

SEGMENT REVIEW

The Marco Polo Hongkong Hotel ("MPHK Hotel") registered slight growth in occupancy and double-digit growth in average room rate during 2006. Total revenue and operating profit of the Hotel Segment in 2006 rose by 16% and 31% to HK\$431.1 million and HK\$153.2 million respectively. High demand for hotel rooms during trade shows, conferences and exhibitions supported the strong improvement in room rates.

During 2006, average occupancy at MPMK Hotel grew to 88% (2005: 87%). Average room rate recorded a 20% growth. To enhance its competitiveness, the sixth floor of the hotel is being renovated with new food and beverage offering, and the work is scheduled for completion by mid-2007. With solid economic fundamentals and rising tourist arrivals, the near-term outlook for the Hong Kong hotel industry remains strong.

Property investment revenue and operating profit rose by 28% and 26% to reach HK\$120.2 million and HK\$104.3 million respectively. The increase was principally contributed by favourable rental growth and the first full-year rental contribution from the Star House retail units acquired in November 2005.

Occupancy at the office and retail areas of MPMK Hotel was 93% and 99% respectively, while the Star House units were 87% occupied. Lane Crawford remains the anchor tenant at MPMK Hotel's retail area, which supports the patronage of the hotel.

The Group's investment property, comprising the office and retail areas in MPMK Hotel and the Star House units, were revalued by an independent valuer at 31st December, 2006. Net revaluation surplus after deferred tax was HK\$77.8 million in 2006, compared with HK\$223.7 million in 2005.

On property development, the 60 Victoria Road development at Kennedy Town was completed in August 2006 and virtually all of the 73 units have been sold as at the end of 2006, realising proceeds of about HK\$278 million. These sales were recognised in the 2006 profit and loss account in accordance with current accounting standards.

FINANCIAL REVIEW

(I) Review of 2006 Results

Turnover

Group turnover for the year under review amounted to HK\$920.9 million, an increase of HK\$394.1 million or 74.8% (2005: HK\$526.8 million). The significant increase in turnover was primarily due to the recognition of the proceeds from the sales of residential units at 60 Victoria Road upon its completion in the year under review, combined by the double-digit revenue growth from the Hotel, Property Investment and Investment segments.

Revenue from the Hotel segment was up by 16.2% to HK\$431.1 million, reflecting the encouraging performance achieved by the Marco Polo Hongkong Hotel ("MPHK Hotel").

Property investment revenue was up by 27.5% to HK\$120.2 million due to higher rental income generated from MPHK Hotel's retail areas and full year rental income contribution from the Star House units, which were acquired in November 2005.

Property development revenue was HK\$278.3 million (2005: HK\$Nil), which came from the recognition of the proceeds from the sale of 72 residential units at 60 Victoria Road on its completion in 2006.

Increase in dividend income and interest income generated from the Group's surplus cash also contributed to the turnover growth.

Operating Profit

Group operating profit for the year rose by 31.4% to HK\$340.8 million (2005: HK\$259.3 million). The Hotel and Property Investment segments were the main growth drivers with 30.9% and 25.7% growth in operating profit, respectively. There was no profit contribution from the sales of Victoria Road units as the realised selling prices were nearly at their book written down values.

Other Items

Included in the Group's profit is a surplus of HK\$94.3 million (2005: HK\$271.1 million) on revaluation of the Group's investment properties and other net income of HK\$48.7 million (2005: 42.6 million), which mainly included profit on disposal of investments of HK\$47.9 million.

Share of Profits of Associates

Share of profits of associates in 2006 was HK\$6.2 million (2005: HK\$24.4 million) due to the reduction in attributable profit from the Sorrento project as over 99% units of this project were sold by the end of 2005.

Taxation

The taxation charge for the year was HK\$67.3 million (2005: HK\$80.3 million). Included in the current year's taxation charge was a deferred tax provision of HK\$16.5 million (2005: HK\$47.4 million) on the surplus arising from investment property revaluations.

Profit Attributable to Shareholders

Group profit attributable to shareholders for the year amounted to HK\$422.7 million (2005: HK\$517.1 million), a decrease of HK\$94.4 million or 18.3%. Earnings per share were HK\$1.34 (2005: HK\$1.64).

The Group's investment properties were revalued as at 31st December, 2006, resulting in a net surplus after deferred tax of HK\$77.8 million (2005: HK\$223.7 million) recorded in the profit and loss account.

Excluding this surplus, profit for the year would have been HK\$344.9 million, an increase of 17.6% over 2005. The favourable results were mainly due to the increase in the Group's operating profit to HK\$340.8 million (2005: HK\$259.3 million) and profit on disposal of investments by HK\$47.9 million, but offset in part by the decrease in share of profits of HK\$17.0 million contributed by the associate undertaking the Sorrento property project.

(II) Liquidity and Financial Resources

As of 31st December, 2006, the Group's shareholders' equity was HK\$4,778.0 million or HK\$15.17 per share.

In compliance with the amendments to accounting standards (HKAS 19), with effect from 1st January, 2006 retrospectively, the Group's shareholders' equity as at 31st December, 2005 has been restated to HK\$4,096.3 million from HK\$4,101.0 million, a decrease of HK\$4.7 million due to the recognition of previously unrecognised actuarial losses relating to the Group's defined benefit pension schemes to equity.

As at 31st December, 2006, the Group had a net cash balance of HK\$1,840.2 million, HK\$320.6 million higher than 2005. The increase was mainly attributable to the sale proceeds of HK\$278.3 million received from the sales of 60 Victoria Road. The cash surplus was mostly placed as bank deposits. In addition, the Group maintained a portfolio of investments primarily consisting of blue chip securities, with a market value aggregating HK\$1,490.0 million as at 31st December, 2006 (2005: HK\$922.8 million). The performance of the portfolio was in line with the trend of the stock markets.

As at 31st December, 2006, the Group had no significant exposure to foreign exchange rate fluctuations.

(III) Human Resources

The Group has approximately 452 employees working at the Group's hotel. Employees are remunerated according to the nature of the job and market trends, with a built-in merit component incorporated in the annual increment to reward and motivate individual performance. Total staff costs for year ended 31st December, 2006 amounted to HK\$105.1 million (2005: HK\$92.9 million).