Financial Policy

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 counter-party risks by imposing proper counter-party limits and reduce financial investment risks by holding quality marketable securities

Key Indicators

	2006	2005	Movements
Average finance costs	4.9%	3.6%	Interest rate hikes (the Fed fund target rate increased by 1% in 2006)
Bank facilities : capital market issuance	25% : 75%	47% : 53%	Application of sale proceeds from the Entertainment Building to repay bank loans
Average debt maturity	5.0 years	5.2 years	No significant movement
Floating rate debt (% on total debt)	64.7%	49.8%	Move towards longer term target of 70% floating-rate amid flattened yield curve
Net interest coverage (Note 1)	6.9 times	4.6 times	Lower debt level outweighs the impact of higher interest rates
Net debt to equity (Note 2)	7.9%	10.7%	Reduced net debt and higher adjusted shareholders' funds
Credit ratings			
• Moody's	Baa1	Baa1	Investment-grade rating unchanged
• Standard and Poor's	BBB	BBB	Investment-grade rating unchanged

Notes: (1) Gross profit less administrative expenses before depreciation divided by net interest expenses
(2) Gross debt less cash and cash equivalents 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 optimisation of borrowing costs: that is, to minimise the finance costs subject to the constraints of the operational parameters. The cost of financing was 4.9% for 2006.

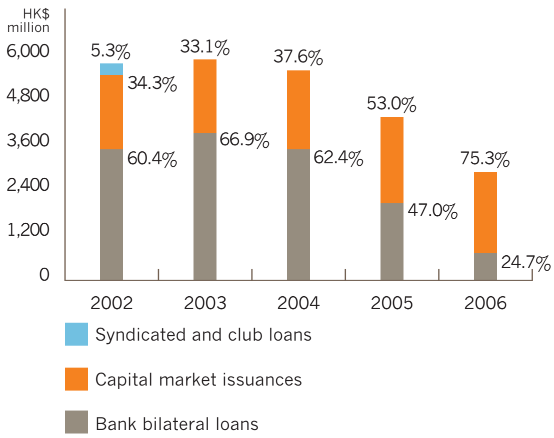
FINANCING

As at 31 December 2006, the total outstanding borrowings of the Group amounted to HK$2.9 billion, a decrease of 34.1% from HK$4.4 billion in 2005. All the outstanding borrowings are on unsecured and on a committed basis. The lowered debt level was attributed to cash flow from operations and the non-recurring cash receipts from the sale of Entertainment Building and equity investment. The remaining balance of the proceeds was placed in bank deposits. During the year, the Group has also repurchased a total nominal amount of US$18 million of the US$200 million 10-year fixed rate notes issued in February 2002. The repurchases were intended to make better use of the cash and effectively lower the net finance cost of the Group.

The Group always takes a prudent approach towards 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, to diversify the funding sources and to maintain a suitable average tenor relative to the overall duration of the use of the funds.

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 25% of the Group's total borrowings while the remaining 75% 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 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 2006, the market value of these securities totalled HK$1.7 billion and the balance of bank deposits amounted to HK$0.4 billion. Furthermore, the total undrawn committed facilities of HK$3.6 billion as at 31 December 2006, 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 2006, 56.3% of the outstanding debts will only be due after five years. Furthermore, there will not be any outstanding debt maturing within the next two years. The average maturity of the debt portfolio was about 5.0 years. Therefore, there will be no refinancing pressure on our outstanding debts in the next few years.

The maturity profile is as follows:

Debt Maturities	2006 HK$ million	2005 HK$ million
Maturing in more than two years but not more than five years	1,270	1,956
Maturing in more than five years	1,639	2,419
Total	2,909	4,375

Total debt at end of 2006 was HK$2.9 billion, HK$1.5 billion below the level in 2005. The source and application drivers leading to the lower debt are analysed below:

Condensed Consolidated Cash Flow Statement	2006 HK$ million	2005 HK$ million	Change HK$ million
Operating activities			
Cash generated from operations	979	952	27
Tax paid	(61)	(111)	50
	918	841	77
Investing activities			
Disposals less additions in investment properties	(80)	2,351	(2,431)
Interest and dividends received	60	33	27
Disposals less additions of available-for-sale investments	95	–	95
Receipts from overseas projects	106	17	89
Others	(6)	(7)	1
	175	2,394	(2,219)
Financing activities			
Dividends paid	(482)	(407)	(75)
Finance costs	(144)	(200)	56
Net decrease in borrowings	(1,487)	(1,248)	(239)
Others	3	–	3
	(2,110)	(1,855)	(255)
Net (decrease) increase in cash balances	(1,017)	1,380	(2,397)

Cash generated from operations was HK$979 million, an increase of HK$27 million from the previous year, reflecting a stronger business performance. HK$61 million were used to pay the tax amount due during the year.

Net cash generated from investing activities was HK$175 million, decreased from last year by HK$2,219 million. The change was mainly due to the disposal of Entertainment Building in 2005, while interest and dividends received, disposals less additions of available-for-sale investments and receipts from overseas projects increased by HK$211 million over 2005 comparatives.

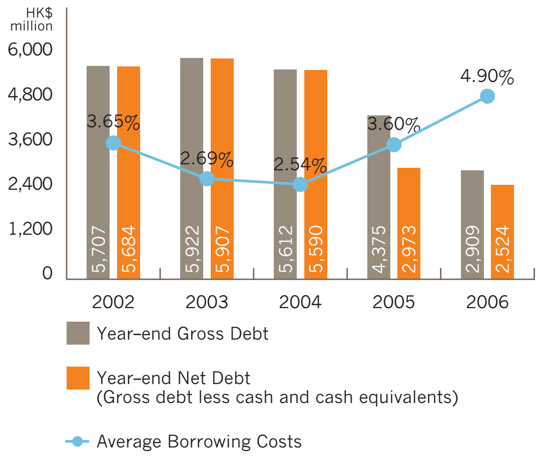
Net cash used in financing activities in 2006 primarily resulted from interest payment and repayment of debt borrowings of HK$1,631 million and the payment of dividends of HK$482 million.

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 2006 was 4.9%. The Federal funds rate continued its progressive 0.25% increase during the first half of 2006 and remained stable for the remainder of the year, in line with market expectations. The orderly increase has a flattening effect on the forward interest rate yield curve, diminishing the financial benefit of maintaining a high level of fixed rate debt. For this reason, the focus returned to our longer term target of 30% fixed rate debt portion, hence some of the interest rates hedging instruments expired in 2006 were not replaced. As a result, the interest rate hedging ratio has decreased from 50.2% in 2005 to 35.3% in 2006.

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$182 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$1,283 million or 3.5% of the total assets.

USE OF DERIVATIVES

The Group uses derivatives extensively to manage the volatilities and pricing risks of its treasury assets and liabilities, the bulk of which are related to hedging 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.

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.