

# CHAIRMAN'S STATEMENT

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## PROFIT FOR THE YEAR

I am pleased to report that the Group's consolidated profit attributable to equity holders of the Company amounted to HK\$308.6 million, representing an increase of HK\$42.1 million or 15.8% as compared to HK\$266.5 million for the previous year. This included fair value gains on investment properties net of the corresponding deferred income tax amounting to HK\$248.9 million and the corresponding figure for 2005 was HK\$222.2 million. When excluding these impacts, the underlying profit for the year was HK\$59.7 million, increased by HK\$15.4 million or 34.8% over the corresponding figure of HK\$44.3 million for 2005.

## DIVIDEND

Your Directors have resolved to recommend a final dividend of HK11 cents (2005: HK8 cents) per ordinary share.

## BUSINESS REVIEW

In Hong Kong, the rental income increased slightly by 1.6 % to HK\$122 million. The disposal of Tai Sang Shatin Warehouse Centre (the "Shatin Warehouse Centre") in July 2006 caused a drop in rental income amounting to HK\$5.5 million as compared to last year. Nevertheless, such drop was alleviated by the rise in rental in all sectors on a better renewal rate with an extent of 10% increment. The gain on disposal of Shatin Warehouse Centre of HK\$39.1 million together with the relevant deferred income tax written back of HK\$24.8 million contributed significantly to the operating results of Hong Kong, which was however reduced by the increase in the improvement and repair expenditures by HK\$25.5 million this year.

In the USA, the rental income from Montgomery Plaza dropped by 15% as compared to last year to HK\$43 million. The property occupancy rates of Montgomery Plaza in the USA maintained at 93.5% and the weighted average office rent per square feet reduced further to US\$32.4 at the end of 2006. The average contract rental rate has steadily decreased over the past few years as leases negotiated in the late 1990's/2000, at historically high rental rates, burned off. The drop in rental income together with the increase in interest expenses and property maintenance expenses caused an operating deficit of HK\$2 million for the year. The rental and operating expenditures may remain at current level in the coming year.

The land modification premium for the hotel development project at 43 Heung Yip Road has been received and an appeal for reduction of the land premium will be submitted to the Lands Department. Application for occupation permit for the final phase development of Floral Villas, Tso Wo Hang, Sai Kung, of three luxury seaview houses has been made. Interior decorations are being carried out. The houses will be leased out upon completion. Application for the issuance of the Certificate of Compliance of No.1 Barker Road has been submitted. Feasibility studies are carried out to change the use of certain properties of the Group.

## CASH FLOW

The Group generated cash inflow of approximately HK\$26.3 million from operating activities after paying profits tax of HK\$5.2 million.

The Group received proceeds on disposal of a subsidiary company of HK\$268 million after deduction of the incidental cost. The Group also received proceeds on disposal of two investment properties and plant and equipment of HK\$1.8 million and HK\$0.6 million respectively. The Group received dividends of HK\$1.1 million. The Group applied the fund for additions of property, plant and equipment, properties under development, investment properties and leasehold land in an aggregate of HK\$35.1 million. The Group generated net cash inflow of HK\$237.4 million from these investing activities.

The Group had applied the cash inflow to repay bank borrowings of HK\$203.4 million, pay dividends of HK\$45.8 million and interest of HK\$24.2 million. After these cash outflow of HK\$273.4 million for financing activities, the Group's balance of cash and cash equivalents decreased by HK\$9.8 million to HK\$13.4 million. The cash flows were also funded by long term and short term borrowings.

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## **SUBSEQUENT EVENT**

As contained in the Company's announcement on 20th March 2007, the Company entered into a sale and purchase agreement to dispose of the entire interest in Fung Chau Investment Company Limited, a wholly owned subsidiary company of the Company, to a third party at a total consideration of HK\$40.8 million. The estimated gain on disposal is approximately HK\$39 million.

## **PROSPECTS**

The mainland economy will continue to grow at a healthy pace this year and in turn the economy of Hong Kong will remain steady. The impact of the continuous appreciation of the RMB will not be significant. Financial market and tourism will still be benefited as a result of the strong economy of the mainland provided interest rates are steady in 2007.

Barring any unforeseen circumstances, the Group will continue to pursue its prudent policy and maintain stable earnings for the coming year.

In closing, I wish to thank my fellow directors for their valuable guidance and to all staff members for their dedication and hard work.

**William Ma Ching Wai**  
*Chairman*

Hong Kong, 26th March 2007