FINANCING POLICY

OUR OBJECTIVES

We adhere to a policy of financial prudence. Our objectives are to:

- maintain a strong balance sheet by actively managing debt level and cash flow
- secure diversified funding sources from both banks and capital markets
- minimise refinancing and liquidity risks by attaining healthy debt repayment capacity, maturity profile, and availability of banking facilities with minimum collateral on debt
- manage the exposures arising from adverse market movements in interest rates and foreign exchange through appropriate hedging strategies
- monitor counterparty risks by imposing proper counterparty limits and reduce financial investment risks by holding quality marketable securities

PERFORMANCE INDICATORS	2005	2004	Movements
• Average finance costs	3.60%	2.54%	Interest rate hikes (the Fed fund target rate increased by 2% in 2005)
• Bank facilities : capital market issuance	47%:53%	62%:38%	Application of sale proceeds from Entertainment Building to repay bank loans
• Average debt maturity	5.2 years	5.5 years	The target is to repay the debts with shorter maturity in 2006
• Floating rate debt (% on total debt)	49.8%	49.3%	No significant movement
• Net interest coverage (Note 1)	4.6 times	5.5 times	Higher interest expense amidst interest rate hikes
• Net gearing (Note 2)	6.4%	20.8%	Application of proceeds from the sale of the Entertainment Building and cash generated from operations to pay down debts while revaluation gain on investment properties and securities also uplifted shareholders' funds
• Credit ratings			
– Moody's	Baa1	Baa1	Investment grade rating unchanged
– Standard and Poor's	BBB	BBB	Investment grade rating unchanged

Note (1): Gross profit less administrative expenses before depreciation, divided by net interest expenses
Note (2): Gross debt less cash and cash equivalents and marketable securities at year-end market value, divided by adjusted shareholders' funds

The Treasury policy manual lays down the acceptable range of operational parameters and gives guidance on the above areas in order to achieve the objective of financial prudence.

Treasury has an overall objective of optimising borrowing costs: that is, to minimise the finance costs subject to the constraints of the operational parameters. The cost of financing was 3.6% for 2005.

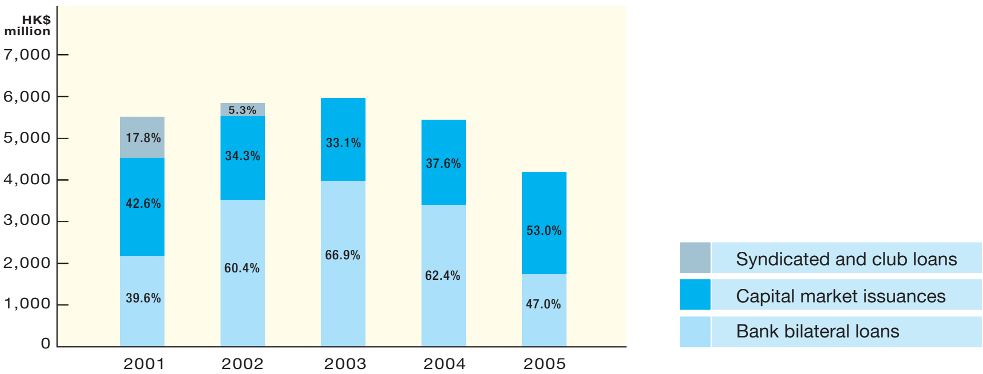
FINANCING

As at 31 December 2005, the total outstanding borrowings of the Group amounted to HK$4.4 billion, a decrease of 22% from HK$5.6 billion in 2004. All the outstanding borrowings are on unsecured and on a committed basis. The substantial fall in the debt level was mainly due to the repayment of certain bank loans after receiving the proceeds from the sale of Entertainment Building. The remaining balance of the proceeds was placed in bank deposits, the majority of which would be utilised for further repayment of debts upon their maturity.

