

# Chairman's Statement

I have pleasure in presenting to the shareholders the annual report of the Company for the year ended 31st December, 2005.

## BUSINESS REVIEW

The Hong Kong economy was robust during 2005. With the support of a steadily improving employment environment, business and consumer confidence improved leading to strong domestic consumption. The local property market in general performed well though rising interest rates cooled down the residential property market towards the end of the year. The strong economic conditions in the Asian region provided attractive business opportunities. However, rising interest rates and surging oil prices have dampened the global economic outlook.

During the year under review, the Group achieved a consolidated profit before tax of HK\$372 million, compared to a profit of HK\$306 million in 2004. Most of the principal subsidiaries of the Group achieved satisfactory results for the year.

Lippo China Resources Limited ("LCR") (together with its subsidiaries, the "LCR Group"), a principal subsidiary of the Company, achieved a consolidated net profit attributable to shareholders of HK\$183 million, which was four-fold higher than a profit of HK\$46 million in 2004.

The Group's investment properties continued to achieve high occupancy throughout the year. Rental contributed stable income to the Group. Lippo Plaza, a grade A office and retail complex situated at Huaihai Zhong Road, Shanghai, the People's Republic of China ("China") also achieved almost full occupancy at satisfactory rental rates. The LCR Group has a 66.5 per cent. effective interest in this investment.

To enhance its asset portfolio, the Group has been exploring opportunities of acquiring quality property interests in the region. During the year, the LCR Group acquired a residential property in Singapore known as Newton Heights for an aggregate consideration of approximately S\$43.6 million for redevelopment. In addition, the LCR Group has formed a 50:50 joint venture with a wholly-owned subsidiary of CapitaLand Limited ("CapitaLand"), one of the largest listed property companies in Asia with its headquarters in Singapore, to acquire a parcel of land (with a site area of approximately 9,742 square metres) located at Alexandra Road/Tiong Bahru Road, Singapore (the "Tender Asset"), through a tender, for a consideration of approximately S\$180 million. The acquisition of the Tender Asset was subsequently completed in February 2006. The Tender Asset is proposed to be developed into residential properties. It is believed that the above joint venture will allow the Group to explore potential business opportunities and synergies with CapitaLand in the near future.

In order to streamline its businesses and investments, the Group has diverted its certain non-core businesses and investments. In June 2005, HKCB Corporation Limited, a wholly-owned subsidiary of LCR, entered into a sale and purchase agreement for the disposal of its entire interest in the shares of The Hong Kong Building and Loan Agency Limited ("HKBLA"), representing approximately 74.8 per cent. of the then issued share capital of HKBLA, to Island New Finance Limited for an aggregate consideration of HK\$184 million (the "HKBLA Disposal"). HKBLA was a former listed subsidiary of LCR and its mortgage finance business was subject to narrow interest margin and keen competition. The HKBLA Disposal was completed in September 2005 and the Group has made a satisfactory profit from the HKBLA Disposal. The output performance of the 724 megawatt (net) coal-fired Meizhou Wan power plant project (the "Power Plant Project") in Putian City, Fujian Province, China, in which the LCR Group had a 26.3 per cent. interest, was subject to competition from the hydropower generation. As announced earlier, in order to realise a

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minority non-core investment, the LCR Group entered into a conditional agreement in March 2006 for the disposal of its entire interest in the Power Plant Project (the "Power Plant Disposal") for a consideration of US\$55.3 million. Also, in consideration of the LCR Group's granting consents and waivers under a conditional agreement on consents, waivers and releases to facilitate the Power Plant Disposal, one of the joint venture partners of the Power Plant Project agreed to pay a sum of US\$3 million to LCR upon the closing of the Power Plant Disposal.

In December 2005, the LCR Group entered into a memorandum of agreement with Export and Industry Bank, Inc. ("EIB"), a commercial bank in the Philippines, Philippine Deposit Insurance Corporation and other investors of EIB and agreed to participate in the capital injection of EIB so as to strengthen EIB's capital base.

Hongkong Chinese Limited ("HCL") (together with its subsidiaries, the "HCL Group"), a principal listed subsidiary of LCR, achieved a consolidated profit attributable to shareholders of HK\$112 million for the year ended 31st December, 2005 compared to a loss of HK\$65 million in 2004.

The HCL Group continued to explore new market opportunities and income sources and seek potential acquisition and alliance opportunities compatible with its long term growth strategy. In April 2005, a wholly-owned subsidiary of HCL completed the acquisition of the 3,623 square metres site located at 83 Estrada de Cacilhas in Macau at a purchase price of HK\$238 million for residential redevelopment purpose.

In August 2005, a wholly-owned subsidiary of HCL entered into a contract to invest, as a founding limited partner, up to HK\$1.45 billion in Lippo ASM Asia Property LP ("LAAP"), a limited partnership, with the 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. Other professional investors will be invited to invest, as additional limited partners, in LAAP up to its maximum fund size of HK\$3.5 billion. The Directors consider that participation in LAAP will provide an effective medium for HCL Group to exploit investment opportunities in the Asian property markets.

The HCL Group has participated in a joint venture to purchase a total of twenty two strata lots at the building located at 79 Anson Road, Singapore (the "Property") for S\$95 million. The building is freehold commercial with a total strata area of approximately 19,415 square metres. The Property which is situated within the Central Business District comprises a total strata area of approximately 10,909 square metres. Rental income from the Property will provide additional recurrent and stable income source for the HCL Group. Completion of the acquisition of the Property took place in April 2006.

