

Deputy Chairman & Chief Executive Officer's Report

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Tan Sri Dato' David Chiu,
Deputy Chairman & Chief Executive Officer

I am proud to report that the Group has achieved another record year with increasing property sales and excellent performance of our hotel operations.

During the past year, the Group has developed a strong hotel portfolio and has successfully positioned itself as the leading 3-4 star hotel developer and operator in Hong Kong. We are aggressively expanding our hotel portfolio, as well as focusing efforts on streamlining our operations. We are also dedicated to building up our unique hotel brands. One of our signature hotels, the Lan Kwai Fong Hotel, has recently been voted “The Best Boutique Hotel in Asia”, the first hotel to receive such prestigious award in Hong Kong. This has further reinforced the Group’s leading position as a hotel operator in Hong Kong. We have made good progress in the development of three new hotels in Tai Kok Tsui, Kennedy Town and Kwun Tong; these projects are expected to be completed on schedule. Given the exceptional outlook of the tourism industry and the increasing demand for hotel rooms, we will continue to bring in additional resources to cater for potential business growth.

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Our team has conducted extensive research on the Mainland hotel industry and we have identified great opportunities in the 4-star hotel segment. The management team believes that there is a lack of 4-star hotel operator and is determined to develop its 4-star hotel chain in China. Land and labour costs are still relatively low in the region, therefore we will be able to control our development cost and enjoy a high profit margin in the long run. We expect to see the demand for 4-star hotel rooms to increase substantially to meet the exponential growth of the middle-class domestic leisure and business travelers. We predict high profit margins from the food and beverage division, as a result of the growing popularity of hosting wedding banquets, meetings and conferences in hotels.

Over the past financial year, we have built up our development team, market knowledge base and project sourcing capability in China. As a result, we have been able to make promising acquisitions of two properties in two major cities, Chengdu (approximately 600 rooms) and Wuhan (approximately 400 rooms) for future hotel developments. We are well-positioned to capture every opportunity for our rapid hotel expansion plan in China. We firmly believe that the keys to success are effectively implementing our strategies, injecting the right resources and bringing in the right people.

Property sales at California Garden, Shanghai, which targets at the middle- and upper middle-class markets was strong despite monetary-based tightening measures and newly introduced macro economic control policies in the Mainland. This confirms our strategy to focus on middle- and upper middle-class housing development. With over 6,000 more residential units in the pipeline, we believe that California Garden will continue to be our major profit contributor for the next four to five years. Furthermore, our three residential and commercial projects in Guangzhou are under development and will be completed as planned.

Malaysia has enjoyed a continuing growth in visitor arrivals, which grew from 16.43 million in 2005 to 17.55 million in 2006, thus we have decided to actively expand our hotel portfolio through acquisitions in the country. We believe our timing of acquisitions is excellent as the market has just started to pick up in value. We are positive that this will enhance the return on investment for the Group's overall hotel portfolio outside Hong Kong.

The Group will continue to improve and maintain high standards of corporate governance in every aspect of its business through management supervision and strict compliance. We will also ascertain consistency of dividend policy to the interest of shareholders in the years to come.

Looking further ahead, we are determined to implement our rapid hotel expansion plan to extend our Hong Kong's success in the region so as to boost the steady recurring income to the Group. Also, we will proactively seek for investment opportunities for the middle- and upper middle-class residential developments in China with our proven strategy. Our goal is to explore potential business opportunities which will maximize returns for our shareholders.

David Chiu

Deputy Chairman & Chief Executive Officer

19th July, 2007