

Management Discussion and Analysis

SEGMENT INFORMATION

The analysis of the principal activities and the operating results of the Group for the financial year are set out as follows:

For the year ended 31 December 2005

	Property development HK\$'000	Property leasing HK\$'000	Building management services HK\$'000	Urban infrastructure HK\$'000	Others HK\$'000	Elimination HK\$'000	Total HK\$'000
Segment revenue							
External customers	—	107,386	12,762	42,064	419	—	162,631
Inter-segments	—	4,360	—	—	—	(4,360)	—
	—	111,746	12,762	42,064	419	(4,360)	162,631
Segment results	(932)	98,694	7,267	(3,870)	3,336	—	104,495
Inter-segments	—	(1,930)	34	—	1,896	—	—
Contribution from operations	(932)	96,764	7,301	(3,870)	5,232	—	104,495
Gain on fair value adjustment on investment properties	—	564,921	—	—	—	—	564,921
	(932)	661,685	7,301	(3,870)	5,232	—	669,416
Unallocated income and expenses							29,597
Gain on disposal of subsidiaries							8,407
Loss on disposal of an associate							(63)
Profit from operations							707,357
Finance costs							(50,894)
Share of profits less losses of associates							6
Share of profits less losses of a jointly-controlled entity							(6)
Profit before income tax							656,463
Income tax expense							(107,831)
Profit for the year							548,632

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For the year ended 31 December 2004 (Restated)

	Property development HK\$'000	Property leasing HK\$'000	Building management services HK\$'000	Urban infrastructure HK\$'000	Others HK\$'000	Elimination HK\$'000	Total HK\$'000
Segment revenue							
External customers	—	100,580	10,403	22,945	450	—	134,378
Inter-segments	—	3,207	—	—	357	(3,564)	—
	—	103,787	10,403	22,945	807	(3,564)	134,378
Segment results	(742)	94,299	7,040	(6,702)	(2,082)	—	91,813
Inter-segments	—	3,607	74	—	(3,681)	—	—
Contribution from operations	(742)	97,906	7,114	(6,702)	(5,763)	—	91,813
Unallocated income and expenses							(17,152)
Gain on disposal of subsidiaries							1,053
Profit from operations							75,714
Finance costs							(36,686)
Share of profits less losses of associates							17
Profit before income tax							39,045
Income tax expense							(13,109)
Profit for the year							25,936

SIGNIFICANT INVESTMENTS HELD

During the year, there is no material change in the significant investments and properties held by the Group.

DETAILS OF MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

During the year, there was no material acquisitions and disposals of subsidiaries.

FINANCIAL RESOURCES AND LIQUIDITY

As at 31 December 2005, the Group's bank and other borrowings and convertible bonds amounted to HK\$1,143,964,000 (2004: HK\$1,299,337,000). Cash and bank balances amounted to HK\$72,196,000 (2004: HK\$46,724,000) and net borrowings amounted to HK\$1,071,768,000 (2004: HK\$1,252,613,000).

The Group's gearing ratio (which was expressed as a percentage of bank and other borrowings over the shareholders' funds) has been reduced from 90% in 2004 to 53% in 2005. This improvement of gearing ratio was mainly due to an increase in total net assets which were mainly attributable from the revaluation surplus on investment properties and the profit retained for the year under review.

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Interest expenses for the year amounted to HK\$50,894,000 (2004: HK\$36,686,000, restated), mainly due to a higher interest rate environment during the year. The average cost of borrowings over the year was 4.18% (2004: 2.3%) which was expressed as a percentage of total interest expenses over the average total borrowings.

The Group's exposure to foreign exchange risk is not material given that its main asset base and operational cash flow are primarily denominated in Hong Kong dollars.

During the year, the Group did not engage in any derivative activities or use any financial instruments to hedge its balance sheet exposures.

As at 31 December 2005, 27% of the Group's borrowings were on a fixed rate basis and 73% were on a floating interest rate basis.

As at 31 December 2005, the Group's total net assets attributable to the equity holders of the Company amounted to approximately HK\$2,177,890,000 (2004: HK\$1,442,254,000, restated), an increase of HK\$735,636,000 or 51% when compared with last year. With the total number of ordinary shares in issue of 222,222,113 as at 31 December 2005, the net asset value per share was HK\$9.80.

CHARGES ON THE GROUP'S ASSETS

As at 31 December 2005, investment properties of the Group with a fair value of approximately HK\$3,566,730,000 (2004: approximately HK\$3,008,976,000) were pledged to secure banking facilities for the Group.

SETTLED LITIGATION

The property related proceedings relating to the purchase of certain properties in Yuen Long by Pacific Well Realty Limited ("Pacific Well"), a subsidiary of the Company, has finally been settled. Pacific Well received a net amount of approximately HK\$45 million out of the proceedings.

EMPLOYEES REMUNERATION

The Group had 37 employees and 113 employees (2004: 31 employees and 140 employees) in Hong Kong and Mainland China respectively as at 31 December 2005. Total salaries and wages incurred during the year amounted to approximately HK\$16,011,000 (2004: approximately HK\$12,130,000, restated). Employees were remunerated on the basis of their performance, experience and prevailing market practice. Remuneration packages comprise salary, medical insurance, mandatory provident fund and year end discretionary bonus. During the year, share options were also granted to various directors and employees on a performance related basis.