



FAR EAST CONSORTIUM INTERNATIONAL LIMITED

(Incorporated in the Cayman Islands with limited liability)

Website: <http://www.fareastconsortium.com.hk>

Stock Code: 35

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31ST MARCH, 2006

RESULTS

The Board of Directors of Far East Consortium International Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31st March, 2006 are as follows:

FINANCIAL HIGHLIGHTS

- Turnover was HK\$1,141 million, up 104%
- Gross profit increased 94% to HK\$354 million
- Net profit for the year was HK\$332 million
- Earnings Per Share was HK27.5 cents
- Proposed final dividend, HK6 cents

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2006

	<i>Notes</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i> (Restated)
Revenue		1,140,899	559,710
Cost of sales		(787,218)	(377,022)
Gross profit		353,681	182,688
Other income		15,025	47,207
Selling and distribution costs		(2,480)	(4,719)
Administrative expenses		(189,691)	(148,930)
Allowance for amount due from an associate		–	(16,000)
Increase in fair value of financial assets at fair value through profit or loss		2,067	–
Increase in fair value of financial liabilities at fair value through profit or loss		(113,160)	–
Decrease in fair value of derivative financial instruments		(19,665)	–
Increase in fair value of investments held for trading		1,898	–

Unrealised gain on trading securities		–	560
Profit on disposal of investment properties		–	201,362
Increase in fair value of investment properties		414,740	166,952
Profit on disposal of property, plant and equipment		225	37,182
Amortisation of goodwill arising on acquisition of associates		–	(582)
Release of negative goodwill		–	7,693
Profit on disposal of an associate		–	451
Share of results of associates		6,818	12,154
Share of results of jointly controlled entities		1,379	(792)
Finance costs		(52,759)	(38,741)
Profit before taxation	3	418,078	446,485
Taxation	4	(85,867)	(36,814)
Profit for the year		332,211	409,671
Attributable to:			
– Equity holders of the Company		335,124	404,562
– Minority interests		(2,913)	5,109
		332,211	409,671
Dividends	5		
– Interim, paid		42,926	41,766
– Final, paid for 2005 (Final, paid for 2004)		70,929	35,053
		<i>HK cents</i>	<i>HK cents</i>
Earnings per share	6		
– Basic		23.6	32.3
– Diluted		27.5	31.0

CONSOLIDATED BALANCE SHEET
AT 31ST MARCH, 2006

	Notes	2006 HK\$'000	2005 HK\$'000 (Restated)
Non-current assets			
Investment properties		1,297,427	800,955
Property, plant and equipment		1,210,504	1,140,138
Prepaid lease payments		374,965	299,958
Negative goodwill		–	(23,081)
Interests in associates		141,694	144,286
Interests in jointly controlled entities		74,617	73,238
Investments in securities		–	452,805
Available-for-sale investments		598,758	–
Financial assets at fair value through profit or loss		99,783	–
Amounts due from associates		129,559	129,178
Amount due from an investee company		119,995	119,995
Amount due from a minority shareholder		563	563
Loans receivable		417,257	364,167
Pledged bank deposits		2,765	3,000
		4,467,887	3,505,202

Current assets

Inventories	1,581	894
Completed properties for sale	181,046	197,210
Properties under development for sale	1,729,107	1,349,278
Investments in securities	–	446,494
Investments held for trading	7,724	–
Available-for-sale investments	103,611	–
Financial assets at fair value through profit or loss	171,697	–
Derivative financial instruments	5,319	–
Loans receivable	3,679	2,576
Debtors, deposits and prepayments	241,415	238,824
Prepaid lease payments	8,239	7,468
Amounts due from jointly controlled entities	9,652	2,936
Amounts due from associates	3,437	3,040
Taxation recoverable	7,995	9,257
Pledged bank deposits	52,338	3,901
Deposits with investment banks	31,000	106,143
Bank balances and cash	114,581	361,625
	<u>2,672,421</u>	<u>2,729,646</u>

Current liabilities

Creditors and accruals	285,468	306,736
Customers' deposits received	14,492	19,078
Amounts due to directors	12,468	11,825
Amounts due to related companies	38,854	13,635
Amounts due to associates	23,479	24,785
Amount due to a minority shareholder	28,326	28,124
Financial liabilities at fair value through profit or loss	914,969	–
Derivative financial instruments	63,551	–
Taxation payable	33,124	56,130
Obligations under finance leases	352	268
Convertible bonds	–	765,134
Bank and other borrowings	999,925	612,102
Bank overdrafts, unsecured	285	2,898
	<u>2,415,293</u>	<u>1,840,715</u>

