



Financial Review

Financial Resources and Bank Borrowings

The total bank borrowings of the Group as at 31 December 2006 amounted to HK\$2,180 million, a decrease of HK\$462 million as compared with 2005 year end. The gearing ratio, calculated on the basis of bank loans to equity attributable to shareholders of the Company, was reduced from 52% as at 31 December 2005 and 40% as at 30 June 2006 to 24% as at 31 December 2006. The improvement in gearing was due to the equity fund raising activities in 2006. During the year under review, the Company raised a net total of HK\$2,512 million with the top-up placements of an aggregate of 200,353,000 shares in May and September 2006.

During the year, of the acquisition consideration of HK\$8,448 million for the Macau projects, HK\$5,490 million was settled and HK\$2,958 million was financed by a deferred settlement arrangement. Funds were raised by the issue of 2,811,411,970 new shares in Polytec Asset at HK\$1.98 per share of which 1,598,000,000 new shares were subscribed by the Company. A loan from the ultimate holding company amounting to HK\$2,194 million was obtained by the Company to finance the subscription. As at 31 December 2006, the amount due to the ultimate holding company in relation to the acquisition of interests in property developments in Macau and the loan totalled HK\$5,884 million. This amount is unsecured, interest bearing and has no fixed term of repayment. Interest is charged with reference to bank lending rates. Taking account of the financial support provided by the ultimate holding company, the gearing ratio is 89%. New equity of HK\$5,293 million was raised with the rights issue completed in February 2007. This further strengthened the financial position of the Group and reduced the gearing ratio to a low level of 19%.

During the year under review, the Group paid HK\$120 million as deposit for the general offer for the remaining 29.7% shares in relation to the proposed acquisition of Shenzhen Properties. With the expansion of its exposure in Mainland China, the Group has paid HK\$534 million for the development project in Shenyang. An amount of HK\$389 million has been contributed by the Group to the joint venture company for the land acquisition of properties in Foshan. In December 2006, the Group further increased its investment in Mainland China by acquiring a land interest in Tianjin, and RMB500 million (equivalent to approximately HK\$498 million) has been paid for the first installment of the purchase consideration.

In addition to the fund raising activities, the Group also generated substantial cash inflow from its operation. An amount of HK\$600 million was contributed by the Group's investment in La Baie Du Noble in Macau. Sale proceeds from Mount Davis 33 generated cash amounted to HK\$581 million. Presales of Pacifica Garden added a further cash inflow of HK\$253 million during the year. US\$11.6 million (approximately HK\$90 million) was obtained from the disposal of Southern Success Corporation, an associated company of the Group.



All banking facilities are arranged on a floating rate basis with HK\$700 million bank loans being hedged by structured swaps. Management will continue to monitor and manage the Group's exposure to interest rate risks.

The recent appreciation of the Renminbi will increase the investment cost of property projects of the Group in Mainland China. Nevertheless, the Group will benefit from the associated currency gain and the future revenue generated from the projects which are denominated in Renminbi. The Group's exposure to other currency risk is insignificant.

With committed undrawn financing facilities in place, recurrent cash inflow from investment properties, property sales and the proceeds from the rights issue in February 2007, the Group has sufficient financial resources to satisfy its commitments, working capital requirements and for its future business growth, especially in the market of Mainland China.

Capital Commitments

As at 31 December 2006, the Group had contracted commitments of HK\$888 million in respect of the acquisition of Shenzhen Properties and development projects in Mainland China. Commitments for construction work of investment properties amounted to HK\$95 million.

Pledge of Assets

As at 31 December 2006, properties and securities amounting to HK\$6,040 million and time deposits of HK\$66 million were pledged to financial institutions to secure credit facilities and as margin for securities investments. The Group had no contingent liabilities as at 31 December 2006.