Managing Director's Report

TO OUR SHAREHOLDERS,

Since the third quarter of 2008, the global financial crisis has created a lot of uncertainties and risks. For FY2009, the Group recorded revenue of HK$24,415.0 million and profit attributable to shareholders amounted to HK$2,083.5 million.

For the year under review, the contribution from property sales segment amounted to HK$507.3 million in the prevailing weak market sentiment. At the same time, China property market has experienced negative effects from both the austerity measures previously imposed by the Central Government and the global economic downturn. A total GFA of 472,110 sq m were sold in FY2009 to generate gross sale proceeds of approximately RMB3.4 billion. The average gross margin maintained at a stable level of 33.2% in FY2009.

The global financial tsunami has drowned quite a number of multinational corporations. The big waves also triggered a lot of companies downsizing and even closing their operations in Hong Kong. The demand and rental rates of prime office buildings were greatly reduced. However, limited supply of prime office spaces and the global economic boosting measures mitigated the weak market sentiment. Retail market in Hong Kong was also adversely affected by the economic downturn. However, the consumption of the Mainland tourists provided a strong cushion effect.

In FY2009, Hong Kong hotel industry also experienced the rigorous challenges. The global economic downturn triggered by US sub-prime turmoil led to a substantial decrease of corporate and individual travellers. Postponement of corporate business trips and cancellation of leisure travels dampened the overall arrival volumes and the hotel occupancies. Travellers' reluctance to patronize high-end luxury hotels and intensified competition among peers led to lower average room rate.

The infrastructure segment sustained a drop in contribution mainly due to the rising coal price that attacked the profitability of the energy division. The service segment experienced a decrease in contributions mainly attributable to a substantial decline in earnings from the core business of Taifook Securities Group Limited as a result of the financial crisis.

For the fiscal year ended 30 June 2009, our department store business reported a steady growth. The revenue of NWDS grew by 15.6% to HK$1,721.2 million. Profit attributable to equity holders increased 14.8% to HK$547.3 million. The operating margin grew from 39.6% to 40.4%, representing an increase of 0.8 percentage points. NWDS maintained a steady same-store sales growth of 9% for all stores and 5% for self-owned stores.

As at 30 June 2009, the Group's cash and bank balances stood at HK$14,363.3 million and the consolidated net debt amounted to HK$34,187.5 million. The net debt to equity ratio was 35.1%, an increase of 6.7 percentage points as compared with FY2008. The increase was mainly due to the increase in bank borrowings for financing the payment of land premium for two development projects.

After the onset of the financial tsunami, stimulus packages were soon announced by various central banks including China. The stabilization effect has been observed since the second quarter of 2009. The recent positive performance of the equity market further helped the public regain confidence in the economy.

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The Group's recurrent operations will generate stable cashflow. Low interest environment and the tight supply pipeline will continue to favour the Hong Kong property market. Local homebuyers are regaining confidence with improved affordability. Transaction volume and property prices are both growing healthily. Our luxury trophy project, The Masterpiece (名鑄), has received overwhelming market responses when launched in August 2009. Signs of stabilization have recently been observed in the office market.

K11, the first Art Mall in the world, is scheduled to be opened in the fourth quarter of 2009. The renowned shopping mall is of 340,000 sq ft, six-storey high. K11, together with the deluxe hotel, Hyatt Regency Hong Kong, Tsim Sha Tsui and luxury residences, The Masterpiece, is situated at the Group's trophy downtown development project overlooking the Victoria Harbour.

Currently, the Group has a landbank of 4.6 million sq ft total GFA for immediate development. The Group also has a total of over 21.5 million sq ft of agricultural land reserve pending conversion. The Group is now negotiating with the government on the land premium for conversion of 6.6 million sq ft agricultural land, most of them designated for residential usage.

We believe the Central Government will continue its stance in the economic boosting measures. Mainland property market should be on track along its broad base rebound since late March 2009 with significant increase in prices and sales volume.

China United International Rail Containers Co., Ltd. ("CUIRC"), the joint venture company that develops 18 rail container terminals in Mainland China, was established in March 2007. The current standalone facility in Kunming is operated smoothly in FY2009. The construction of the terminals in Zhengzhou, Chongqing and Dalian is expected to be completed in late 2009. The construction works of the next batch of terminals in Qingdao, Chengdu, Xian and Wuhan are also underway and expected to be completed in 2010. Upon the completion of these new terminals, an initial railway terminal network for CUIRC will be established, serving strategic locations at major seaports and inland cities in Mainland China.

Construction works for the extension of Hong Kong Convention and Exhibition Centre ("HKCEC") were completed in April 2009. The total rental space has been increased to 91,500 sq m, enabling HKCEC to host bigger and better mega-sized exhibitions and maintain its leading position in the market.

The overall impact of the global financial tsunami on the water market to date has been relatively small although demand growth may slow down. Environmental issue remains a top priority on the government's agenda. The Central Government has increased spending on various environmental initiatives, covering waste water treatment in particular.

In June 2009, NWDS announced its rebranding project of adopting the new operational concept of "Fashion Style" and "Living Style", offering customers an entirely new shopping experience. The whole project is expected to be completed in two years.

On the whole, the Group will keep monitoring the risks affecting our operations and adjust our plans and executions for the best interests of the Group's stakeholders.

Dr Cheng Kar-Shun, Henry
Managing Director

Hong Kong, 8 October 2009