Net current assets

	<u>257,128</u>	<u>888,931</u>
	<u>4,725,015</u>	<u>4,394,133</u>

Capital and reserves

Share capital	144,108	141,426
Reserves	3,400,425	3,047,030
	<u>3,544,533</u>	<u>3,188,456</u>
Equity attributable to equity holders of the Company		
Minority interests	27,250	31,789
	<u>3,571,783</u>	<u>3,220,245</u>

Non-current liabilities

Amounts due to a minority shareholder	35,240	35,964
Amount due to a jointly controlled entity	10,801	10,801
Deferred taxation	124,395	50,147
Obligations under finance leases	716	458
Bank and other borrowings	982,080	1,076,518

<u>1,153,232</u>	<u>1,173,888</u>
<u><u>4,725,015</u></u>	<u><u>4,394,133</u></u>

Notes:

1. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has adopted, for the first time, a number of new and revised Hong Kong Financial Reporting Standards (“HKFRS(s)”), Hong Kong Accounting Standards (“HKAS(s)”) and Interpretations (“INTs”) (hereinafter collectively referred to as “new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) that are effective for accounting periods beginning on or after 1st January, 2005, except for HKAS 40 “Investment Properties” and HK-INT 21 “Income Tax – Recovery of Revalued Non-Depreciable Assets” which have been early adopted in 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates/jointly controlled entities have been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group’s accounting policies in the following areas that have an effect on how the results for the current or prior accounting years are prepared and presented:

HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HKAS 17	Leases
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 39	Financial Instruments: Recognition and Measurement

1A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described above are summarised as follows:

(a) Effects on the results for the current and prior year:

	2006 <i>HK\$’000</i>	2005 <i>HK\$’000</i>
Non-amortisation of goodwill	582	–
Decrease in release of negative goodwill	(7,693)	–
Increase in fair value of financial assets at fair value through profit or loss	2,067	–
Increase in fair value of financial liabilities at fair value through profit or loss	(113,160)	–
Gain on disposal of property, plant and equipment	–	4,092
Net changes in fair value of derivative financial instruments	(58,232)	–
Non-amortisation of deferred expenditure on convertible bonds	2,814	–
Non-amortisation of premium of convertible bonds	4,460	–
	<u>(169,162)</u>	<u>4,092</u>
(Decrease) increase in profit for the year	<u>(169,162)</u>	<u>4,092</u>

Analysis by line item presented according to the classification in the income statement:

	2006 <i>HK\$’000</i>	2005 <i>HK\$’000</i>
Decrease in amortisation of goodwill arising on acquisition of associates	582	–
Decrease in release of negative goodwill	(7,693)	–
Increase in fair value of financial assets at fair value through profit or loss	2,067	–
Increase in fair value of financial liabilities at fair value profit or loss	(113,160)	–
Decrease in share of results of associates	(1,431)	(4,240)
Net changes in fair value of derivative financial instruments	(58,232)	–
Increase in profit on disposal of property, plant and equipment	–	4,092
Decrease in taxation	1,431	4,240
Decrease in amortisation of deferred expenditure on convertible bonds	2,814	–
Decrease in amortisation of premium of convertible bonds	4,460	–
	<u>(169,162)</u>	<u>4,092</u>
(Decrease) increase in profit for the year	<u>(169,162)</u>	<u>4,092</u>

(b) Effects on the balance sheet as at 31st March, 2005 and 1st April, 2005:

	As at 31.3.2005 (originally stated) HK\$'000	Adoption of new standards Effect of HKAS 17 HK\$'000	Change in accounting policy of hotel properties Reclassification HK\$'000	As at 31.3.2005 (restated) HK\$'000	Effect of HKAS 39 HK\$'000	Effect of HKFRS 3 HK\$'000	As at 1.4.2005 (restated) HK\$'000
Property, plant and equipment	2,176,703	(284,083)	(752,482)	1,140,138	-	-	1,140,138
Properties under development	125,430	(23,343)	-	(102,087)	-	-	-
Prepaid lease payments	-	307,426	-	307,426	-	-	307,426
Negative goodwill	(23,081)	-	-	(23,081)	-	23,081	-
Investments in securities	899,299	-	-	899,299	(899,299)	-	-
Available-for-sale investments	-	-	-	-	537,423	-	537,423
Financial assets at fair value through profit or loss	-	-	-	-	340,836	-	340,836
Properties under development for sales	1,247,191	-	-	102,087	-	-	1,349,278
Investments held for trading	-	-	-	-	21,040	-	21,040
Financial liabilities at fair value through profit or loss	-	-	-	-	(816,500)	-	(816,500)
Convertible bonds	(765,134)	-	-	(765,134)	765,134	-	-
Deferred taxation	(208,115)	-	157,968	(50,147)	-	-	(50,147)
Total effects on assets and liabilities	3,452,293	-	(594,514)	2,857,779	(51,366)	23,081	2,829,494
Retained profits	788,900	-	-	788,900	(51,366)	23,081	760,615
Assets revaluation reserve	594,514	-	(594,514)	-	-	-	-
Minority interests	-	-	-	14,035	-	-	14,035
Total effects on equity	1,383,414	-	(594,514)	802,935	(51,366)	23,081	774,650
Minority interests	14,035	-	-	(14,035)	-	-	-