The Group always takes a prudent approach in managing its loan portfolio. On the individual loan level, the Group strives to lower the borrowing margin as far as possible; but on the portfolio level, the more important objectives are to ensure sufficient available facilities, diversify the funding sources and to maintain a suitable average tenor relative to the overall duration of the use of the funds. In view of these objectives, the Group issued 15-year zero coupon notes from the Medium Term Note Programme in February 2005. The exceptionally long tenor and the zero-percent coupon rate signified the increased depth of the market for Hong Kong Dollar papers and the creditability of the Group as an issuer of long tenor, which further allowed the Group to make advancement in its liability management.

The Group has also established long-term relationships with a number of local and overseas banks. At present, 14 local and overseas banks have provided bilateral banking facilities to the Group and such bank borrowings accounted for about 47% of the Group's total borrowings while the remaining 53% outstanding debts were sourced from the capital market.

Sources of Financing at Year-end



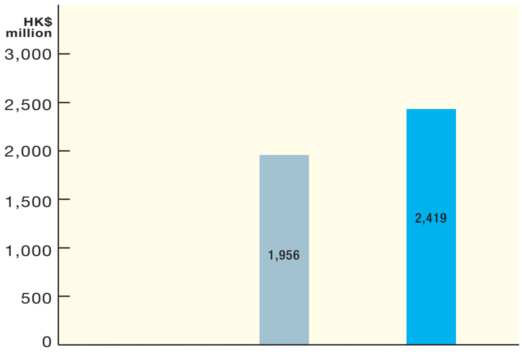
Liquidity and Cash Balance

The Group understands the importance of liquidity to the sustainability of the Group and thus places great emphasis on liquidity management. The Group's major sources of liquidity are from the strong recurring cash flows of the business and the committed banking facilities. Further liquidity reserve is maintained in the form of highly liquid securities listed on the Hong Kong Stock Exchange. As at 31 December 2005, the market value of these securities amounted to HK$1.2 billion. As at year-end, the Group had HK$1.4 billion in bank deposits from the sale proceeds of Entertainment Building received on 30 December 2005. This amount will be applied to repay bank loans. Furthermore, the total undrawn committed facilities of HK$3.6 billion as at 31 December 2005, essentially allows the Group to obtain the same level of liquidity as holding the equivalent amount of cash.

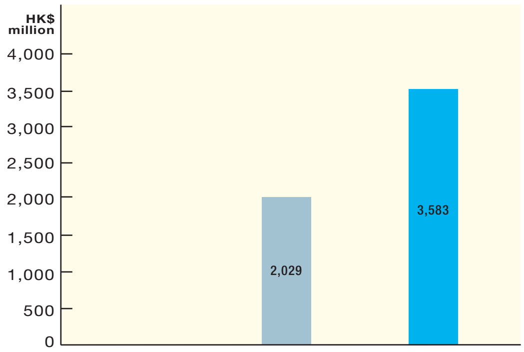
Other measures taken against liquidity risk due to the lack of funds for repayment of maturing debts include maintaining an evenly spread maturity profile and reducing the concentration of debts maturing in the near term.

As at 31 December 2005, 55.3% of the outstanding debts would only be due after five years. Furthermore, there would not be any outstanding debt maturing within the next two years. The average maturity of the debt portfolio was about 5.2 years. Therefore, there will be no refinancing pressure in the next few years.

Maturity Profile as at 2005 Year-end
(Total gross debt: HK$4.4 billion)



Maturity Profile as at 2004 Year-end
(Total gross debt: HK$5.6 billion)



In more than two years but not more than five years | In more than five years

Total debt at the end of 2005 was HK$4.4 billion, HK$1.2 billion below the level in 2004. The source and application drivers leading to the lower debt are analysed below:

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	2005 HK$ million	2004 HK$ million (restated)	Change HK$ million
Operating Activities			
Cash generated from operations	952	808	144
Tax paid	(111)	(64)	(47)
	841	744	97
Investing Activities			
Disposals less additions in investment properties	2,351	(104)	2,455
Interest and dividends received, proceeds from disposal of securities	33	53	(20)
Net receipts from overseas projects	17	117	(100)
Others	(7)	(4)	(3)
	2,394	62	2,332
Financing Activities			
Dividends paid	(407)	(347)	(60)
Finance costs	(200)	(161)	(39)
Net decrease in borrowings	(1,248)	(311)	(937)
Others	0	20	(20)
	(1,855)	(799)	(1,056)
Net increase in cash balances	1,380	7	1,373

Cash generated from operations was HK$952 million, an increase of HK$144 million reflecting the strong business performance, of which HK$111 million were used to pay tax due during the year.

