CHIEF EXECUTIVE OFFICER'S REPORT

I am pleased to present a report on the business review and performance of the Company for the year ended 31st December, 2006.

BUSINESS REVIEW

Results

The Group performed well in 2006 and achieved a consolidated profit attributable to shareholders of HK$394 million for the year ended 31st December, 2006 compared to a profit of HK$183 million in 2005.

The performance of Hongkong Chinese Limited ("HCL") (together with its subsidiaries, the "HCL Group"), a 72.26 per cent. listed subsidiary of the Company, was also satisfactory in 2006. The HCL Group achieved a consolidated profit attributable to shareholders of HK$391 million for the year ended 31st December, 2006 compared to a profit of HK$112 million in 2005.

Property investment and development

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

Lippo Plaza in Shanghai, the PRC

The Metropolitan Condominium in Singapore

Show flat of Newton One in Singapore

Newton One in Singapore

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79 Anson Road, Singapore

Marina Collection, property development project at Sentosa Cove, Sentosa Island, Singapore

Property development project at Kim Seng Plaza, Kim Seng Road, Singapore

The market response to the residential development known as Newton One at Newton Road in Singapore, in which the Group has 100 per cent. interest, was very satisfactory. All the units were sold. The pre-sale of the 50:50 joint development with CapitaLand Limited, one of the largest listed property companies in Asia with its headquarters in Singapore, of a residential development known as The Metropolitan Condominium at Alexandra Road/Tiong Bahru Road in Singapore was launched in the last quarter of 2006 and also received a satisfactory response. Currently, nearly all the units have been sold.

In 2006, the HCL Group continued to seek new market and income opportunities as well as potential acquisition and alliance opportunities compatible with its long term growth strategy. To enhance its asset portfolio, the HCL Group continued on its quest to acquire quality property interests in Singapore and elsewhere in Asia. In this regard, the Singapore market, in particular, performed very well in the past year.

In April 2006, the HCL Group participated, as a majority shareholder, in a joint venture to purchase a total of twenty two strata lots of a commercial building located at 79 Anson Road in Singapore (the "Anson Road Property") for S$95 million. The Anson Road Property is situated within the Central Business District and comprises a total strata area of approximately 10,909 square metres. The rental income from the Anson Road Property provides an additional recurrent and stable source of income. Reflecting the limited supply but increasing demand for commercial buildings in Singapore, the potential for value appreciation on this property is strong.

In October 2006, the HCL Group was successful in a tender for the purchase of a property located at Sentosa Cove, Sentosa Island, Singapore (the "Sentosa Cove Property") for a price of approximately S$235 million. Subsequently, the HCL Group formed a joint venture, in which it has a 50 per cent. interest, for the development of the Sentosa Cove Property. The Sentosa Cove Property comprises two parcels of land with site areas of approximately 12,036 square metres and 10,187 square metres respectively with a maximum gross plot ratio of 1.2 and a maximum permissible gross floor area of approximately 26,667 square metres. It is intended that a total of one hundred and twenty four 4-storey high-end luxury residential units be constructed on the Sentosa Cove Property.

In November 2006, the HCL Group formed a 50:50 joint venture to tender for the en-bloc purchase of a development known as Kim Seng Plaza, No. 100, Kim Seng Road, Singapore (the "Kim Seng Property") for a price of approximately S$132 million. The tender was also successful. The Kim Seng Property has a site area of approximately 5,611 square metres and it is intended that the Kim Seng Property will be redeveloped into a residential development.

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Parisian, an OUE property development project in Singapore

OUB Centre, Singapore

New Mandarin Gallery in Singapore

As previously announced, the HCL Group has realised its gain on its investment in Ferrell Real Estate Investment Fund (the "Ferrell Fund"), a property fund, by termination of a discretionary management arrangement with a discretionary investment manager and the redemption of the relevant cell shares in the Ferrell Fund. This has given rise to a net profit of approximately HK$201 million for the HCL Group.

Lippo ASM Asia Property LP ("LAAP"), a limited partnership of which a wholly-owned subsidiary of HCL is the founding limited partner, carries the investment 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. The Directors considered that participation in LAAP would provide an effective medium for the HCL Group to exploit investment opportunities in the Asian property markets.

During the year, LAAP participated in a joint venture to acquire a controlling stake in Overseas Union Enterprise Limited ("OUE"), the shares of which are listed on the Main Board of Singapore Exchange Securities Trading Limited ("SGX-ST"). OUE is principally engaged in property investment and hotel operation. OUE has interests in prime office buildings in the Central Business District in Singapore as well as hotels in the Asian region, including Meritus Mandarin which is located at Orchard Road, a prime shopping area in Singapore. These high quality properties will generate stable recurrent rental income for OUE.

The HCL Group also has interest in a number of property projects in the PRC, including Chengdu Lippo Tower and the development project at a site located in 北京經濟技術開發區 (Beijing Economic-Technological Development Area) (the "BDA Project"). The BDA Project is located in the state-level economic-technological development area in Beijing and approximately seven kilometres away from downtown area of Beijing. The BDA Project is currently planned to comprise buildings for office, apartment, hotel and commercial facility uses with a total site area of approximately 50,745 square metres and a gross floor area of not less than 170,000 square metres. A number of Fortune 500 companies and multinational corporations have presence in the neighbourhood and the HCL Group sees significant long term potential of the BDA Project. It is expected that there is good business opportunity in the PRC property market.