(c) Effects on equity as at 1st April, 2004:

	As originally stated HK\$'000	Effect of HKAS 1 HK\$'000	Change in accounting policy of hotel properties HK\$'000	As restated HK\$'000
Assets revaluation reserve	340,722	-	(340,722)	-
Minority interests	-	8,839	-	8,839
Total effects on equity	340,722	8,839	(340,722)	8,839

2. BUSINESS SEGMENTS

Business segments

For management purposes, the Group is currently organised into four operating divisions – property development and investment, hotel operations and loan financing, and treasury management. These divisions are the basis on which the Group reports its primary segment information. Other operations mainly include sale of boiler products and other interest income.

Principal activities are as follows:

Property development and investment	-	properties development, letting and sale
Hotel operations	-	hotel operations and management
Loan financing	-	loan financing for hotel operation
Treasury management	-	investment and trading in securities

2006

	Property development and investment HK\$'000	Hotel		Treasury management HK\$'000	Other operations HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
		Operations HK\$'000	Loan financing HK\$'000				
REVENUE							
External sales	321,595	204,041	70,178	525,617	19,468	–	1,140,899
Inter-segment sales	35,517	–	–	–	–	(35,517)	–
Total revenue	<u>357,112</u>	<u>204,041</u>	<u>70,178</u>	<u>525,617</u>	<u>19,468</u>	<u>(35,517)</u>	<u>1,140,899</u>

Inter-segment sales are charged at prevailing market rates.

RESULTS							
Segment results	379,005	83,673	67,851	63,020	(17,974)		575,575
Increase in fair value of financial liabilities at fair value through profit or loss	–	–	–	–	–		(113,160)
Profit on disposal of property, plants and equipments	225	–	–	–	–		225
Share of results of associates	5,741	–	–	–	1,077		6,818
Share of results of jointly controlled entities	–	–	–	–	1,379		1,379
Finance costs							(52,759)
Profit before taxation							418,078
Taxation							(85,867)
Profit for the year							<u>332,211</u>

	Property development and investment HK\$'000	Hotel		Treasury management HK\$'000	Other operations HK\$'000	Consolidated HK\$'000
		Operations HK\$'000	Loan financing HK\$'000			
BALANCE SHEET						
ASSETS						
Segment assets	1,595,596	1,426,508	408,744	575,114	2,895,720	6,901,682
Interests in associates						141,694
Interests in jointly controlled entities						74,617
Taxation recoverable						7,995
Unallocated corporate assets						14,320
Consolidated total assets						<u>7,140,308</u>
LIABILITIES						
Segment liabilities	245,617	25,940	59,943	92,090	63,487	487,077
Borrowings						2,898,327
Taxation payable						33,124
Deferred taxation						124,395
Unallocated corporate liabilities						25,602
Consolidated total liabilities						<u>3,568,525</u>
OTHER INFORMATION						
Capital additions	16,500	233,395	–	–	63	249,958
Depreciation and amortisation	5,816	20,084	–	–	309	<u>26,209</u>

2005

	Property development and investment HK\$'000	Hotel		Treasury management HK\$'000	Other operations HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
		Operations HK\$'000	Loan financing HK\$'000				
REVENUE							
External sales	387,110	59,108	61,560	26,213	25,719	–	559,710
Inter-segment sales	33,090	–	–	–	–	(33,090)	–
Total revenue	<u>420,200</u>	<u>59,108</u>	<u>61,560</u>	<u>26,213</u>	<u>25,719</u>	<u>(33,090)</u>	<u>559,710</u>

Inter-segment sales are charged at prevailing market rates.