The Macau Chinese Bank Limited ("MCB"), an 85 per cent. subsidiary of HCL, continued to be a net income contributor to the HCL Group. As with Hong Kong, the Macau economy also continued to improve in 2005. This enabled business turnover at MCB to pick up and its asset quality to further improve. Macau's strategic location will open opportunities for MCB to extend its financial services into Mainland China, especially in the Pearl River Delta region. MCB moved into its new head office at The Macau Chinese Bank Building by the end of 2005.

The HCL Group has a 34.34 per cent. interest in the Convoy Group which is one of the largest independent financial planning service groups in Hong Kong. The improving local economy has helped to improve the business performance and profitability of the Convoy Group in 2005.

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The local stock market performed well with higher turnover in 2005. This has benefited the securities brokerage business of Lippo Securities Holdings Limited, a wholly-owned subsidiary of HCL, and its subsidiaries (the "LSL Group"), which are principally engaged in underwriting, securities brokerage, corporate finance, investment advisory and other related financial services. However, due to decreasing profit margin and high operating costs, the securities brokerage business in Hong Kong has become highly competitive. In 2005, the LSL Group successfully launched the internet trading system which would help its business in the long run.

Subsequent to the financial year end, HCL Group formed a joint venture for the purpose of acquiring and holding an 86.25 per cent. equity interest in 同仁醫療管理集團有限公司 (Tongren Healthcare Management Group Co., Ltd.) which is principally engaged in, inter alia, investing in, operating, managing and providing consultation services relating to the medical and healthcare related business and organizations; management of healthcare centres, rehabilitation centres and nursing homes; construction and operation of hospitals; and real estate development and investment in China. It is believed that the above transaction will offer the Group an opportunity to tap into the hospital and healthcare business in China.

Auric Pacific Group Limited ("APG") (together with its subsidiaries, the "APG Group"), the shares of which are listed on the Main Board of Singapore Exchange Securities Trading Limited ("SGX-ST"), recorded a profit before taxation and minority interests of S\$18.2 million for the year ended 31st December, 2005 which was 206 per cent. higher than a profit of S\$5.9 million for the year 2004. The growth potential of APG's core food business, being a mature and highly competitive business, will be largely influenced by the economic prospects of the markets in which APG Group operates. APG Group has, therefore, embarked on a diversification plan to broaden its food and distribution business as well as strengthening its total business base. In June 2005, APG Group acquired a 50.9 per cent. effective interest in a shopping mall known as Megamal Pluit in Jakarta, Indonesia for an aggregate consideration equivalent to approximately HK\$116.6 million. In line with the economic growth in Singapore, the outlook for the property market in Singapore remains positive. APG Group has been exploring opportunities to acquire quality property interests in Singapore. During the year, APG Group entered into an agreement for the acquisition of all units at Bukit Timah Mansions, 327 Bukit Timah Road in Singapore for a total consideration of S\$15.4 million. In January 2006, APG Group also agreed to acquire the property at 329 Bukit Timah Road in Singapore for a total consideration of S\$10.5 million. It is proposed that the properties at Bukit Timah Road will be held for redevelopment purpose. In February 2006, APG Group also entered into an agreement to acquire a commercial property known as One Phillip Street in Singapore (with a net lettable area of approximately 36,022 square feet) for an aggregate consideration of S\$37.6 million. As a further expansion to APG Group's operation in China, in October 2005, APG Group entered into agreements for the acquisition of medicine distribution business in Sichuan Province, China for an aggregate consideration of RMB53 million. In January 2006, APG Group acquired approximately 29.9 per cent. interest in Food Junction Holdings Limited ("Food Junction"), the shares of which are listed on the Dealing and Automated Quotation System of SGX-ST for an aggregate consideration of approximately S\$24.8 million. Food Junction is principally engaged in managing the daily operational requirements of food courts and food stalls. In order to diversify its business into the resilient retail sector in the region, in April 2006, the APG Group entered into an agreement for acquisition of 25,705,481 ordinary stocks, representing approximately 29.9 per cent. of the issued share capital of Robinson and Company, Limited ("Robinsons"), the shares of which are listed on the Main Board of the SGX-ST, for an aggregate consideration of approximately S\$203 million. Robinsons and its subsidiaries operate well-known retail and departmental stores including Robinsons, Marks and Spencers and John Little stores in Singapore and John Little stores in Malaysia. As announced earlier, APG ceased to be a subsidiary of LCR and has become an associated company of LCR in February 2006. The LCR Group is now interested in approximately 49.3 per cent. of the issued share capital of APG.

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## PROSPECTS

Looking ahead, the general outlook for the Hong Kong economy is promising. The continuing pick up in consumer spending and build up in investor confidence are expected to add momentum to local economic growth. Nonetheless, there are some uncertainties on the global economic front, in particular, the pace of economic growth in the United States, the prospects of high interest rates, high oil prices and the possible slowing down of the Mainland economy, but overall, better economic prospects lie ahead.

We maintain an optimistic outlook for the Group's business. With its strong and healthy financial position, the Group is in an excellent position to benefit from the economic growth in Asia. The Group will continue to seek suitable investments in property, retailing and healthcare sectors and management will continue to adopt a cautious and prudent approach when assessing new investment opportunities.

## APPRECIATION

I would like to take this opportunity to express my sincere gratitude to our business partners for their continuing support and my fellow Directors and all staff of the Group for their hard work and valuable contribution during the year.

**Stephen Riady**

*Chairman*

Hong Kong, 21st April, 2006