

## DISCUSSION AND ANALYSIS OF ANNUAL RESULTS

The global economy went through a sustainable economic growth in 2006, especially in the Asia region. Entering 2006, the Group took advantage of the improving global and local market conditions and realised a substantial part of its investment portfolio at profit. The Group continued its strength in property investment and development sector and achieved an encouraging result in the current year.

For the year ended 31st December, 2006, the Group's profit attributable to shareholders increased markedly to HK\$394 million (2005 – HK\$183 million) which was double the result in last year.

### RESULTS FOR THE YEAR

Turnover for the year totalled HK\$1,552 million, which was 36 per cent. lower than the HK\$2,418 million (restated) recorded in 2005. The decrease was mainly because the Group ceased to consolidate the turnover attributable to Auric Pacific Group Limited ("APG") and its subsidiaries (the "APG Group") since February 2006 with details mentioned below.

Despite the drop in turnover, the Group reported substantial growth in various businesses in 2006. Turnover mix changed due to the deconsolidation of the APG Group with property, treasury and securities investments and food businesses accounted for 16 per cent. (2005 – 8 per cent.), 64 per cent. (2005 – 52 per cent., as restated) and 9 per cent. (2005 – 36 per cent., as restated) of the total turnover, respectively.

### Property investment and development

Turnover generated from this segment increased to HK\$244 million (2005 – HK\$198 million) as a result of a substantial increase in rental income and sales of properties.

The leasing of the existing properties progressed well given the quality and the strategic location. Rental income generated from properties located in Hong Kong and Mainland China registered an increase of 7 per cent. and 17 per cent., respectively. In particular, Lippo Plaza in Shanghai, China continued to achieve high occupancy and renewal rental rates. In April 2006, the Group acquired a freehold commercial property with total strata area of approximately 10,909 square metres within the central business district of Singapore for an aggregate consideration of approximately HK\$448 million. The property started to generate rental income to the Group in the current year. Property letting continued to provide stable and recurrent income source to the Group.

With a positive outlook in both regional and local property markets, the Group recorded a revaluation gain on investment properties of HK\$548 million (2005 – HK\$301 million) during the year.

**RESULTS FOR THE YEAR** *(Continued)***Property investment and development** *(Continued)*

In 2005, the Group entered into an agreement under which it would be committed to invest in a property fund (the "Property Fund"), carrying the objective of investing in real estates in the East Asia region. During the year, the Group has contributed HK\$1.3 billion to the Property Fund. In May 2006, the Property Fund participated in a joint venture to invest in Overseas Union Enterprise Limited ("OUE"), a listed company in Singapore principally engaged in hotel operation and property investment. Currently, OUE has six prestigious hotels, carries the "Mandarin" and "Meritus" brand, which are strategically located in various famous tourist districts of Singapore, Malaysia and China. OUE also holds a number of prime office buildings in the central financial and business districts of Singapore. Meanwhile, certain property redevelopment plans will be commenced to capture the robust prime office demand. Amidst the backup of a sustained pick up in the economy with a limited supply of prime office buildings and hotels in Singapore, it is expected that these assets have strong value appreciation potential.

On the other hand, the Group has indirect interest in other development projects in Singapore, including a wholly-owned development in Newton Road as well as a 50:50 joint venture development with CapitaLand Limited in Alexandra Road/Tiong Bahru Road. The pre-sale of residential units at Newton Road and Alexandra Road/Tiong Bahru Road were launched in May 2006 and November 2006, respectively, with very good responses. The Group pre-sold all units in the Newton Road project. Up to 31st December, 2006, nearly 70 per cent. of the units in Alexandra Road/Tiong Bahru Road project were also pre-sold. Profit generated from the sale shall be recognised later when the property is completed.

Additionally, the Group has participated in other well-located development projects in Macau, China, Singapore, Thailand and Japan.

**Treasury and securities investments**

Entering 2006, the Group took advantage of the improving market conditions and actively realised a substantial part of its investment portfolio at profit. Turnover and profits attributable to treasury and securities investments for the year amounted to HK\$994 million (2005 – HK\$1,248 million, as restated) and HK\$375 million (2005 – HK\$160 million), respectively.

Looking ahead, the investment market would still be challenging and full of uncertainty. Foreseeing the global investment markets continued to be volatile, the Group took necessary steps to restructure and refine its composition of investment portfolio in the securities investment segment so as to improve overall asset quality.

**RESULTS FOR THE YEAR** *(Continued)***Food businesses**

Food businesses mainly comprise wholesale and distribution of food and allied fast-moving consumer goods and food manufacturing in Singapore and Malaysia which are conducted by the APG Group. As APG ceased to be a subsidiary of the Group since February 2006, turnover derived from this segment dropped significantly by HK\$732 million to HK\$139 million (2005 – HK\$871 million). However, APG remains as an associate of the Group, the Group can continue to share the results of APG under the equity method of accounting.