RESULTS

Segment results	155,005	2,083	59,281	7,363	20,026	243,758
Profit on disposal of investment properties	201,362	–	–	–	–	201,362
Profit on disposal of property, plant and equipment	–	37,754	–	–	(572)	37,182
Allowance for amount due from an associate	–	–	–	–	(16,000)	(16,000)
Amortisation of goodwill arising on acquisition of associates	–	–	–	–	(582)	(582)
Amortisation of negative goodwill	7,693	–	–	–	–	7,693
Gain on disposal of an associate	–	–	–	–	451	451
Share of results of associates	21,240	–	–	–	(9,086)	12,154
Share of results of jointly controlled entities	–	–	–	–	(792)	(792)
Finance costs						(38,741)
Profit before taxation						446,485
Taxation						(36,814)
Profit for the year						<u>409,671</u>

	Property development and investment HK\$'000	Hotel		Treasury management HK\$'000	Other operations HK\$'000	Consolidated HK\$'000
		Operations HK\$'000	Loan financing HK\$'000			
BALANCE SHEET						
ASSETS						
Segment assets	4,191,273	769,054	340,623	421,065	272,227	5,994,242
Interests in associates						144,286
Interests in jointly controlled entities						73,238
Taxation recoverable						9,257
Unallocated corporate assets						13,825
Consolidated total assets						<u>6,234,848</u>
LIABILITIES						
Segment liabilities	307,771	23,860	35,048	34,292	5,310	406,281
Borrowings						2,457,378
Taxation payable						56,130
Deferred taxation						50,147
Unallocated corporate liabilities						44,667
Consolidated total liabilities						<u>3,014,603</u>
OTHER INFORMATION						
Capital additions	5,564	190,809	–	–	99	196,472
Depreciation and amortisation	6,936	6,123	–	–	620	<u>13,679</u>

3. PROFIT BEFORE TAXATION

	2006 HK\$'000	2005 HK\$'000 (Restated)
Profit before taxation has been arrived at after charging:		
Amortisation of investment in a jointly controlled entity	2,904	2,904
Amortisation of prepaid lease payments	5,223	2,009
Allowance for amount due from an associate	–	16,000
Allowance for bad and doubtful debts	5,009	17,084
Allowance for loans receivable	11,004	–
Auditors' remuneration	2,850	2,071
Cost of completed properties for sale recognised as an expense	258,856	292,418
Cost of inventories recognised as an expense	14,659	21,285
Depreciation:		
Owned assets	20,768	11,418
Assets held under finance leases	218	252
Directors' remuneration and other staff costs	57,102	40,930
Operating lease rentals in respect of motor vehicles	–	18
Share of taxation of associates (included in share of results of associates)	1,431	4,240

and after crediting:

Dividend income from listed investments	2,304	1,262
Interest income	64,772	63,007
Net foreign exchange gains	484	7,378
Rental income, net of outgoings of HK\$10,342,000 (2005: HK\$19,685,000)	<u>36,019</u>	<u>40,488</u>

4. TAXATION

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
The taxation charges (credit) comprises:		
Current year:		
Hong Kong	11,872	–
Other jurisdictions	<u>263</u>	<u>857</u>
	<u>12,135</u>	<u>857</u>
Prior years underprovision:		
Hong Kong	553	6,823
Other regions in the PRC	<u>464</u>	<u>(171)</u>
	<u>1,017</u>	<u>6,652</u>
Deferred taxation	<u>72,715</u>	<u>29,305</u>
	<u>85,867</u>	<u>36,814</u>

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for the year. Taxation arising in other regions in the PRC or other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

5. DIVIDENDS

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Interim, paid – HK3 cents (2005: HK3 cents) per share:		
Cash	18,418	23,112
Share alternative under scrip dividend scheme	<u>24,508</u>	<u>18,654</u>
	<u>42,926</u>	<u>41,766</u>
Final, paid for 2005 – HK5 cents (Final, paid for 2004: HK3 cents) per share:		
Cash	40,442	13,849
Share alternative under scrip dividend scheme	<u>30,487</u>	<u>21,204</u>
	<u>70,929</u>	<u>35,053</u>
	<u>113,855</u>	<u>76,819</u>

The final dividend in respect of 2006 of HK6 cents (2005: HK5 cents) per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

6. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the equity holders of the Company is based on the following data:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i> (Restated)
Earnings:		
Earnings for the purpose of basic earnings per shares	335,124	404,562
Effect of dilutive potential ordinary shares		
– amortisation of deferred expenditure on convertible bonds	–	2,322
– premium on redemption of convertible bonds	–	3,679
Effect of increase in fair value of financial liabilities at fair value through profit or loss	<u>113,160</u>	<u>–</u>
Earnings for the purpose of diluted earnings per share	<u>448,284</u>	<u>410,563</u>

	Number of shares '000	Number of shares '000
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,419,558	1,251,268
Effect of dilutive potential ordinary shares		
– convertible bonds	201,312	66,815
– share options	11,894	7,103
	<hr/>	<hr/>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,632,764	1,325,186
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Impact of changes in accounting policies

Changes in Group's accounting policies during the year are described in note 1. To the extent that changes have had an impact on results reported for 2006 and 2005, they have had an impact on the amounts reported for earnings per share. The following table summarises that impact on both basic and diluted earnings per share:

