
法界大光明雲輪普護

MANAGEMENT'S DISCUSSION AND ANALYSIS

A management's discussion and analysis of the audited consolidated financial results and operations relating to the business of Pacific Century Premium Developments Limited (the "Company") and its subsidiaries (the "Group") for the year ended December 31, 2006 follows below:

BUSINESS REVIEW

Property development

The Hong Kong economy's strong performance in the second half of 2006 underpinned favourable results from the Group. Better-than-expected prices fetched at land auctions conducted by the Government of the Hong Kong Special Administrative Region ("HKSAR") towards the end of 2006, along with robust local economic fundamentals, an end to successive interest rate hikes by the US Federal Reserve Board and solid regional stock market performances all generated positive sentiment among homebuyers and investors, leading to an increase in property sector investment.

The Group continued to increase sales revenue while optimising cost efficiencies, which resulted in solid returns for 2006 compared with those of the previous year. The Bel-Air project continues to be the Group's leading driver of success by spearheading the property sector in terms of architecture, design and service quality.

The Group recognised approximately HK$7,263 million in revenue for 2006. Profit before taxation during the year was approximately HK$1,160 million, compared with approximately HK$710 million for 2005.

In 2006, three payments (consisting batch fourth to sixth) of net surplus proceeds for the Cyberport project, totalling HK$5,600 million, was allocated between the Government of the HKSAR and the Group. The Government of the HKSAR received an aggregate amount of approximately HK$3,615 million, in accordance with the Cyberport Project Agreement, while the Group retained approximately HK$1,985 million.

Co-operation between PCCW and the Group to redevelop a number of telephone exchange buildings in Hong Kong has continued to make good progress. The Wo Fung Street project to build prestigious residential apartments in Sheung Wan will create approximately 150 upmarket units by 2009. Development work is currently on schedule and pre-sales are expected by the end of 2007.

Development work on the Group's prestigious residential project next to Pacific Century Place, located at No.4 Gong Ti Bei Lu, Chaoyang District, Beijing, will commence in 2007. The project has an approved gross floor area of approximately 46,300 square metres and is planned for completion in 2009. Project quality standards are expected to surpass those currently available in Beijing.

Property investment

The Group owns a premium-grade investment building, Pacific Century Place, in Beijing city centre. With a gross floor area of more than 169,900 square metres, this multiple-use development is currently home to many multinational corporations, world-class retailers and residential tenants. Demand for office and retail space is expected to increase, given mainland China's strengthening economy and the accelerating pace of corporate expansion. Pacific Century Place enjoyed an average occupancy rate of 95 per cent during 2006. A number of uplift works are scheduled completion by 2009.

The Group's gross rental income for 2006 amounted to approximately HK$228 million, compared with approximately HK$233 million for 2005.

Other businesses

Other businesses within the Group include the property management division, which provides property and facilities management, corporate services and asset management services. Revenue from the property management division for 2006 amounted to approximately HK$82 million, compared with approximately HK$73 million for 2005.

FINANCIAL REVIEW

Review of results

The Group recorded a consolidated turnover of approximately HK$7,263 million for 2006, representing an increase of 41.7 per cent compared with approximately HK$5,127 million for 2005. The increase in turnover was mainly due to revenue being recognised during the current year from sales of Bel-Air on the Peak as it reached completion.

The Group's consolidated gross profit for 2006 was approximately HK$1,188 million, representing an increase of 28.3 per cent from a gross profit of approximately HK$926 million for 2005. The increase was resulted from an improvement to the Group's turnover over the period.

The Group recorded consolidated net profit of approximately HK$965 million for 2006, representing an increase of 61.6 per cent compared with approximately HK$597 million for 2005. The increase was attributable to an increase in turnover and higher interest income. Basic earnings per share during the year were 40.16 Hong Kong cents compared with 25.77 Hong Kong cents for 2005.

In accordance with applicable Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, revenue and profits from the sale of property development are recognised upon the completion of the development and when significant risks and rewards of ownership have been transferred.

Current assets and liabilities

As at December 31, 2006, the Group held current assets of approximately HK$8,940 million (December 31, 2005: HK$15,034 million), mainly comprising properties under development/held for sale, cash and bank balances, sales proceeds held in stakeholders' accounts and restricted cash. The decrease in current assets was attributable to a reduction in properties under development/held for sale as properties completed and recognised as cost of sales. Properties under development/held for sale in current assets were decreased from approximately HK$5,669 million as at December 31, 2005 to approximately HK$1,521 million as at December 31, 2006. Cash and bank balances including short-term deposits amounted to approximately HK$2,618 million as at December 31, 2006 (December 31, 2005: HK$3,354 million). Sales proceeds held in stakeholders' accounts were decreased by 19.1 per cent from HK$4,293 million as at December 31, 2005 to approximately HK$3,472 million as at December 31, 2006. Restricted cash declined from HK$1,332 million as at December 31, 2005 to approximately HK$826 million as at December 31, 2006.

Total current liabilities as at December 31, 2006 amounted to approximately HK$4,878 million, compared with HK$11,320 million as at December 31, 2005. The reduction was mainly from net surplus proceeds distribution from the Cyberport project, which reduced the amount due to the ultimate holding company and the provisions made for the payment to the Government of the HKSAR.

