

DISCUSSION AND ANALYSIS OF ANNUAL RESULTS

The global economy went through a sustainable economic growth in 2006, especially in the Asia region.

In the year 2006, the Group continued to strengthen its core businesses and explore overseas investment markets. During the year, the Group took advantage of the improving global and local market conditions and realised a substantial part of its investment portfolio at profit. Property investment and development sector continued to perform well and sustained impressive returns to the Group. Corporate finance and securities broking business also recorded an impressive growth as a result of vigorous trading activities on the local stock market.

For the year ended 31st December, 2006, the Group's profit attributable to shareholders increased markedly to HK\$391 million (2005 – HK\$112 million).

RESULTS FOR THE YEAR

Turnover for the year 2006 totalled HK\$1,099 million, which was 4 per cent. lower than the 1,147 million (restated) recorded in 2005.

Despite the drop in turnover, the Group reported a profit for the year amounted to HK\$417 million (2005 – HK\$111 million). Property investment and treasury and securities investments were the main contributors.

Property investment and development

The Group's investment property portfolio and its recurrent earnings base continued to expand during the year with the addition of a quality commercial property in Singapore. In April 2006, the Group acquired a freehold commercial property with total strata area of approximately 10,909 square metres within the central business district of Singapore for an aggregate consideration of approximately HK\$448 million. The property started to generate recurrent rental income to the Group in the current year. On the other hand, the investment properties in Hong Kong continued to provide stable rental income to the Group during the year. With a positive outlook in both regional and local property markets, the Group recorded a total revaluation gain on investment properties of HK\$207 million during the year.

In 2005, the Group entered into an agreement under which it would be committed to invest in a property fund (the "Property Fund"), carrying the objective of investing in real estates in the East Asia region. During the year, the Group has contributed HK\$1.3 billion to the Property Fund. In May 2006, the Property Fund participated in a joint venture to invest in Overseas Union Enterprise Limited ("OUE"), a listed company in Singapore principally engaged in hotel operations and property investments. Currently, OUE has six prestigious hotels, carries the "Mandarin" and "Meritus" brand, which are strategically located in various famous tourist districts of Singapore, Malaysia and China. OUE also holds a number of prime office buildings in the central financial and business districts of Singapore. Meanwhile, certain property redevelopment plans will be commenced to capture the robust prime office demand. Amidst the backup of a sustained pick up in the economy with a limited supply of prime office buildings and hotels in Singapore, it is expected that these assets have strong value appreciation potential.

Additionally, the Group has participated in various well-located development projects in Macau, Singapore, Thailand and Japan.

Treasury and securities investments

Entering 2006, the Group took advantage of the improving market conditions and actively realised a substantial part of its investment portfolio at profit. Turnover and profits attributable to treasury and securities investments for the year amounted to HK\$919 million (2005 – HK\$1,054 million, as restated) and HK\$341 million (2005 – HK\$145 million) respectively.

Looking ahead, the investment market would still be challenging and full of uncertainty. Foreseeing the global investment markets continued to be volatile, the Group took necessary steps to restructure and refine its composition of investment portfolio in the securities investment segment so as to improve overall asset quality.

RESULTS FOR THE YEAR *(Continued)*

Corporate finance and securities broking

Activities in the Hong Kong capital markets were buoyant throughout the year 2006, with significant growth in daily market turnover registered by the stock market and in total funds raised through initial public offerings. This resulted in an increase in securities trading and margin financing activities. The corporate finance and securities broking business has benefited from this favourable environment, registering a remarkable increase in turnover of HK\$96 million (2005 – HK\$60 million), although challenges of varying degrees in terms of increasing competition and narrowing profit margins were also experienced. Profit derived from this segment improved substantially to HK\$18 million (2005 – loss of HK\$26 million).

Banking business

Benefiting from the robust economic growth in Macau and the rising interest rates, the bank achieved encouraging results during the year. Interest income rose sharply by 52 per cent. as compared with the last year. Credit quality overall remained sound as reflected in a drop of impairment charge for the year. Management continued to lend conservatively and strived to improve asset quality. During the year, the bank registered a loan growth of 6 per cent. Profit derived from the banking segment increased from HK\$6.6 million in 2005 to HK\$ 7.3 million in 2006.

