

Management Discussion and Analysis

Financial Performance

As at 31 December 2006, the turnover of the Group was HK\$104,943,000 (2005: HK\$13,987,000), representing a significant increase of 6.5 times as compared with last year. It was mainly due to the recognition of sales income from certain shops of Shimao International Commercial and Exhibition Centre (Phase 1). Besides, increase in rental income of investment properties and of hotel was also recorded.

Loss attributable to shareholders of the Group for the year was HK\$193,824,000 (profit attributable to shareholders in 2005: HK\$109,009,000), which included provision for the share of land appreciation tax of an associate of HK\$103,237,000. The Group has made provisions in view of the Notice on Settlement of Land Value-Added Tax for Real Estates Enterprises issued by the State Administration of Taxation on 16 January 2007. In addition, fair value adjustment of investment properties also dropped by HK\$53,001,000. Operating loss was HK\$37,586,000 without taking account into the above factors.

Liquidity, Financial Resources and Bank Loans

For the period under review, the Group's liquidity maintained at healthy level and its financial resources were also well distributed. As at 31 December 2006, total assets of the Group reached HK\$2,242,750,000, of which non-current assets and current assets amounted to HK\$1,937,637,000 and HK\$305,113,000 respectively, total liabilities were HK\$1,613,477,000, non-current liabilities were HK\$716,800,000 and equity attributable to the shareholders of the Company amounted to HK\$629,273,000, decreased by 15.9% over HK\$747,872,000 of last year.

Moreover, as at 31 December 2006, the Group had aggregate cash and bank balances of approximately HK\$48,798,000 (31 December 2005: HK\$27,574,000) and bank borrowings of approximately HK\$465,938,000 (31 December 2005: HK\$407,639,000). Average interest rate of the bank loans ranged between 5.4% to 6.2%.

Pledge of Assets

As at 31 December 2006, the Group had leasehold land and buildings with total carrying amount of approximately HK\$819,801,000 (31 December 2005: HK\$518,974,000) under pledge in favour of banks to secure the facilities granted to the Group. The facilities utilised as of 31 December 2006 amounted to HK\$465,938,000 (31 December 2005: HK\$407,639,000).

Foreign Exchange Risk

Most of the Group's assets, liabilities and business transactions are denominated in Hong Kong dollars and Renminbi, with a small proportion in US dollars. The exchange rates of other major currencies remained relatively stable during the period. The Directors do not expect substantial exchange fluctuation risks to the Group. However, it cannot be guaranteed that exchange risk will not affect the Group's business in the future. As at 31 December 2006, the Group has not issued any financial instrument nor entered into any contract for hedging purpose.

Financial Policies

The Group will continue to control financial risks in a prudent manner and proactively adopt internationally recognized corporate management standards to safeguard the interests of shareholders.

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Employees and Remuneration Policy

As at 31 December 2006, the Group employed a total of 74 employees. The benefits and remuneration packages of the staff of the Group are determined according to individual experience and academic attainments with reference to general market conditions. Year-end bonuses and incentives are provided according to the Group's results and individual performance. The Group also provides adequate training and continuous professional development opportunities to its employees.