Net cash generated from investing activities sharply increased from HK$62 million to HK$2,394 million comprising mainly a net HK$2,351 million from disposals less additions in investment properties, the major disposal in 2005 being Entertainment Building.

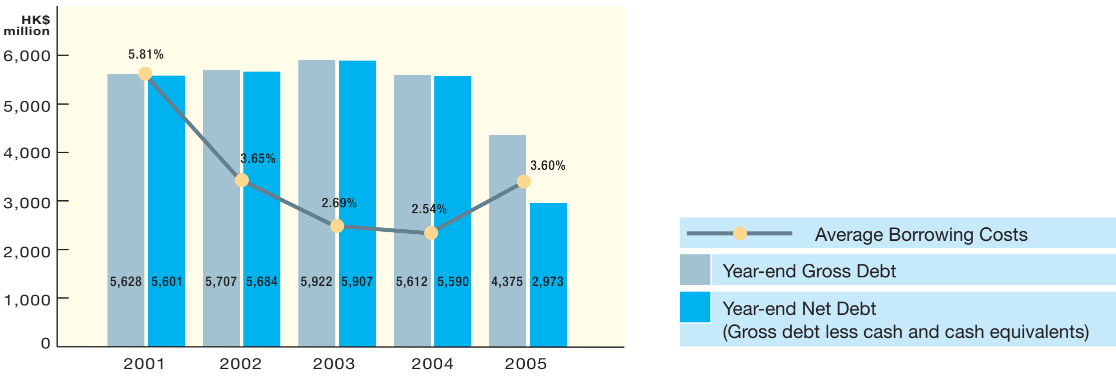
Net cash used in financing activities in 2005 primarily resulted from interest payment and repayment of debt borrowings of HK$1,448 million and the payment of dividends of HK$407 million.

Interest Rate Exposure

Interest expenses account for a significant proportion of the Group's total expenses. Therefore, the Group monitors its interest rate exposures closely. Depending on our medium-term projections of interest rates, an appropriate hedging strategy would be adopted to manage the exposure.

The Group's cost of financing in 2005 was 3.6%. Throughout 2004 to 2005, the pace and extent of the rise in Hong Kong Interbank Offer Rate were relatively predictable, resembling the trajectory of the US Federal Fund Rates at a 25 basis points increase after each Federal Open Market Committee meeting. Technically, increasing the proportion of fixed rate debt earlier in the cycle means lowering finance costs, but in practice the highly predictable rate hikes were also priced in the forward market after the second half of 2004, leaving little benefit and adding potential downside risk should the pace and extent become slower than expectation. For this reason, the Group has maintained the level of fixed rate contracts at around 50% of our total debt level, largely established in 2003 and 2004 before the market forward rates factored fully in the rate increase.

Debt Levels and Borrowing Costs



Foreign Exchange Exposure

The Group aims to have minimal mismatches in currency and does not speculate in currency movements. With the exception of the US$200 million 10-year notes, which have been hedged by appropriate hedging instruments, all of the Group's other borrowings were denominated in Hong Kong dollars. Other foreign exchange exposure relates to the investments in overseas projects in Singapore and Shanghai. These foreign exchange exposures amounted to the equivalent of HK$1,176 million or 3.5% of the total assets.

Use of Derivatives

The Group uses derivatives extensively to manage the interest rate and foreign exchange exposures. To avoid the Group being exposed to losses arising from the use of derivatives, the potential impact of their use is evaluated thoroughly before executing the transactions. The Group's policy also prohibits the use of derivatives for purposes other than hedging.

Before entering into any hedging transaction, the Group will ensure that the counterparty possesses strong investment grade ratings so that the transaction will not expose the Group to undue credit risk. As part of our risk management, a limit on maximum risk-adjusted credit exposure is assigned to each counterparty. The level of the limit is basically in line with the credit quality of the counterparty.