Deputy Chairman & Chief Executive Officer's Report

David Chiu, *Deputy Chairman & Chief Executive Officer*

"Looking ahead, the Group remains positive about the tourism industry in Hong Kong and will maintain its focus on the 3 – 4 star hotel business. It is our view that with the Central Government's austerity measures upon the superheated property sector over the past three years, we are in a stronger position to increase our land bank in China at competitive price in the foreseeable future."

The Group will continue to focus on the two principal strategies that we formulated four years ago. Firstly, we are dedicated to developing affordable quality townhouses and low-rise condominiums for the middle class sector in China. Secondly, we will continue to develop 3 – 4 star hotels in Hong Kong to meet the growing influx of tourists arriving from both the Mainland and overseas, thus providing a steady recurring income to the company.

In the Mainland, the Central Government has recently announced several measures of cooling down the over-heated property market. Although there is every indication that the property market has slowed down and property prices have dropped by 20 – 30%, our California Gardens in Shanghai has not been affected as we are aiming at the middle class market. Since the launching of the first phase in 1998, we had sold about 3,000 units that we developed and according to present development plan, we will be developing another 5,000 units over the next few years. We will launch around 1,500 units by phases in the next 12 – 18 months. According to market indications, we believe we can sell all units at our targeted price within our targeted period.

We have increased our land bank by about 1,500 units in Guangzhou with a buildable area of about 800,000 square feet. Furthermore, we expect to finalize the negotiations of two other property development projects in two major cities in China in foreseeable future. The company will maintain its strategy to seek for new residential development projects preferably in major cities in China allowing to build at least 2,000 to 3,000 units for each development. With the maturity of

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our development in Shanghai, we believe we have now developed a very strong middle management team to take on the challenge to build four to five projects in different cities in China simultaneously.

Our second strategy of developing 3 – 4 star hotels in Hong Kong has achieved a remarkable progress. We are proud to report that we have opened four hotels this year making a total of six hotels under the operation in Hong Kong. With the opening of our hotel in Tsuen Wan, we will be the owner of the largest number of 3 – 4 star hotels operating in Hong Kong with a total capacity of over 1,500 rooms. Our hotel division recorded average occupancy of over 90% with average room rate increased by 20 – 30% beyond our expectations. It has substantially improved our group's quality of earnings. During this year, we have also acquired two additional hotel sites in Tai Kok Tsui and Kennedy Town. These two hotels will be opened in about 18 – 30 months from now and will further add approximately 600 rooms to our hotel portfolio. The management is confident that the two sites acquired are ideal locations for 3 – 4 star hotel development and that we could still maintain our development cost per room at about HK$1.0M.

As to our hotel development in Macau, the joint venture project together with The Venetian Group has been delayed due to the fine tuning of our overall development. Although we remain positive of the tourism industry in Macau in the long run, we must caution our shareholders of the fact that there are approximately 15,000 new rooms under construction which will come to the market in the next two years. Hence, we have to carefully plan and position our hotels to meet the foreseeable competition. Based on our present plan, we believe our project in Macau will further improve our net asset value per share in the future. As a profit contributor, we consider it more appropriate to be a long-term investment.

The disposal of our project in New York and the continuous successful launching of our two projects in Melbourne, Australia, have demonstrated our commitment to dispose of non-core assets. We expect the disposals of these overseas assets to bring in about HK$1 billion to the company's cash flow over the next 12 – 18 months.

Looking ahead, the Group remains positive about the tourism industry in Hong Kong and will maintain its focus on the 3 – 4 star hotel business. It is our view that with the Central Government's austerity measures upon the superheated property sector over the past three years, we are in a stronger position to increase our land bank in China at competitive price in the foreseeable future.

David Chiu
Deputy Chairman & Chief Executive Officer

15th July, 2006