

# Chairman's Statement

I am pleased to present the 2006 Annual Report of Dragon Hill Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2006.

## BUSINESS REVIEW

The principal business activities of the Group during the year continue to be: (1) securities dealing and brokerage and provision of margin financing; (2) securities trading and investment holding; (3) money lending; and (4) property investment.

During the year, the Group recorded revenue of HK\$16.6 million representing an increase of 35% compared to last year. This was mainly attributable to the increase in the securities trading activities of the Group from HK\$5.1 million in 2005 to HK\$11.4 million in 2006 in response to the active stock market in Hong Kong. Meanwhile, revenue from property investment declined from HK\$2.2 million in 2005 to HK\$1.2 million in 2006 due to the disposal of the Group's interests in Lismore Properties Limited and its respective subsidiaries (the "Lismore Group") to Magnum (Guernsey) Limited during the year.

The disposal of the Lismore Group and the waiver of the loan advances and related interest charged by Magnum (Guernsey) Limited, Magnum Enterprise Sdn Bhd and Magnum Investment Limited during the year enabled the Group to register a gain of HK\$32.5 million. As a result, the Group achieved a net profit of HK\$22.1 million for the year 2006.

The financial position of the Group had been significantly improved in this year. As at 31 December 2006, the Group's net asset value amounts to HK\$33.4 million as compared to the net deficiencies of HK\$53.8 million in last year. The improvement was mainly attributable to the capital reduction exercise, a number of fund raising exercises and the net profit achieved by the Group during the year.

## PROSPECTS

The management believes the business environment for its securities dealing and brokerage division will continue to be tough and challenging. The abolition of the minimum commission and the active participation of the banks in the retail securities market create a highly competitive business environment to the local brokers. The Group is now undergoing a cost trimming process to ensure our competitiveness in the securities industry. Meanwhile, the satisfactory progress in resolving the long overdue accounts is expected to benefit our next year's operations. The funds collected will be applied for the expansion programmes of securities dealing and brokerage through the provision of additional services and the broadening of our client base.

Following the disposal of the Lismore Group as abovementioned, the Group acquired two commercial properties near the Central district which are used as the Group's office premises and for rental purposes. The acquisitions provided a cost saving effect to our operation and a steady income for our property investment division. All the properties not occupied for own use had been rented out at the moment.

Besides, the Group is also continuously seeking other new business opportunities for our long term strategy. On 6 March 2007, the Company announced the entering into a framework agreement with Liuzhou Wuling Motors Company Limited 柳州五菱汽車有限公司 ("Wuling") in relation to the proposed formation of a sino-foreign joint venture enterprise for the development of the manufacturing and trading businesses of motor vehicle engines, parts and special mini vehicles in the People's Republic of China ("PRC") ("Framework Agreement"). The Group believes there is great potential in the automobile industry in the PRC and would like to explore the business opportunities with a reputable local enterprise. The details of the Framework Agreement had been fully described in the Company's announcement dated 6 March 2007.

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## APPRECIATION

On behalf of the Board, I wish to express my gratitude to our valued customers, bankers, business partners and shareholders, for their continued support to the Group. I would also like to thank my fellow directors, management and employees for their continued dedication and commitment.

Lee Shing  
Chairman  
17 April 2007