

CHAIRMAN'S STATEMENT



During 2006, we restructured our balance sheet and placed the Group on an even more solid footing for growth in the future.

In May 2006, we spun off our interests in Citibank Plaza and created the Champion Real Estate Investment Trust, in which we retained a 49.2% interest. With this move, we have realized significant value for the shareholders of Great Eagle. At the same time we have also raised for the Group net proceeds of HK\$10.4 billion, significantly reducing its net consolidated debts as a result. The consequent saving in interest expenses contributed to the growth of our core income in 2006. We were also pleased to have been able to return part of the realized value to the shareholders by way of a special dividend of HK\$5.00 per share or HK\$3,004 million in October 2006.

2006 was also a year in which we saw continued strength in the Hong Kong office market. The local economy has been going from strength to strength, especially in the financial and banking sectors. With intensified focus of global investors on the China economy, which has been undergoing spectacular growth, there has been a massive flow of investment funds into China-related equities. Hong Kong being at the forefront of the Chinese capital market has been a major beneficiary of this tremendous funds flow. Investment banks have hired a lot more people in Hong Kong to handle the long pipeline of initial public offerings. At the same time, the large number of global fund management companies that are setting up Asian outposts here have induced even more demand for office space from their service providers, such as lawyers and banks' trading desks. Private banks have also expanded rapidly during 2006. All these factors have created a significant incremental demand for office premises in Hong Kong, at a time when the new supply was at one of the lowest levels in recent years. This has led to higher occupancy rates and substantially higher rent rates at our office properties. The positive impact of these favourable market conditions was not apparent in our financial results of 2006 because we have waived temporarily our income entitlement from Citibank Plaza in relation to the Champion REIT spin-off. The strong uptake in rents at the property coupled with receding distribution waivers should lead to significant contribution from Champion REIT to the performance of our Group in the coming years.

Our long-term investment property Langham Place has proven the success of the three-in-one hotel, retail and office development model. By constantly upgrading the tenant mix and with unique and innovative promotional

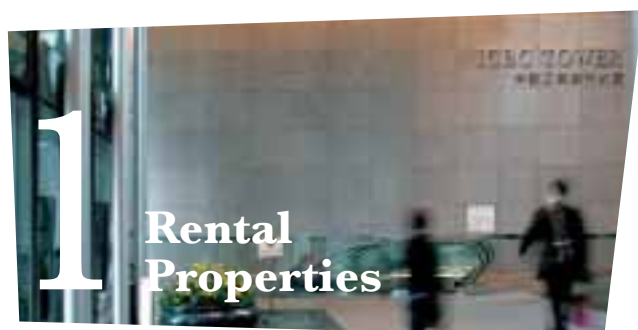
programmes, the Mall has enhanced its appeal to a wider spectrum of shoppers and has further reinforced its position as one of the most popular malls in Hong Kong. The 5-star Langham Place Hotel has been a great success and has firmly established itself as a favourite among discerning business travelers. The Office Tower has also made satisfactory leasing progress during 2006. Together the three complementary elements have established Langham Place as an important commercial landmark in Hong Kong. More importantly this huge urban renewal project has revitalized the inner city of Mongkok, and has won the acclamation of urban planners from all over the world.

Our hotel portfolio performed very well under generally buoyant global economic conditions in 2006. The Hong Kong market was boosted by a healthy increase in the number of international conventions and trade shows. Our Hong Kong hotels capitalized on the resulting growth in business traveler arrivals to generate strong growth in room yields year-on-year. By offering superb service coupled with a well conceived and executed brand-building programme, the Langham brand has achieved increased recognition in the international lodging industry. As a result our hotels in London, Boston, Melbourne and Auckland have very much recovered from the earlier effects of the re-branding exercise. They all registered highly satisfactory growth in REVPAR in 2006.