FINANCIAL POSITION

With the aforesaid new property investments, the Group's total assets as at 31st December, 2006 increased significantly to HK\$6.0 billion (2005 – HK\$3.7 billion). As a result, the asset mix of the Group has been changed. Property-related assets increased significantly to HK\$3.3 billion (2005 – HK\$0.7 billion), representing 55 per cent. (2005 – 20 per cent.) of the total assets. On the other hand, investment portfolio of the Group reduced to HK\$0.9 billion (2005 – HK\$1.2 billion), comprising debt and equity securities of HK\$0.1 billion (2005 – HK\$0.7 billion) and investment funds of HK\$0.8 billion (2005 – HK\$0.5 billion). The investment portfolio represented 16 per cent. (2005 – 35 per cent.) of the Group's total assets.

The new property investments have been financed by proceeds derived from sales of certain investments, new bank loans and other borrowings. Hence, total liabilities increased correspondingly to HK\$2.7 billion (2005 – HK\$0.8 billion). Nevertheless, the Group's financial position remained healthy and current ratio (measured as current assets to current liabilities) stood at 1.2 to 1 (2005 – 3.0 to 1).

During the year, the bank and other borrowings of the Group (other than those attributable to banking business) increased to HK\$1.5 billion, which was in-line with the expansion of the Group.

As at 31st December, 2006, total bank loans amounted to HK\$604 million, comprising secured bank loans of HK\$594 million and unsecured bank loans of HK\$10 million, which were denominated in Hong Kong dollars, United States dollars or Singapore dollars (2005 – secured bank loans denominated in Hong Kong dollars of HK\$25 million). The bank loans were secured by first legal mortgages over certain investment properties and certain securities of the Group (2005 – secured by certain securities owned by margin clients of the Group). All the bank loans carried interest at floating rates and 9 per cent. of the bank loans (2005 – 100 per cent.) were repayable within one year. During the year, Lippo Limited and Lippo China Resources Limited, intermediate holding companies of the Company, provided advances to the Group of HK\$248 million and HK\$637 million, respectively. Such advances were unsecured, carried interest at floating rates and would be repayable on or before 31st December, 2007. At the end of the year, gearing ratio (measured as total borrowings, net of minority interests, to shareholders' funds) increased to 45.0 per cent. (2005 – 0.9 per cent.).

During the year, the Company made the 2005 final distribution of HK\$0.03 per share and 2006 interim distribution of HK\$0.015 per share to its shareholders, amounting in a total of HK\$61 million. Despite the distribution, the net asset value of the Group remained strong at HK\$3.2 billion (2005 – HK\$2.8 billion). This was equivalent to HK\$2.4 per share (2005 – HK\$2.1 per share).

DISCUSSION AND ANALYSIS OF ANNUAL RESULTS

FINANCIAL POSITION *(Continued)*

The Group monitors the relative foreign exchange position of its assets and liabilities to minimise foreign exchange risk. When appropriate, hedging instruments including forward contracts, swap and currency loans would be used to manage the foreign exchange exposure.

Apart from the abovementioned, there were no charges on the Group's assets at the end of the year (2005 – Nil). Aside from those arising from the normal course of the Group's banking operation, the Group had no material contingent liabilities outstanding (2005 – Nil).

As at 31st December, 2006, the Group's total capital commitment reduced to HK\$0.6 billion (2005 – HK\$1.5 billion) after the Group had injected HK\$1.3 billion to the Property Fund in the current year.

STAFF AND REMUNERATION

The Group had approximately 212 employees as at 31st December, 2006 (2005 – 204 employees). Total staff costs (including directors' emoluments) during the year amounted to HK\$91 million (2005 – HK\$56 million). The Group ensures that its employees are offered competitive remuneration packages. Currently, there are no share option schemes for its employees.

OUTLOOK

The global economy is expected to grow steadily in 2007. The growth prospects will continue to be centered on developments in the Asia Pacific Region. The operating environment of the Group remains challenging. While striving to continue to improve internal operational efficiencies, the Group will keep on refining its existing core businesses and seeking new investment opportunities with long-term growth potential. Given its own strong financial position, the Group is confident that it would be able to take advantage of new business opportunities in its pursuit of enhancing shareholders' value.