	Impact on basic earnings per share		Impact on diluted earnings per share	
	2006 <i>HK cents</i>	2005 <i>HK cents</i>	2006 <i>HK cents</i>	2005 <i>HK cents</i>
Figures before changes in accounting policies	35.5	32.0	31.4	30.7
Effect on changes in accounting policies (note 1A)	(11.9)	0.3	(3.9)	0.3
	<hr/>	<hr/>	<hr/>	<hr/>
Figures after changes in accounting policies	23.6	32.3	27.5	31.0
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DIVIDEND

The directors recommend a final dividend for the year ended 31st March, 2006 of HK6 cents (2005: HK5 cents) per share to shareholders whose names appear on the Company's Register of Members on 25th August, 2006 amounting to HK\$86.5 million. The final dividend will take the form of a scrip dividend with shareholders being given an option to elect to receive cash in lieu of all or part of their scrip dividend entitlements ("Scrip Dividend Scheme").

The Scrip Dividend Scheme will be subject to (i) the approval of the proposed final dividend at the annual general meeting to be held on 25th August, 2006; and (ii) The Stock Exchange of Hong Kong Limited (the "Stock Exchange") granting listing of and permission to deal in the new shares to be allotted thereunder. For the purpose of determining the number of new shares to be allotted, the market value of new shares will be calculated as the average of the closing prices of the existing shares of the Company on the Stock Exchange for the five trading days prior to and including 25th August, 2006. Full details of the Scrip Dividend Scheme will be set out in a circular to shareholders together with a form of election on or about 1st September, 2006. Dividends warrants or new shares certificates will be posted on or about 3rd October, 2006.

BOOK CLOSE

The register of members of the Company will be closed from 23rd August, 2006 to 25th August, 2006, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrars, Standard Registrars Limited of 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m. on 22nd August, 2006.

CORPORATE OVERVIEW

The Group will continue to focus on the two principal strategies which 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 and operate 3 – 4 star hotels in Hong Kong to meet the growing influx of both business and leisure travellers arriving from the Mainland and overseas, thus providing a steady recurring income to the Group.

The austerity measures imposed by the Central Government had softened the property markets in China over the last three years. These austerity measures should enhance long-term healthy development of the property markets in China. Given the continuous economic growth and urbanization in China, we continue to believe the demand for middle-class quality housing to remain strong in the long run. In view of the weak sentiment in the property markets, we are now taking a proactive role in exploring and assessing good return investment opportunities to enlarge our land bank in the Mainland.

According to the visitor arrival statistics released by the Hong Kong Tourism Board, the cumulative visitor arrivals in 2005 was about 23.4 million, representing a 7.1% increase from previous year. With the implementation of the Closer Economic Partnership Arrangement (CEPA), more cities in the Mainland will be opened to allow more residents to come to Hong Kong. Benefiting from this favorable condition, the overall performance of the hotel industry remains strong with an average occupancy rate of 86% for all hotels in Hong Kong as a whole. Our hotels have outperformed the market by a substantial margin attributed to our efficient and experienced hotel management team. With our dedication and commitment, the Group has opened four new hotels, totaling 600 rooms in Hong Kong during the year. In addition, the Group is planning to open one hotel per year over the next three years. We are well-positioned to capture the increasing number of business and leisure travellers to Hong Kong with our expanding hotel portfolio. We expect the performance of the hotel division to remain strong with increasing gross profit contributions to the Group in the foreseeable future.

The Group is in the stage of finalizing the documentation of its Macau project with the Venetian Group (Venetian) from Las Vegas, USA. According to the latest development plan, the Group will possibly form a 50:50 joint-venture company with Venetian to develop a site located in Cotai, Macau, with a total gross floor area of over 3 million square feet. The Macau project comprises of four to five hotels of different brands with a total of no less than 3,000 rooms, a shopping and entertainment complex of about one million square feet, and serviced apartment buildings of 360,000 square feet. In addition, the joint-venture company will also build a casino/theatre shell of approximately 200,000 square feet which will be sold to Venetian upon completion. The construction work is scheduled to commence in the fourth quarter of 2006. With significant economic growth in Macau, the Group believes that this project will enhance our long-term growth.

MANAGEMENT DISCUSSION AND ANALYSIS

1. Property Development Division

China

Because of the austerity measures announced by the Central Government and the change of accounting standards, most of the property development profits will be deferred to the financial year of 2007. The occupancy permit for the 190 commercial units of Ching Chu Xintiandi is expected to be granted before the end of 2006. An estimated profit of Rmb54 million is expected to be booked upon the receipt of the occupancy permit.

Presently, we have over 2 million square feet of gross floor area under construction in California Gardens. When the construction is completed, we shall deliver about 1,500 residential units for sale over the next 12 to 18 months. Furthermore, according to the present development plan, California Gardens still has a balance of about 3,500 residential units to be developed over the next three years. The whole project is expected to complete by 2010.