Courtesy: The Jerde Partnership Photographer – Hiroyuki Kawano

OPERATIONS REVIEW



HONG KONG RENTAL PROPERTIES

(a) Rental Income

	Gross Rental Income (HK\$ million)	
	2006	2005
Citibank Plaza*	146.4	330.5
Great Eagle Centre	63.6	54.6
Langham Place		
Office	65.0	29.2
Commercial	322.5	333.4
Eaton Houses	32.8	35.3
Convention Plaza Apartments	3.1	3.1
Others	3.3	2.4
Total	636.7	788.5

(b) Occupancy and Rental Trend

	Occupancy at 31 December 2006		
	Office	Commercial	Residential
Citibank Plaza	96.4%	100.0%	–
Great Eagle Centre	96.0%	100.0%	–
Langham Place	74.8%	95.1%	–
Eaton Houses	–	–	73.9%#
Convention Plaza Apartments	–	–	100.0%

* Upon the public listing of the Champion Real Estate Investment Trust ("Champion REIT") on 24 May 2006, the Group's interests in Citibank Plaza were disposed of to Champion REIT. The rental income from Citibank Plaza for the year ended 31 December 2006 therefore covered the period from 1 January 2006 to 23 May 2006.

Average occupancy rate for the 12 months ended 31 December 2006.

Citibank Plaza

Due to the disposal of the Group's interests in Citibank Plaza to Champion REIT, rental income of the property ceased to accrue to the Group from 24 May 2006.

Therefore only HK\$146.4 million income was recorded for 2006, as compared to HK\$330.5 million for 2005. The shortfall was however partly made up for with savings on interest expenses.

Immediately after the initial public offering of Champion REIT on 24 May 2006, the Group held a 49.2% interest in the REIT, which remained the same as of 31 December 2006. Based on the results announcement of Champion REIT on 15 March 2007, the occupancy at the office portion of Citibank Plaza increased to 96.4% at year-end 2006 (as compared to 86.1% at the beginning of the year). Spot rental levels rose from roughly HK\$50 per sq. ft. to approximately HK\$80 per sq. ft. in the same period. While rental revenue went up, operating expenses were lower than forecast due to reduced agency commissions and reduced responsibility for Government Rates on vacant premises. With its favourable cashflow, Champion has been able to declare a distribution per unit of HK\$0.20 for the period of 24 May 2006 to 31 December 2006, which exceeds the minimum DPU of HK\$0.1694 guaranteed by the Group. Therefore the Group is no longer liable for any shortfall payments.

Great Eagle Centre

The office portion continued to enjoy very high occupancy throughout 2006, with a year-end occupancy rate of 96.0%, almost level with that of 96.4% as of 31 December 2005. The retail component remained fully leased during 2006. As higher rents were achieved upon rollover or replacement of tenancies, gross rental income from the property rose to HK\$63.6 million for 2006, up 16.5% from that of HK\$54.6 million for 2005.

Langham Place

During 2006, we have adjusted our promotional strategy by focusing our resources on several highly popular major events at the Langham Place Mall. As a result, we have successfully enhanced the image of the Mall. We have seen a significant increase in footfall during the year and the sales volume of our retail tenants has also seen good growth year on year. However this favourable trend has yet to be reflected in the rental income of 2006 because of our ongoing re-tenanting initiative at the Mall. Occupancy rate was 95.1% as of 31 December 2006, moderately down from that of 98.5% at the previous year-end. Gross rental income also decreased 3.3% from HK\$333.4 million for 2005 to HK\$322.5 million for 2006, reflecting mainly the downtime in between tenancies and tenant inducements incurred to bring in higher quality brands. This current tenant realignment exercise will continue well into 2007. Though it may moderate the growth in rental income in the short term, we are confident that this initiative will put the Mall on a solid base for strong income growth in the coming years.

The progress of leasing at the Office Tower was satisfactory in 2006 with occupancy increased to 74.8% by year-end. Achieved effective rent rates have also increased significantly during 2006 in line with the general Kowloon office market.

