Discussion and Analysis of Annual Results

2005 was a year of continuing progress for the Group. On the back of an improving economic environment, especially in the Asia region, and a conductive investment climate, the Group achieved improved operating results. For the year ended 31st December, 2005, the Group registered a net profit attributable to shareholders of HK$183 million (2004 – HK$46 million), representing a four-fold increase.

RESULTS FOR THE YEAR

Turnover for the year totalled HK$2,484 million, which was 16 per cent. lower than the HK$2,941 million (restated) recorded in 2004. The decrease was mainly attributable to the drop from treasury and securities investments of 23 per cent. Property, treasury and securities investments and food businesses remained the principal source of revenue of the Group, contributing respectively 8 per cent. (2004 – 9 per cent.), 53 per cent. (2004 – 58 per cent., as restated) and 35 per cent. (2004 – 30 per cent., as restated) of the total turnover.

Despite the drop in turnover, the Group reported a profit before tax of HK$382 million (2004 – HK$95 million). Property investment and treasury and securities investments were the main contributors.

Property investment

Turnover generated from this segment increased to HK$198 million (2004 – HK$144 million when the proceeds of HK$110 million relating to the sale of World Trade Plaza in last year was excluded) as a result of a substantial increase in rental income, which in turn was due to new contribution from a shopping mall acquired by the Group in June 2005. The shopping mall is located in Jakarta, Indonesia with a total lettable area of 86,000 square metres.

Besides, the leasing of the existing properties also progressed well given the quality and strategic location. Rental income generated from properties located in Hong Kong and Mainland China registered an increase of 9 per cent. and 7.2 per cent., respectively. In particular, Lippo Plaza in Shanghai, China continued to achieve high occupancy and renewal rental rates. Rentals continued to provide stable and recurrent income source to the Group.

With the regional property markets looking promising, especially in relation to long term capital appreciation, the Group has been actively seeking strategic property investments. In Macau, the Group acquired a parcel of land for a consideration of HK$238 million during the year. Macau witnessed a thriving economy in 2005. Together with the properties located in Hong Kong and Mainland China, the Group recorded a total revaluation gain of HK$301 million (2004 – HK$379 million). Following the adoption of the new accounting standards in 2005, such gain was recognised in the profit and loss account. In 2004, the gain was credited to the property revaluation reserve and no restatement was required. As a result, this segment registered a total profit of HK$462 million (2004 – HK$129 million).

During the year, the Group entered into an agreement under which it would be committed to invest up to HK$1.45 billion in a property fund which carries the objectives of investing in real estate in the East Asia region (the "Property Fund"). As at 31st December, 2005, a capital contribution of HK$158 million has been made by the Group to the Property Fund.

Additionally, the Group has participated in other new development projects in Singapore, including a wholly-owned development in Newton Road and a 50:50 joint venture development with CapitaLand Limited in Alexandra Road/ Tiong Bahru Road. Total payment made for these projects during the year exceeded HK$380 million.

Discussion and Analysis of Annual Results

RESULTS FOR THE YEAR *(Continued)*

Property investment *(Continued)*

Subsequent to balance sheet close, the Group acquired 11 floors of a commercial building in Singapore for an aggregate consideration of approximately HK$448 million for rental purpose. It will further strengthen the income base of the Group.

Treasury and securities investments

The global investment markets increased in volatility marked by interest rate hikes and oil price increases. Against this background, the Group's securities investment activities declined. Turnover attributable to treasury and securities investments for 2005 was reduced to HK$1,314 million (2004 – HK$1,711 million, as restated). However, the Group was able to actively and strategically manage its portfolio to achieve a higher return of HK$160 million (2004 – HK$64 million), including an unrealised net fair value gain of HK$77 million (2004 – an unrealised holding loss on other investments in securities of HK$79 million).

Under the new accounting standards, certain investments were required to be stated at fair value as of 1st January, 2005 with revaluation gains or losses transferred to retained profits and any subsequent gains or losses recognised directly in equity. Such investments are held for capital appreciation and on disposal, the gains or losses accumulated in equity will be released to the profit and loss account. As a result, a net gain of HK$111 million arising from these investments was credited to retained earnings on 1st January, 2005 and a net gain of HK$79 million was credited to investment revaluation reserve during the year.

Food businesses

Food businesses mainly comprise wholesale and distribution of food and allied fast-moving consumer goods and food manufacturing in Singapore, Malaysia and China. Turnover derived from this segment was kept at approximately HK$871 million (2004 – HK$870 million). The wholesale and distribution unit in Singapore was affected by the loss of a major agency. However, the impact was mitigated by a better performance of its Malaysian subsidiary which registered a 17 per cent. increase in turnover and an addition of certain best-selling products to its portfolio of agencies. The Group has been seeking to expand sales of its own house brands and registered an encouraging result. On the other hand, its manufacturing unit was under intensified competition with operating profit reduced by 33 per cent. In addition, the Group decided to discontinue the dairy production business in China in order to stem further losses. After taking into account a one-off loss incurred by the dairy production business, profit derived from this segment reduced to HK$12 million (2004 – HK$32 million).