As we believe the property market of Guangzhou will begin to grow in the near future, we acquired a residential site in Huadiwan, Gangzhou in September 2005. According to our present plan, we will develop seven blocks of multi-storey residential buildings with a total gross floor area of approximately 800,000 square feet. With this new property development project, the Group currently has three property development projects in Guangzhou with a total attributable gross floor area of over 1.4 million square feet. The construction and demolition works for these three projects have already begun and all of them will be completed in the financial year of 2009.

Presently, the Group is also finalizing the negotiations of another two property development projects in two different major cities in China which we expect to conclude in the foreseeable future.

Hong Kong

Although the Group does not maintain a significant land bank, we continue to seek for attractive property development projects in the Hong Kong. The additional landscaping and exterior finishing of our luxurious property project, The Cove, had been completed and launched for sales.

Subsequent to the year-end, the Group acquired a property project in Sai Kung. This project consists of 4 detached houses with a total gross floor area of approximately 12,000 square feet. The renovation work is in progress and is expected to complete in February 2007.

Australia

The Group has two luxury residential development projects in Melbourne, namely Flinder Wharf and Royal Domain Tower. The Group has a 50% interest in Flinder Wharf, of which all 301 units had been sold. The construction of Royal Domain Tower had been fully completed. Up to the end of the year, over 50% of the 133 units have been sold. The Group has a 90% interest in this project.

2. Hotel Division

During the year, the Group opened four new hotels, namely Central Park Hotel, Dorsett Olympic Hotel, Cosmo Hotel and Lan Kwai Fong Hotel, in Hong Kong. Our hotel portfolio had increased from 1,042 rooms to 1,629 rooms. Despite being new to the market, all hotels have been performing above our expectation and the market average.

In order to capture more overseas business and leisure travellers and to enhance our profitability, we decided to add the HIP hotel line to our existing 3-and 4-star hotel portfolio. Cosmo Hotel is our first HIP hotel, and it has been an immediate success since its opening in October 2005. Its occupancy has been over 90% on average since its opening. Lan Kwai Fong Hotel is our second HIP hotel. We expect this hotel to perform as well as Cosmo Hotel.

We have another three new hotels in the pipeline. Dorsett Far East Hotel in Tsuen Wan, with 243 rooms, is expected to open within the next two months. The newly acquired sites in Tai Kok Tsui and Kennedy Town are planned for hotel developments. Both hotels will have no less than 250 rooms each and are expected to commence operation by early 2008 and early 2009. After Dorsett Far East Hotel opened, we will be operating a total of 7 hotels in Hong Kong, making us the largest hotel group in Hong Kong in term of number of hotels.

Significant Events

Reference is made to our Annual Report 2005 in relation to Riverside South Project (“Project”), in Manhattan the United States, of which the Group held an indirect minority interest. The Group was informed that the transaction of selling interests in the Project for US\$1.76 billion to CRP/Extell Riverside L.P., an independent third party, was completed in November 2005. The manager of the Project is still working on the details of the Final Sale Model of the transaction.

In relation to the Compliant filed in Supreme Court of the State of New York against investors of the Project, legal proceeding has been commenced in New York, and the management will closely monitor its status. Further announcements, if any, will be made by the Company in accordance with the Listing Rules.

FINANCIAL REVIEW

For the year ended 31st March, 2006, the Group achieved a strong operating performance. Turnover of the Group reached HK\$1,140.9 million, up 104% from the last year. This increase was primarily driven by the expansion of our hotel portfolio and increased treasury investments despite the drop of our property sales.

Gross profit rose to HK\$353.7 million, a 94% increase as compared to last year. Such growth was mainly attributable to the increased number of hotels and their exceptional performance.

Without any one-off gain from substantial asset disposals during the year, the net profit was reported at HK\$332.2 million, dropped from HK\$409.7 million of last year. If the one-off gains, totalling HK\$238.5 million, were excluded from the final results of last year, Group would have reported a net profit growth of 94% in this financial year.

In addition, both zero coupon convertible bonds were designated as “financial liabilities at fair value through profit or loss” under the newly adopted Hong Kong Accounting Standards. As a result, an increase of HK\$113.1 million in fair value of financial liabilities through profit or loss was charged to the income statement.