Eaton House Furnished Apartments

The three Eaton Houses together saw a 7.1% decline in rental income in 2006 to HK\$32.8 million mainly due to a decline in occupancy at the Blue Pool Road property under keen competition of newly opened service apartments in the neighbourhood. We are however positive that it will regain market share once the major refurbishments have been completed in the first quarter of 2007 and with strategic focus on corporate business.

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U.S. COMMERCIAL PROPERTIES

The San Francisco Bay Area office market generally improved in 2006. Stronger office employment drove market vacancy down from 17% in 2005 to 11% by year-end 2006. Increased demand for office space resulted in higher rental rates as compared with 2005. These factors are having a favorable impact on real estate values.

Our U.S. portfolio however had yet to benefit from this favourable trend. Its contribution decreased by 35.8% to HK\$53.8 million in 2006 from HK\$83.8 million in 2005. This was mainly caused by higher vacancy at the 150 Spear Street property following the departure of several large tenants. Though a majority of the vacant floors were subsequently re-let, the loss of rental income and the costs of re-letting took a significant toll on the overall performance of the properties.

Our U.S. commercial portfolio was 87% leased at year-end 2006. With the current demand for space and little new supply of office space planned, occupancy is expected to improve during 2007.



2006 saw a good improvement in overall results with total revenue amounting to HK\$2.6 billion, up 17% over 2005. Our Hong Kong hotels have benefited from the buoyant economic growth and healthy demand of exhibitions and conventions. Overseas hotels have also seen a solid rebound supported by a buoyant lodging market and with the gradual subsidence of the effects of our re-branding exercise.

During the year, the hotel group has seen significant progress in brand recognition by various innovative marketing programs, particularly in the expansion of our loyalty and airline partnerships, which have improved market share. We have also effectively deployed our global sales force and will continue to invest in advertising and communications.

At the same time we are continuing to seek out opportunities to launch our luxury brand in global markets.

HONG KONG OPERATIONS

Langham Hotel, Hong Kong

Positive performance was achieved during the year mainly due to steady flow of corporate business, which was boosted primarily by the number of large trade fairs during the course of the year. The hotel continues to set its focus on securing high-yield corporate business and has seen good growth from this sector.

To further enhance the Langham brand standard in the hotel, major refurbishment projects were completed during the year including Sun's Café, which underwent a total renovation to transform it into an interactive all day dining restaurant and re-opened as L'Eclipse.

For the year 2006, the hotel achieved an average occupancy of 87% (2005: 83%) and average room rate of HK\$1,318 (2005: HK\$1,145).

Langham Place Hotel, Hong Kong

The hotel turned in a strong performance for the year with revenue per available room soaring 43%, fuelled by a 23% improvement in average room rates, as it became fully operational. Corporate, group and leisure business individually showed significant improvements in average rates. Food and beverage results also achieved healthy gains, particularly in the catering sector, mainly due to good wedding business. The hotel continues to build its corporate base and consolidating its position as a key player in the local five-star market.

For the year 2006, the hotel achieved an average occupancy of 86% (2005: 74%) and average room rate of HK\$1,119 (2005: HK\$905).

Eaton Hotel, Hong Kong

Good performance for the year as the hotel remained focused on strengthening room rates through targeting the high-yield corporate market. Food & beverage continued to be the major revenue contributor, with the catering business performing particularly well. The ongoing room refurbishment programs in 2007 will place the hotel in a stronger position to grow market share.

For the year 2006, the hotel achieved an average occupancy of 88% (2005: 87%) and average room rate of HK\$743 (2005: HK\$624).

INTERNATIONAL OPERATIONS

Langham Hotel, London

Good results were posted for the year, underscoring the strength of the London lodging market and further acceptance of the Langham brand positioning. It was the hotel's strategy to grow room rates as it continued to target high-yield corporate business with revenue per available room rising 22% over the preceding year.

