

## Chairman's Statement

Dear Shareholders,

It gives me great pleasure to report year 2006 as another year of solid operating performance for the Group. During the year, the Company has registered increase in operating profit attributable to shareholders, strong property sales, and growth in value of our assets.

Mainland China closed year 2006 with continuous growth momentum, with GDP growth up to 10.5% for 2006. It is pleasing to see growing evidence that our strategy of managing growth in Mainland China on the back of the success we have in Hong Kong is bearing fruit with value being created and delivered to our Shareholders. Rising private affluence spurs not only demand for quality accommodations but also the desire for leisure and life quality. Moving in lockstep with this trend, the Group is enhancing its capabilities on commercial and hotel properties. This strengthens not only our financial fundamentals but also our brand in Mainland China as the delivery platform for complete and integrated property development and investment.

In the years that I can now foresee, Mainland China will remain the key growth driver for our property business. We ride on our success with the Shanghai K. Wah Center and are firing all cylinders on our property projects in Mainland China. This year, we are commencing works at Phase II of Shanghai Westwood, and the phased development of our other 2 projects in Shanghai and our other project at Guangzhou is well underway. We plan our Shanghai Jianguo Xi Road project as a suite hotel-cum-residential development, and we have started construction of our other project at Guangzhou as a hotel-cum-office development. The Group benefits from the leverage it has on the success and experience of the K. Wah group on hospitality and the hotel industry. Going forward, we are looking beyond established municipalities into strategic locations in other Provinces of Mainland China to strengthen our land bank and in search for good investment opportunities. Our alliance with the Shanghai Baosteel Group and other strategic partners has enhanced our ability in Mainland China and opens up opportunities for growth.

While prospects for 2007 are encouraging, there are also challenges. We remain alert to the possibility of further intervention to the property market through macro-economic or fiscal measures from the Central Government. Policy intervention can have unintended consequence but, if properly calibrated, can be positive especially for market players with sound management and governance. Any industry consolidation in Mainland China property market in the wake of policy change becomes expansion opportunity for our business there. On the back of our strong brand recognition and footprints across the country, I firmly believe we are well positioned to take advantage of opportunities in Mainland China as they arise. We will invest in new opportunities in support of our strategy for sustainable growth. We will, though, remain prudent in our approach to business and investment there.

Hong Kong economy is also performing strong, with an average annual increase of 7.6% in her GDP for the last 3 years. I am pleased to report good sales activities at The Great Hill and J Residence. The later half of this year will see J SENSES – a premium shopping arcade at the J Residence – coming on stream to add to the Group's cash generating portfolio. The Group has also strengthened its edge on the Hong Kong luxurious property market through participating with Nan Fung Development, Sino Land and USI Holdings in development of a piece of premium water-front residential land at Tolo Harbour, Tai Po. These are measures of the success of the investments we have made in Mainland China and Hong Kong in the year that passed.

Brand recognition is vitally important, especially in crowded market-place, and is the key foundation for the solid growth and prosperity of the Group. Engaging all our colleagues is critical to the delivery of this strategy of brand building that we are constantly and relentlessly pursuing. We aspire to be the leading brand, and the **BUSINESS SUPERBRANDS** and the

*HIGH-FLYER OUTSTANDING ENTERPRISE* awards put us in leadership among our peers.

Our management is conscientious of the fact that there cannot be long-term success unless a company conducts itself according to a set of values that are synonymous with trust, integrity, and excellent customer service and in a manner that earns the trust and respect of the community in which it operates its business. In this regard, it is encouraging to see that management is putting in tireless efforts to strengthen the core value and corporate governance from within, and increase the visibility of the Company as the favorite delivery platform for good investment return through investors relationship programs.

Social responsibility is far from being at odds with business success and the profit by which it is measured; rather, they can go hand in hand. I am grateful to see that K. Wah people have been continuing to volunteer in great numbers in support of various community and social projects. Their involvement bears the hallmark of the compassion and sense of social responsibility shown by the K. Wah team throughout.

This is the 20th anniversary of the Company's public listing in Hong Kong. I take this opportunity to thank my entire fellow Board members, the management team, and all the staff for the talent, dedication, and commitment they have brought to bear on the performance and success across the spectrum of business, affairs, and activities of the Group.

**Dr. Che-woo Lui**

Chairman

29 March 2007