FINANCIAL RESOURCES AND LIQUIDITY

Borrowings and charge on Group assets

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Bank loans	1,622,088	1,487,272
Bank overdrafts	285	2,898
Convertible bonds	–	765,134
Financial liabilities at fair value through profit or loss	914,969	–
Mortgage loans	348,440	142,348
Obligations under finance leases	1,068	726
Other loans	11,477	59,000
	<u>2,898,327</u>	<u>2,457,378</u>
Analysed as:		
Secured	1,971,880	1,606,078
Unsecured	926,447	851,300
	<u>2,898,327</u>	<u>2,457,378</u>
The above borrowings are repayable as follows:		
On demand or within one year	1,915,531	1,380,402
Amount due after one year	982,796	1,076,976
	<u>2,898,327</u>	<u>2,457,378</u>

Zero Coupon Convertible Bonds

The US\$67million zero coupon convertible bonds issued by the Company on 13th April, 2004 was purposed for repayment of existing loans and general working capital. At the balance sheet date, over 98% of these convertible bonds have been converted into ordinary shares of the Company. On or at anytime after 13th April, 2006 and prior to 13th April, 2009, the Company can exercise its option to redeem the outstanding convertible bonds at a predetermined early redemption amount.

Presently, the Company has another zero coupon convertible bonds amounting to HK\$754million remain outstanding at the balance sheet date. The primary purpose of the issue is to finance the upcoming development project in Macau. Based on the adjusted conversion price of HK\$3.16, the convertible bonds are convertible into approximately 239million ordinary shares of the Company of HK\$0.1 each.

Under HKAS32 and HKAS39, both zero coupon convertible bonds are designated as “financial liabilities at fair value through profit or loss”. At each subsequent balance sheet date, “financial liabilities at fair value through profit or loss” are measured at fair value with changes in the fair value recognised directly in the income statement of the Company in the period in which they arise. Accordingly, the balances of the US dollar denominated and Hong Kong dollar denominated convertible bonds are adjusted from HK\$9.6million and HK\$754million to HK\$9.7million and HK\$905million, respectively, at the balance sheet date. Such adjustments are recognised as a charge to the income statement resulting from the increase in the fair value of financial liabilities. In subsequent period up to maturity date of the convertible bonds, the increase or decrease in the fair value of such financial liabilities will be charged or credited to the income statement of the Company in the corresponding period.

Contingent Liabilities and Commitments

Contingent Liabilities

The Group had the following contingent liabilities at the balance sheet date:

- (a) The Group has given guarantee to bankers to secure banking and other facilities made available to an investee company of HK\$154,322,000 (2005: HK\$102,536,000).

- (b) The Group has given a guarantee in respect of mortgage loans provided to the home buyers of a property project in the PRC. At 31st March, 2006, the total amount of mortgages outstanding which are subject to these guarantees was HK\$2,769,000 (2005: HK\$115,539,000).
- (c) In previous year, a subsidiary of the Company (the “Subsidiary”) was sued by two consultants providing management, consulting and advisory service concerning business strategy and corporate finance activities of the Subsidiary. The two consultants entered into a consulting contract with the Subsidiary in 1999 in lieu of cash for service rendered. The two consultants alleges that the Subsidiary fraudulently misrepresented and concealed material facts regarding the proposed investment from them and claim compensation for damages amounting to approximately HK\$5,843,000. Moreover, the two consultants also allege that the Subsidiary owes them salaries, payment in lieu of notice for early termination of the contract and the reimbursement for expenses regarding the employment contract as the board of directors of the Subsidiary amounting to approximately HK\$5,865,000. A motion of dismiss the claim was filed in the United States court and the claim is still in progress. While the outcome of these proceedings cannot be estimated with certainty at this stage, based on independent legal advice obtained, the directors are of the opinion that the outcome of this case would not have a material adverse impact on the financial position of the Group.
- (d) The State Administration of Taxation of the PRC issued a circular as Guo Shui Han [2004] No.938 on 2nd August, 2004 to strengthen the levy of land appreciation tax on property developers. In the opinion of the directors, after consulting its legal adviser and the tax bureau of the relevant city, land appreciation tax will not be levied in respect of properties already completed and full provision for land appreciation tax has not been made in the financial statements. The Group has not, however, been able to secure written confirmation of those individual city policies, and the directors consider that the chance that full land appreciation tax might be levied is less than probable in accordance with the rule of State Administration of Taxation. Should such levies take place, land appreciation tax would be approximately HK\$49 million.

Capital Commitments

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Capital expenditure contracted for but not provided in the financial statements in respect of:		
Properties under development	475,256	1,064,600
Hotel properties	2,781	36,190
	<u>478,037</u>	<u>1,100,790</u>
Capital expenditure authorised but not contracted for in respect of:		
Hotel properties under development	–	–
Hotel properties	8,400	–
	<u>8,400</u>	–
	<u>486,437</u>	<u>1,100,790</u>

Gearing ratio

The gearing ratio (total bank and other borrowings and financial liabilities at fair value through profit or loss and convertible bonds to shareholders' equity) as at 31st March, 2006 was 82% (2005: 77%).