Capital structure, liquidity and financial resources

As at December 31, 2006, total borrowings of the Group amounted to approximately HK$3,743 million, representing a decrease of HK$1,936 million compared with total borrowings of HK$5,679 million as at December 31, 2005. As at December 31, 2006, all the Group's long-term borrowings were from PCCW group. A portion of the borrowings, comprising approximately HK$1,195 million, is interest free and is expected to be repaid from net surplus proceeds distributed from the Cyberport project, while the tranche B convertible notes with principal amount of HK$2,420 million carries a fixed interest rate of one per cent per annum and is repayable at 120 per cent of the outstanding principal amount at maturity in 2014. As all borrowings are from the Company's majority shareholder, PCCW, gearing ratio is not provided.

As at December 31, 2006, the Group had a banking facility of approximately HK$20 million for the purpose of providing a guarantee to the Government of the HKSAR in relation to the Cyberport project (December 31, 2005: HK$20 million).

The majority of the Group's business transactions, assets and liabilities were denominated in Hong Kong dollars. Transactions, assets and liabilities relating to Pacific Century Place and the newly acquired residential site in Beijing, the People's Republic of China ("PRC"), were denominated in Renminbi. Renminbi-denominated revenue represented approximately 3.1 per cent of the Group's total revenue, while PRC assets represented approximately 29.4 per cent of the Group's total assets.

All the Group's borrowings were denominated in Hong Kong dollars. Cash and bank balances were held mainly in Hong Kong dollars, with the balance in Renminbi and US dollars. The Group has no significant exposure to foreign exchange fluctuation and has not adopted any material hedging measures.

The Group recorded a net cash outflow from operating activities for 2006 of approximately HK$435 million, compared with a net cash inflow from operating activities of approximately HK$40 million for 2005.

Taxation

Taxation for 2006 was approximately HK$195 million compared with approximately HK$113 million for 2005.

Contingent liabilities

As at December 31, 2006, the Group had an outstanding performance guarantee of approximately HK$1 million granted to the Government of the HKSAR for certain entrustment works in relation to the Cyberport project (December 31, 2005: HK$1 million).

EMPLOYEES AND REMUNERATION POLICIES

As at December 31, 2006, the Group employed approximately 386 staff, most of whom were based in Hong Kong. The Group's remuneration policies, which are in line with prevailing industry practices, have been formulated on the basis of performance and experience and are reviewed regularly. Bonuses are paid on a discretionary basis, according to individual performance and the Group's performance. The Group also provides comprehensive benefits including medical insurance, choice of provident fund or mandatory provident fund and training programmes.

The Company's share option scheme adopted on March 17, 2003 was terminated on May 13, 2005 and replaced by a new share option scheme, which was approved by shareholders on the same date. The new share option scheme was adopted on May 23, 2005, following approval from PCCW's shareholders. The new share option scheme is valid and effective for a period of 10 years from the date of adoption.

DIVIDENDS

The Board has recommended the payment of a final dividend of 5.5 Hong Kong cents (2005: 5.5 Hong Kong cents) per ordinary share or an aggregate amount of approximately HK$132 million (2005: HK$132 million) for 2006, subject to the approval of shareholders of the Company at the forthcoming annual general meeting, to shareholders whose names appear on the register of members of the Company on May 10, 2007, payable on or around May 23, 2007.

An interim dividend of 1.5 Hong Kong cents (2005: 1.5 Hong Kong cents) per ordinary share, totalling approximately HK$36 million (2005: HK$36 million), was paid to shareholders of the Company on October 13, 2006.

CLOSURE OF REGISTER OF MEMBERS

The Company's register of members will be closed from May 11, 2007 to May 16, 2007, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the final dividend of 5.5 Hong Kong cents per share, all transfers, accompanied by the relevant share certificates, should be lodged with the branch share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30p.m. on May 10, 2007. Dividend warrants will be despatched on or around May 23, 2007.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, there was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries.

OUTLOOK

The Group is optimistic that the property sector in Hong Kong will continue to thrive. Housing prices are expected to rise more rapidly this year, given sustained economic strengths both in Hong Kong and mainland China, rising income among homebuyers in a tightening labour market and a stable interest rate environment, as well as healthy gains made by investors in the region's robust stock markets since last year. This bodes well for the remaining phases of the Bel-Air residential complex in terms of sales volumes and achievable sales prices.

The Group will continue to explore opportunities in selected locations and harness the power of its brand identity in developing premium quality property projects. The Group will also continue to explore a number of PCCW-owned telephone exchange building redevelopment opportunities in Hong Kong to provide the Group with a sustainable source of long-term income. The first of these telephone exchange redevelopment projects is located at Wo Fung Street, Sheung Wan and is due for completion in 2009.

A series of macroeconomic control measures in 2006 from the PRC government to prevent the property sector from overheating are expected to result in longer lasting and healthier growth trends. These government measures will allow the Group to benefit in the long run. The Group's upmarket residential development project next to Pacific Century Place in Beijing is expected to commence construction work in 2007 with a target completion date in 2009. The Group has also been planning value enhancement work in and around Pacific Century Place from 2007 to 2009. This will include better access to major transportation arteries and improving the quality of facilities and commercial mix. Meanwhile, the Group's alliance with China Network Communications Group Corporation to redevelop a number of telephone exchange properties will continue to identify a number of attractive sites for redevelopment in prime locations in mainland China.

Leveraging our presence in the sector as a premium property developer, we look forward to building our brand both in Hong Kong and mainland China.