The hotel is undergoing an extensive renovation programme. It will take place in phases continuing into the coming year. Upon completion, it will position the hotel at the very top of London's luxury hotel market.

For the year 2006, the hotel achieved an average occupancy of 75% (2005: 71%) and average room rate of £178 (2005: £155).

Langham Hotel, Boston

The performance of this hotel has made a good comeback with the recovery in the Boston lodging market, which was mainly driven by major conventions resulting in a surge of business travelers. Coupled with the newly renovated rooms, this gave the hotel the leverage to increase rates with revenue per available room rising 22% over the preceding year. We anticipate that the final phase of the rooms upgrade will further enhance the hotel's market position.

For the year 2006, the hotel achieved an average occupancy of 75% (2005: 67%) and average room rate of US\$226 (2005: US\$207).

Langham Hotel, Melbourne

The hotel has achieved positive momentum with strategic focus on high yield corporate meetings businesses. The newly renovated restaurant, bar and public areas have been well received by the market and have gained strong media attention and accolades. This has enabled the hotel to gain further recognition and to firmly establish itself as a competitive player at the top end of the Melbourne market.

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For the year 2006, the hotel achieved an average occupancy of 81% (2005: 69%) and average room rate of A\$214 (2005: A\$199).

Langham Hotel, Auckland

The hotel was able to achieve positive growth in room revenue and market share during the year with revenue per available room rising 14% over 2005, despite being hampered by a gradual slowdown in the Auckland lodging market.

Completion of extensive refurbishments in the first quarter of 2006 has provided the hotel with a quality product to compete in the high-end luxury hotel market and the hotel has received very positive exposure from the media.

For the year 2006, the hotel achieved an average occupancy of 72% (2005: 69%) and average room rate of NZ\$145 (2005: NZ\$133).

Delta Chelsea Hotel, Toronto

The hotel achieved modest growth with lower occupancy but higher average room rates, in line with its competitors, as the city faced a stagnant lodging market.

For the year 2006, the hotel achieved an average occupancy of 71% (2005: 76%) and average room rate of C\$137 (2005: C\$127).



In 2006, the construction of new commercial and residential buildings decreased. Due to the keen competition in the building materials market, our Trading Division suffered a decline in trading profit in 2006. To balance the cycle fluctuations, it is trying to diversify its business by exploring the Macau market and the retail market.



Managers' remuneration received from property management operations amounted to HK\$18.8 million in 2006, representing an increase of 9.9% on that of 2005.

The income of the Engineering Division decreased 4.2% to HK\$22.7 million in 2006 from that of 2005 due to reduced repair and maintenance jobs. Competition remained keen with tight profit margins. To widen our scope of services and to seek more business opportunities, we started to conduct fire services contracting in August 2006.

FINANCIAL REVIEW

1 Debt

By successfully spinning off our property interests in Citibank Plaza by way of the public listing of Champion REIT in May 2006, we raised approximately HK\$10.4 billion in cash precedes. Part of the proceeds was applied towards repayment of bank loans, where prepayment is permitted. HK\$3.0 billion was applied towards payment of a special interim dividend. The rest was held in cash and bank deposits, which at present on the average are generating yields sufficient to cover the interest expenses of a corresponding amount of bank loans, which are not yet pre-payable. As a result, the Consolidated Net Attributable Debt outstanding (net of cash and bank deposits) as of 31 December 2006 was HK\$7,054 million, a decrease of HK\$7,257 million from HK\$14,311 million as of 31 December 2005. Though the rise in U.S. interest rates may temporarily pause after an aggregate increase of 4.25% points in the past 36 months, the direction of interest rate movements remains highly uncertain. We therefore believe that it would be prudent to maintain our leverage at a low level and hence control our exposure to interest rate fluctuations.

Equity Attributable to Shareholders, based on professional valuation of the Group's investment properties as of 31 December 2006 and the depreciated costs of the Group's hotel properties, amounted to HK\$20,049 million as of 31 December 2006. The resulting gearing ratio at 31 December 2006 was 35%, which implies a loan-to-value ratio of 26%.