Current ratio

The current ratio as at 31st March, 2006 was 1.1 (2005: 1.5). The Group has maintained sufficient liquid assets to finance its operation.

Exchange rate

The Group was not exposed to material exchange rates fluctuations during the year.

Pledge of assets

At the balance sheet date, the Group had pledged the following assets:

- (a) The Group's properties, bank deposits and investments held for trading with an aggregate carrying amount of approximately HK\$3,399,431,000 (2005: HK\$2,074,641,000), HK\$55,102,000 (2005: HK\$3,901,000) and HK\$1,576,000 (2005: HK\$1,556,000) respectively, together with assignments of sales proceeds, insurance proceeds, rental income, revenues and all other income generated from the relevant properties and properties of associates and third parties were pledged to the Group's bankers and loan creditors to secure banking and loan facilities granted to the Group and an associate to the extent of approximately HK\$2,822,947,000 (2005: HK\$2,572,480,000) and HK\$5,000,000 (2005: HK\$5,000,000), respectively.

The Group's bank deposits of approximately HK\$2,765,000 (2005: HK\$3,000,000) were pledged to a Group's banker to secure a guarantee given by the banker in favour of subsidiary of the Company.

- (b) The Group's investments held for trading, available-for-sale investments and derivative financial instruments, other financial assets and deposits with an aggregate carrying amount of approximately HK\$414,182,000 (2005: HK\$237,746,000) were pledged to the Group's financial institutions to secure margin trading facilities granted to the Group in respect of securities transactions to the extent of approximately HK\$645,095,000 (2005: HK\$37,613,000), of which HK\$54,427,000 (2005: HK\$32,449,000) were utilised.
- (c) Interests in certain subsidiaries of the Company have been pledged as part of the security to secure certain bank borrowings granted to the Group.
- (d) The Group has subordinated its amount due from an investee company of approximately HK\$119,995,000 (2005: HK\$119,995,000) to a financial institution to secure general credit facility granted to the investee company.

EMPLOYEES AND REMUNERATION POLICIES

The number of employees of the Group as at 31st March 2006 was approximately 1,050. Employees receive competitive remuneration packages that are constantly monitored in relation to the market, with incentives such as discretionary bonuses to reward employees based on individual performance. The Group provides a comprehensive benefit package and career development opportunities, including medical benefit and both internal and external training appropriate to each individual's requirements.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules throughout the year ended 31st March 2006, except for the deviations from the code provisions A.4.1 and A.4.2 of the Code described below.

Under code provision A.4.1 of the Code, non-executive directors should be appointed for a specific term and subject to re-election. The non-executive directors of the Company are not appointed for a specific term of office. However, the non-executive Directors of the Company are subject to retirement by rotation and re-election at annual general meetings in accordance with the Company's Articles of Association.

Under the second part of code provision A.4.2 of the Code, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. The Chairman of the Company, however, is not subject to retirement by rotation. In accordance with the second part of Article 115(B) of the Articles of Association of the Company, a director appointed as an executive Chairman or as Managing Director or Joint Managing Director shall not while holding such office be subject to retirement by rotation or taken into account in determining the rotation retirement of Directors. In view of good Corporate Governance Practices, the executive Chairman voluntarily retires from his office and offers himself for re-election at the forthcoming annual general meeting of the Company notwithstanding that he is not required to do so by the Company's Article 115(B). As such, the Company considers that sufficient measures have been taken to ensure that the Company's Corporate Governance Practices are no less exacting than those in the Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. Enquiry has been made with all Directors and the Directors have confirmed compliance with the required standard set out in the Model Code during the year ended 31st March, 2006.

AUDIT COMMITTEE

The Audit Committee comprises of three Independent Non-executive Directors. The Audit Committee has reviewed the 2005/2006 financial statements with management and the Company's external auditors and recommended its adoption by the Board.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

PUBLICATION OF ANNUAL RESULTS ON THE STOCK EXCHANGE'S WEBSITE

The detailed results containing all the information required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange in due course.

On behalf of the Board

DAVID CHIU

Deputy Chairman and Chief Executive Officer

Hong Kong, 15th July, 2006

As at the date of this announcement, the Board of Directors of the Company comprises executive directors namely Mr. Deacon Te Ken Chiu, Tan Sri Dato' David Chiu, Mr. Craig Grenfell Williams, Mr. Dennis Chiu; non-executive directors of Madam Ching Lan Ju Chiu, Mr. Dick Tat Sang Chiu, Mr. Daniel Tat Jung Chiu and independent non-executive directors namely Mr. David Kwok Kwei Lo, Mr. Kwok Wai Chan and Mr. Jian Yin Jiang.