Other businesses

The Group's banking business achieved a 44 per cent. increase in net interest income, registering a segment profit of HK$6.6 million (2004– HK$4 million). However, the performance of the Group's securities broking business was affected after taking into account a provision of HK$30 million made for a loan advanced to a corporate margin client. Action has since been taken to tighten the controls in the Group's securities lending. The Group's 26.3 per cent. owned power plant in Fujian Province, China continued to contribute satisfactory results with high level of dispatch over the year. However, its other associates did not perform well.

Discussion and Analysis of Annual Results

FINANCIAL POSITION

As at 31st December, 2005, the Group's total assets increased by HK$0.6 billion to HK$9.4 billion (2004 – HK$8.8 billion, as restated), of which non-current assets increased by HK$1.6 billion whilst current assets reduced by HK$1.0 billion. Notwithstanding the reduction in current assets, the Group's financial position remained strong and current ratio (measured as current assets to current liabilities) stood at 2.83 to 1 (2004 – 3.06 to 1, as restated).

At the balance sheet date, the Group maintained a total investment portfolio of HK$1.8 billion (2004 – HK$2.0 billion), representing 19 per cent. (2004 – 22 per cent.) of the total assets. On the other hand, property-related assets after the aforesaid acquisitions increased to approximately HK$4.0 billion (2004 – HK$2.6 billion), representing 42 per cent. (2004 – 29 per cent.) of the total assets. The acquisitions were financed by the Group's internal resources and available banking facilities.

Notwithstanding the number of property acquisitions, total bank loans reduced by HK$64 million to HK$1,135 million (2004 – HK$1,199 million) as the new property investments were mainly financed by internal resources. The secured and unsecured portion of the bank loans were amounted to HK$1,095 million (2004 – HK$1,152 million) and HK$40 million (2004 – HK$47 million), respectively. Certain properties, fixed assets, shares in certain subsidiaries, certain securities and time deposits of the Group and the securities owned by margin clients of the Group were pledged against secured banking facilities. 85 per cent. (2004 – 95 per cent.) of the loans were denominated in Hong Kong dollars or United States dollars. During the year, certain bank loans were refinanced with the portion repayable within one year reduced to 15 per cent. (2004 – 39 per cent.). Almost all the bank loans carried interest at floating rates. At the end of the year, gearing ratio (measured as total borrowings, net of minority interests, to shareholders' funds) slightly decreased to 21.2 per cent. (2004 – 23.1 per cent., as restated). Taking into account the profit for the year and the opening adjustment arising from securities investments as mentioned above, the net asset value attributable to the shareholders of the Company increased by 7.9 per cent. to HK$5.0 billion (2004 – HK$4.6 billion, as restated). This was equivalent to HK$0.54 per share (2004 – HK$0.50 per share, as restated).

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 (2004 – Nil). Aside from those arising from the normal course of the Group's banking operation, the Group had no material contingent liabilities outstanding. At 31st December, 2004, the Group agreed to indemnify one of its associates against a potential liability arising from claims by the associate's contractor to a maximum obligation of HK$88 million. The indemnity was released during the year as a result of the settlement of the aforesaid claims between the associate and the contractor.

As at 31st December, 2005, the Group had total capital commitment of HK$2 billion (2004 – HK$0.2 billion), including HK$1.3 billion relating to the Property Fund. The investments or capital assets will be financed by the Group's internal resources and/or external bank financing, as appropriate.

Discussion and Analysis of Annual Results

CHANGES IN ACCOUNTING POLICIES

The Group adopted the new and revised accounting standards which came into effect for accounting periods commencing on 1st January, 2005. The resulting changes in accounting treatment and presentation of various items in profit and loss and balance sheet may render certain comparative figures not strictly comparable. Details of the changes and the summary of the effect of the changes are described in Note 2 to the financial statements.

STAFF AND REMUNERATION

The Group had approximately 1,333 employees as at 31st December, 2005 (2004 – 1,018 employees). Increase in staff level was mainly due to new acquisition of subsidiaries during the year. It was managed in line with business needs and market opportunities. Total staff costs (including directors' emoluments) amounted to HK$208 million (2004 – HK$207 million). The Group ensures that its employees are offered competitive remuneration packages. Certain employees of the Group were granted options under share option schemes of the Company.

OUTLOOK

The global economy has been coping well with the repercussions from recent rising oil prices and interest rates as well as the threat of a potential widespread of avian flu. The Group is cautiously optimistic about the global and regional economic prospects in the coming year. The growth prospects will continue to be centered on developments in the United States and Mainland China. For the Group, the operating environment 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.