As at 31 December 2006, we had outstanding interest rate swaps with total notional principal of HK\$650 million, representing approximately 10.1% of our HK\$-denominated debts. The rest of our HK\$ debts were on floating-rate basis.

Our foreign currency debts as of 31 December 2006 amounted to the equivalent of HK\$3,863 million. These foreign currency borrowings are fully hedged by the value of the underlying properties. Of this, the equivalent of HK\$1,251 million, or 32.4% of our foreign currency debts, was on fixed-rate basis as of 31 December 2006.

2 Finance Cost

The net finance cost incurred during 2006 was HK\$535.9 million, a decrease of HK\$192.4 million over that of HK\$728.3 million in 2005. Despite the general rise in interest rates during 2006, the reduction in our net borrowings following the floatation of Champion REIT caused significant savings on interest expenses. No interest expenses were capitalized in 2006.

Overall interest cover for 2006 was 2.47 times, as compared to that of 1.58 times for 2005.

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3 Liquidity and Debt Maturity Profile

As of 31 December 2006, our cash, bank deposits and committed but undrawn loan facilities amounted to a total of HK\$5,527 million. The majority of our loan facilities is medium-term in nature and is secured by properties. During 2006, we successfully refinanced the bank loan related to the Langham Hotel, London extending the final maturity of the loan. The following is a profile of the maturity of outstanding debts as of 31 December 2006:

Within 1 year	5.2%
1-2 years	33.6%
3-5 years	50.1%
More than 5 years	11.1%

4 Pledge of Assets

As at 31 December 2006, properties of the Group with a total carrying value of approximately HK\$23,919 million (2005: HK\$46,286 million) together with assignments of sales proceeds, insurance proceeds, rental income, revenues and all other income generated from the relevant properties and deposits of approximately HK\$326 million (2005: HK\$489 million) were mortgaged or pledged to secure credit facilities granted to the Group.

5 Commitments and Contingent Liabilities

As at 31 December 2006, the Group had authorised capital expenditures not provided for in the consolidated financial statements amounting to approximately HK\$86 million (2005: HK\$12 million) of which approximately HK\$85 million (2005: HK\$9 million) were contracted for.

Other than set out above, the Group did not have any significant commitments and contingent liabilities as at 31 December 2006.

OUTLOOK

The general office market in Hong Kong should remain tight throughout 2007 in the face of sustained demand from the financial and trading segments and the absence of significant new supply. The overall vacancy in Grade-A office buildings in the Central Business District will remain at an extremely low level, thereby enhancing the leverage of landlords to raise rent rates further in the coming year. We therefore expect a substantial improvement in the income performance of Champion REIT in 2007, especially when a significant proportion of Citibank Plaza's leases will be due for either renewal or rental reversion to prevailing market levels during the year. As the distribution waiver in favour of other unitholders of Champion REIT will be scaled back to 55% of the Group's entitlement for 2007, we are confident that the contribution from the REIT will resume in this current financial year. The Great Eagle Centre property will also do well in 2007 in view of its proximity to the CBD. The Langham Place Office Tower is now close to 95% let after the completion of the leasing of 122,000 sq. ft. to a U.S. multinational corporation together with other smaller leases in the first quarter of 2007. The first batch of leases signed at initial occupancy of the Office Tower will come due for renewal in the latter part of this year. As they generally carry rents which are substantially below current market levels, we are expecting a healthy increase in rental income upon renewal of those leases. We have been doing all the right things in re-tenanting and promoting the Langham Place Mall and have established a sustainable volume of regular shopper traffic. The sales momentum of our retailers has also been most promising. We expect the positive financial impact to start coming through in the latter part of 2007.