**Other businesses**

Benefiting from the robust economic growth in Macau and the rising interest rates, the banking subsidiary's interest income rose sharply by 52 per cent. as compared with the last year. Credit quality overall remained sound as reflected in a drop of impairment charge for the year. Profit derived from the banking segment increased from HK\$6.6 million in 2005 to HK\$7.3 million in 2006. The Group's securities broking business has benefited from the active local capital market, registering a remarkable increase in turnover of HK\$96 million (2005 – HK\$59 million). Profit derived from this segment improved substantially to HK\$18 million (2005 – loss of HK\$26 million). The Group had disposed of its 26.3 per cent. owned power plant in Fujian Province, China in May 2006 and recorded a loss on disposal of HK\$5.6 million.

**FINANCIAL POSITION**

Various new property investments were made by the Group during the year. These investments have been partly financed by internal resources and external financing and hence total assets of the Group increased. On the other hand, as APG ceased to be a subsidiary of the Group, only the Group's share of the APG Group's net assets are included under "Interests in Associates" in the consolidated balance sheet. The increase in total assets mentioned above was partly offset by the decrease caused by such deconsolidation. As at 31st December, 2006, the Group's total assets increased by HK\$1.8 billion to HK\$11.2 billion (2005 – HK\$9.4 billion), of which non-current assets increased by HK\$2.1 billion whilst current assets reduced by HK\$0.3 billion. Notwithstanding the reduction in current assets, the Group's financial position remained healthy and current ratio (measured as current assets to current liabilities) stood at 1.74 to 1 (2005 – 2.83 to 1).

At as 31st December, 2006, property-related assets after the aforesaid acquisitions increased significantly to approximately HK\$6.7 billion (2005 – HK\$4.0 billion), representing 60 per cent. (2005 – 42 per cent.) of the total assets. On the other hand, investment portfolio of the Group reduced to HK\$1.3 billion (2005 – HK\$1.8 billion), representing 12 per cent. (2005 – 19 per cent.) of the total assets.

During the year, the bank and other borrowings of the Group (other than those attributable to banking operations) increased by HK\$1.1 billion to 2.2 billion (2005 – HK\$1.1 billion) which was in-line with the expansion of the Group.

**FINANCIAL POSITION** *(Continued)*

The secured and unsecured portion of the bank loans amounted to HK\$1,967 million (2005 – HK\$1,095 million) and HK\$10 million (2005 – HK\$40 million), respectively. Certain properties, shares in certain subsidiaries, certain securities of the Group and the securities owned by margin clients of the Group were pledged against the secured banking facilities. 75 per cent. (2005 – 85 per cent.) of the loans were denominated in Hong Kong dollars or United States dollars. All bank loans carried interest at floating rates and 6 per cent. of the bank loans (2005 – 15 per cent.) were repayable within one year. During the year, Lippo Limited, an intermediate holding company of the Company, provided advances to the Group of HK\$248 million. Such advances were unsecured, carried interest at floating rates and would be repayable on or before 31st December, 2007. At the end of the year, gearing ratio (measured as total borrowings, net of minority interests, to shareholders' funds) increased to 35.1 per cent. (2005 – 21.2 per cent.).

Taking into account the profit for the year and the 2005 final dividend and 2006 interim dividend totalling of HK\$36.8 million paid to the shareholders of the Company during the year, the consolidated net asset value attributable to shareholders of the Company increased 10 per cent. to HK\$5.5 billion (2005 – HK\$5.0 billion). This was equivalent to HK\$0.6 per share (2005 – HK\$0.54 per share).

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 (2005 – Nil). Aside from those arising from the normal course of the Group's banking operation, the Group had no material contingent liabilities outstanding (2005 – Nil).

As at 31st December, 2006, the Group had total capital commitment reduced to HK\$0.9 billion (2005 – HK\$2 billion) after the Group had injected HK\$1.3 billion to the Property Fund in the current year.

**STAFF AND REMUNERATION**

The Group had approximately 550 employees as at 31st December, 2006 (2005 – 1,316 employees). The substantial decrease was due to exclusion of the employees of the APG Group following its cessation as a subsidiary of the Group. Total staff costs (including directors' emoluments) during the year amounted to HK\$163 million (2005 – HK\$208 million). The Group ensures that its employees are offered competitive remuneration packages. Certain employees of the Group were granted options under the share option scheme of the Company.

**OUTLOOK**

The global economy is expected to grow steadily in 2007. The growth prospects will continue to be centered on developments in the Asia Pacific Region. The operating environment of the Group 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.