008.

#### *51 Tong Mi Road ("MetroRegalia")*

The residential-cum-commercial building with a total gross floor area of approximately 53,000 sq. ft. was offered for sale in December 2006 and received favourable response with 21 units sold. The Group recorded a profit of HK\$18 million accordingly.

#### *6 Cho Yuen Street, Yau Tong*

The construction of the site with a total gross floor area of approximately 165,000 sq. ft., comprising approximately 140,000 sq. ft. for residential use and 25,000 sq. ft. for non-residential, was in good progress. The project will be completed by early 2009.

### Ferry, Shipyard and Related Operations

The harbour cruise turnover decreased by 2% as compared with last year due to severe price competition in the market. The turnover of the vehicular ferry operation rose by 6%. The turnover of the shipyard recorded an increase of 9%. However, due to the increase in operating cost as a result of the drastic increase in fuel oil price, the Ferry, Shipyard and Related Operations recorded an operating loss of HK\$7.2 million. During the year, the fees arising from the litigation in respect of the proposed development of the Central Ferry Piers amounted to HK\$27.5 million.



51 Tong Mi Road

## Chairman's Statement (Continued)

### Travel and Hotel Operations

Despite the increase in turnover of 5% as compared with last year, the Travel and Hotel Operations recorded an operating loss of HK\$2.3 million after accounting for increased costs.

### PROSPECTS

The counter-claim of the Company in respect of the proposed Central Ferry Piers development was dismissed by the High Court. Notwithstanding the Company's current appeal, there is no longer any possibility of development of the Central Ferry Piers by the Company. Accordingly, the Company would allocate its cash resources on property investments and stock investments with good potential.

The Group's major source of income in the coming year will include the selling of residential units of Metro Harbour View and MetroRegalia. As a result of the opening of the Citistore at Metro Harbour Plaza in September 2006 and the leasing of 50% of the shops at MetroRegalia, it is expected that the rental income will register stable growth.

### ACKNOWLEDGEMENT

On behalf of the shareholders and the Board, I would like to take this opportunity to express appreciation to all our staff for their dedication and hard work during the last year.

**Colin K. Y. Lam**

*Chairman*

Hong Kong, 16 March 2007



*Designers' image of 222 Tai Kok Tsui Road*