The performance of our Hong Kong hotels will continue to be underpinned by a healthy growth in business traveler arrivals, in particular convention and exhibition related travel. While there will not be much room for occupancy rates to grow further beyond last year's high 80% levels, there should be moderate increase in achieved room rates. With the possible exception of the London property, where the performance will be affected by the ongoing renovation,

our other hotels overseas are all well positioned for further improvement in their performance in the coming year. In the mean time we have been actively but selectively pursuing opportunities to increase our exposure to the China lodging market through hotel management contracts.

During 2006 we have delivered on our stated goal to significantly reduce the Group's financial gearing. Following the floatation of Champion REIT in 2006, the Group's balance sheet has been significantly strengthened. Our exposure to global interest rate fluctuations has also been drastically reduced. With our enhanced financial maneuverability we will cautiously explore investment opportunities in a disciplined manner, particularly in Mainland China. While our main focus will be on managing our existing property and hotel portfolios to maximize the organic growth of their income, we will also be looking for opportunities to grow our hotel portfolio and brand by both investment and management contracts.

STAFF

The total number of employees in the Group was 3,930 as at 31 December 2006. Salary levels of employees are competitive and discretionary bonuses are granted based on performance of the Group as well as performance of individual employees. Other employee benefits include educational allowance, insurance, medical scheme and provident fund schemes. Senior employees (including executive directors) are entitled to participate in the Great Eagle Holdings Limited Share Option Scheme. In order to enhance employee relations and communications, certain recreation activities and regular meetings of general staff with senior management were arranged during the year, with particular emphasis on performance management.

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DIVIDENDS

The Board has resolved to recommend to Shareholders at the forthcoming 2007 Annual General Meeting (the "2007 AGM") the payment of a final dividend of HK25 cents per share for the year ended 31 December 2006 (2005: HK20 cents per share), to be satisfied by way of a scrip dividend with a cash option, to Shareholders whose names appear on the Register of Members on 25 May 2007. Together with the interim dividend of HK5 cents per share and a special interim dividend of HK\$5 per share paid on 26 October 2006, on the assumption that every Shareholder elects to receive all final dividend in cash, the total dividend for the full year will be HK\$5.3 per share (2005: HK23.5 cents per share), amounting to not less than HK\$3,184,482,000 (2005: HK\$139,987,000).

Subject to the approval of Shareholders at the 2007 AGM and the Listing Committee of The Stock Exchange of Hong Kong Limited granting listing of and permission to deal in the new shares to be allotted and issued pursuant to the proposed distribution of a scrip dividend mentioned herein, each Shareholder will be allotted fully-paid shares having an aggregate market value equal to the total amount which such Shareholder could elect to receive in cash and will be given the option to elect to receive payment partly or wholly in cash instead of the allotment of shares. Dividend warrants and share certificates in respect of the proposed dividend are expected to be despatched to Shareholders on or about 28 June 2007. Full details of the scrip dividend will be set out in a letter to be sent to Shareholders together with a form of election for cash soon after the 2007 AGM.

CLOSURE OF TRANSFER BOOKS

The Register of Members of the Company will be closed from Friday, 18 May 2007 to Friday, 25 May 2007, both days inclusive, during which period no share transfers will be effected.

For those Shareholders who are not already on the Register of Members, in order to qualify for the final dividend, all share certificates accompanied by the duly completed transfers must be lodged with the Hong Kong Branch Registrars of the Company, Computershare Hong Kong Investor Services Limited of 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 17 May 2007.

ANNUAL GENERAL MEETING

The 2007 AGM of the Company will be held on Friday, 25 May 2007 and the notice of 2007 AGM will be published in China Daily and Hong Kong Economic Times and despatched to shareholders on or before 30 April 2007.

Finally, I would like to take this opportunity to express my appreciation and thanks to all staff members for their dedication and hard work and to address my sincere gratitude to my fellow Directors for their support and guidance in the past year.

LO Ka Shui

Chairman

and Managing Director

Hong Kong, 11 April 2007