Lippo Tower in Chengdu, the PRC

Property development project at 北京經濟技術開發區 (Beijing Economic-Technological Development Area), the PRC

Retail business

The PRC economy has continued to sustain impressive growth, with a GDP growth rate of 10.5 per cent. in 2006. With the growth in purchasing powers and improvements in living standards, it is expected that retail business in the PRC benefit will grow. Drawing on the Group's retail experience, the Group would expand its retail business in the PRC through the newly established department store chain "Robbinz". "Robbinz" is positioned to serve the fast growing mid-to-high-end consumer segment providing customers with one stop shopping service. In December 2006, the Group entered into a 20-year lease for leasing of a shopping mall space in Chengdu, Sichuan Province, the PRC with a gross floor area of approximately 28,000 square metres. In April 2007, the Group also entered into a 20-year lease for leasing of a commercial property in Tianjin, the PRC with a gross floor area of approximately 98,000 square metres. Both premises are situated at a prime location in the city centre. The Group intends to open more shopping centres and/or department stores under the "Robbinz" brand in municipalities and provincial capitals of the PRC in the near future.

Robbinz Department Store in Tianjin, the PRC

Robbinz Department Store in Chengdu, the PRC

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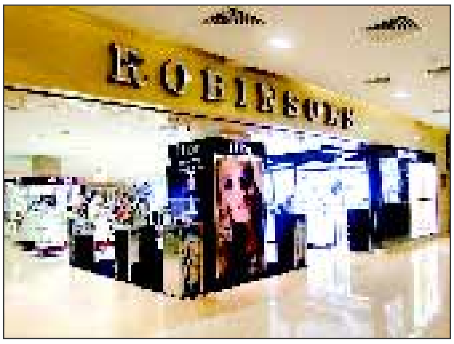
Auric Pacific Group Limited ("APG") (together with its subsidiaries, the "APG Group"), the shares of which are listed on the Main Board of SGX-ST, achieved a remarkable increase of approximately 48 per cent. in the net profit after tax to S$22.3 million for the year ended 31st December, 2006. The record profit was mainly due to the gains from strategic investments made by the APG Group in recent years to broaden and reinforce its earnings base. APG's consumer food distribution and manufacturing business has continued to operate under very competitive and challenging conditions in a mature market. The APG Group has, therefore, sought new investment opportunities with good growth potential whilst strengthening its core food business. In January 2006, the APG Group acquired approximately 29.9 per cent. interest in Food Junction Holdings Limited ("Food Junction") whose shares are listed on the Dealing and Automated Quotation System of SGX-ST for an aggregate consideration of S$24.8 million. Food Junction is principally engaged in managing the daily operational requirements of food courts and food stalls. In May 2006, the APG Group completed the acquisition of 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. During the year, the APG Group disposed of its interest in Bukit Timah residential development property that had been acquired earlier in 2006 and achieved a very satisfactory gain. In December 2006, the APG Group entered into a conditional sale and purchase agreement for the disposal of its 50.89 per cent. effective interest in a shopping mall known as Megamal Pluit in Jakarta, Indonesia for an aggregate consideration of approximately S$31.5 million. Such disposal allowed the APG Group to realise the gain from the increased value of Megamal Pluit. The above disposal was subsequently completed in March 2007. In order to diversify its business into the resilient retail sector in the region, the APG Group formed a joint venture to acquire an approximate 29.9 per cent. of the issued share capital of Robinson and Company, Limited ("Robinson"), the shares of which are listed on the Main Board of the SGX-ST, for an aggregate consideration of approximately S$203 million. The acquisition was completed in June 2006. Robinson and its subsidiaries operate well-known retail and departmental stores under the brand names, Robinsons, Marks and Spencer, John Little, Trucco, Principles and River Island in Singapore. Robinsons also operates two retail stores in Malaysia under the brand name of Marks and Spencer. Robinsons proposes to open a new department store under the brand name of Robinsons in Malaysia in the second half of 2007. In February 2006, APG ceased to be a subsidiary of the Company and has become an associated company of the Company. The Group is now interested in approximately 49.3 per cent. of the issued share capital of APG.

A food court operated by Food Junction

John Little in Singapore


Marks & Spencer in Singapore

River Island in Singapore


Robinsons in Singapore

Others

The local stock market performed well in 2006 and the high market turnover has raised the performance 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. Through more involvement in IPO margin financing business, the LSL Group has managed to enhance its income base in 2006. However, the securities brokerage business in Hong Kong remains highly competitive and the LSL Group will continue to explore new sources of income within the local securities market.

In order to realise a minority non-core investment, the Group entered into an agreement in March 2006 for the disposal of its entire interest in the 724 megawatt (net) coal-fired Meizhou Wan power plant project in Putian City, Fujian Province, the PRC for a consideration of US$55.3 million (the "Disposal"). The Disposal was subsequently completed in May 2006.

PROSPECTS

Looking ahead, the general prospect for the Hong Kong economy appears promising. A continuing pick up in consumer spending and investor confidence will support further local economic growth. The broad expectation that the trend of rising interest rate in the US comes to an end should help to improve market sentiment in Hong Kong. There is also general optimism about the economic and business prospects in the surrounding Asian countries, including the PRC in which the 2008 Olympic Games will take place. Nevertheless, there remains a number of uncertainties in the external economic environment, such as the increase in global financial market risks, concerns about the slowdown in the US economy and whether the property market there can achieve a soft landing and the future of oil prices.

We are optimistic about the overall outlook for the Group. The Group is in an excellent position to benefit from the continuing economic growth in Asia. The Group will continue to explore suitable investment opportunities in property and retail sectors in the Asian region. However, Management will continue to adopt a cautious and prudent approach when assessing new investment opportunities.

Mr. Stephen Riady
Chief Executive Officer

24th April, 2007