

# CHIEF EXECUTIVE OFFICER'S REPORT

I am pleased to present a report on the business review and performance of the Group for the year ended 31st December, 2006.

## BUSINESS REVIEW

The Group performed well in 2006 and achieved a consolidated profit attributable to shareholders of HK\$391 million for the year ended 31st December, 2006 compared to a profit of HK\$112 million in 2005.

In 2006, the Group continued to seek new market and income opportunities as well as potential acquisition and alliance opportunities compatible with its long-term growth strategy. To enhance its asset portfolio, the Group continued on its quest to acquire quality property interests in Singapore and elsewhere in Asia. In this regard, the Singapore market, in particular, has been performing very well in the past year.

In April 2006, the Group participated, as a majority shareholder, in a joint venture to purchase a total of twenty-two strata lots in the commercial building located at 79 Anson Road in Singapore (the "Anson Road Property") for S\$95 million. The Anson Road Property is situated within the Central Business District and comprises a total strata area of approximately 10,909 square metres. The rental income from the Anson Road Property provides an additional recurrent and stable source of income for the Group. Reflecting the limited supply but increasing demand for commercial buildings in Singapore, the potential for value appreciation on this property is strong.

The Group has a 50 per cent. interest in a joint venture which won a tender in October 2006 to purchase a property located at Sentosa Cove, Sentosa Island, Singapore (the "Sentosa Cove Property") for a price of approximately S\$235 million. The Sentosa Cove Property comprises two parcels of land with site areas of approximately 12,035.6 square metres and 10,186.6 square metres respectively with a maximum gross plot ratio of 1.2 and a maximum permissible gross floor area of approximately 26,666.64 square metres. It is currently intended that a total of one hundred and twenty-four 4-storey high-end luxury residential units be constructed on the Sentosa Cove Property.

In November 2006, the Group formed a 50:50 joint venture to tender for the en-bloc purchase of a development property known as Kim Seng Plaza, No. 100, Kim Seng Road, Singapore (the "Kim Seng Property") for a price of approximately S\$132 million. The tender was also successful. The Kim Seng Property has a site area of approximately 5,610.7 square metres and it is currently intended that the Kim Seng Property will be re-developed into a residential development.



79 Anson Road, Singapore



Marina Collection, property development project at Sentosa Cove, Sentosa Island, Singapore



Property development project at Kim Seng Plaza, Kim Seng Road, Singapore



Parisian, an OUE property development project in Singapore



OUB Centre in Singapore



New Mandarin Gallery in Singapore

## BUSINESS REVIEW *(Continued)*

As has been announced, the Group has realised its gain on its investment in Ferrell Real Estate Investment Fund (the "Ferrell Fund") by termination of a discretionary management arrangement with the investment manager of the Ferrell Fund and the redemption of the relevant cell shares in the Ferrell Fund. This has given rise to a net profit of approximately HK\$201 million for the Group.

Lippo ASM Asia Property LP ("LAAP"), a limited partnership of which a wholly-owned subsidiary of the Company is the founding limited partner, carries the investment objective of investing in real estate in the East Asia region, in particular in Singapore, Malaysia, Thailand, Indonesia, China (including Hong Kong and Macau) and Japan. It is intended that LAAP will seek long-term capital growth through a well-diversified portfolio of investments in income producing property projects. The Directors considered that participation in LAAP will provide an effective medium for the Group to exploit investment opportunities in the Asian property markets.

During the year, LAAP participated in a joint venture to acquire a controlling stake in Overseas Union Enterprise Limited ("OUE"), a listed company in Singapore principally engaged in property investments and hotel operations. OUE has interests in prime office buildings in the Central Business District in Singapore as well as hotels in the Asian region, including Meritus Mandarin which is located at Orchard Road, a prime shopping area in Singapore. These high quality properties will generate stable recurrent rental income for OUE.

The Group also has interest in a number of property projects in the People's Republic of China ("PRC"), including Lippo Tower in Chengdu and the development project at a site located in 北京經濟技術開發區 (Beijing Economic-Technological Development Area) ("BDA Project"). The BDA Project is located in the state-level economic-technological development area in Beijing and approximately ten miles south east of Beijing city centre. The BDA Project is currently planned to comprise buildings for office, apartment, hotel and commercial facility uses with a total site area of approximately 50,745 square metres and a gross floor area of not less than 170,000 square metres. A number of Fortune 500 companies and multinational corporations have presence in the neighbourhood and the Group sees significant long term potential of the BDA Project. With the rapid growth in the PRC economy, it is expected that there is good business opportunity in the PRC property market.

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## **BUSINESS REVIEW** *(Continued)*

The Macau Chinese Bank Limited ("MCB"), an 85 per cent. subsidiary of the Company, continues to be a net income contributor to the Group. The Macau economy continued to grow firmly in 2006 allowing MCB to achieve steady growth in all aspects of its business. Total tourist arrivals for the year reached a record high of 22 million providing a boost to tourist and related businesses in Macau. Hotel occupancy rate continued to rise and property prices have risen sharply. The tourist and gaming sectors continued to do well with a number of additional new large-scale hotels and gaming and entertainment centers due for completion in 2007. With the expected continuing growth of the Macau economy, the banking, financing and property mortgage financing sectors will see further improvement in their business. To cater for the anticipated business expansion, MCB has started operating in the new head office located in its self-owned office building "The Macau Chinese Bank Building".

The Group has a 34.34 per cent. interest in the Convoy Group which is one of the largest independent financial planning services groups in Hong Kong. The improving local economy has helped to improve the business performance and profitability of the Convoy Group in 2006.

The local stock market performed well in 2006 and the high market turnover has raised the performance of Lippo Securities Holdings Limited, a wholly-owned subsidiary of the Company, and its subsidiaries ("LSL Group"), which are principally engaged in underwriting, securities brokerage, corporate finance, investment advisory and other related financial services. Through more involvement in IPO margin financing business, the LSL Group has managed to enhance its income base in 2006. However, the securities brokerage business in Hong Kong remains highly competitive and the LSL Group will continue to explore new sources of income within the local securities market.



Lippo Tower in Chengdu, the PRC



Property development project at 北京經濟技術開發區 (Beijing Economic-Technological Development Area), the PRC

## PROSPECTS

Looking ahead, the general prospect for the Hong Kong economy looks promising. A continuing pick up in consumer spending and investor confidence will support further local economic growth. The broad expectation that the trend of rising interest rate in the US has come to an end should help to improve market sentiment in Hong Kong. There is also broad optimism about the economic and business prospects in the surrounding Asian countries, including China in which the 2008 Olympic Games will take place. Nevertheless, there remains a number of uncertainties in the external economic environment, such as the increase in global financial market risks, concerns about the slowdown in the US economy and whether the property market there can achieve a soft landing and the future of oil prices.

We are optimistic about the overall outlook for the Group. The Group is in an excellent position to benefit from the continuing economic growth in Asia. The Group will continue to explore suitable investment opportunities, particularly in the property markets in the Asian region. However, Management will continue to adopt a cautious and prudent approach when assessing new investment opportunities.

### **Stephen Riady**

*Chief Executive Officer*

23rd April, 2007