

Management Discussion And Analysis

Turnover and profit attributable to shareholders

In 2006, the Group recorded a net revenue of approximately HK\$2,621 million (2005: approximately HK\$1,309 million), which is increased by 100% compared with that of 2005. Profit attributable to shareholders was approximately HK\$252 million, a 16% decrease compared with approximately HK\$301 million in 2005.

The decrease in profit for the year attributable to equity holders of the Company was mainly due to provision for additional land appreciation tax of approximately HK\$252 million and fair value of fixed cross currency swap contracts of approximately HK\$211 million. Despite this, the Group's overall performance remained strong and sales, gross margin and profit before income tax had all recorded significant increase.

Liquidity and Financial Resources

The Group's liquidity position remains strong. As at 31 December 2006, cash and bank balances amounted to approximately HK\$1,026 million (2005: approximately HK\$1,396 million). Working capital (net current assets) of the Group as at 31 December 2006 amounted to approximately HK\$2,401 million (2005: approximately HK\$1,218 million), an increase of 97% from previous year. Current ratio was at a healthy level of 1.57x (2005: 1.37x).

As at 31 December 2006, the total liabilities to shareholders equity decreased to 2.75x (2005: 3.08x). Total liabilities of the Group amounted to approximately HK\$7,223 million (2005: approximately HK\$4,457 million).

At the balance sheet date, the Group's gearing ratio was 58% (2005: 36%), calculated on the basis of the Group's net borrowings (after deducting cash and cash equivalents of approximately HK\$1,011 million) over total capital (equity plus net borrowings).

Management is comfortable that existing financial resources will be sufficient for future expansion plans. Should other opportunities arise requiring additional funding, management also believes that the Group is in a good position to obtain financing on favorable terms.

Material Acquisitions and Disposals of Subsidiaries and Associated Companies

During the year under review, the Group acquired 100% interest in Shanghai Qin Hai Real Estate Company Limited (上海琴海置業有限公司) ("Qinhai"), a company established in the PRC with limited liability, by series of acquisition. The principal activity of Qinhai is the development of a site located to the east of Da Xing Jie (大興街) of Huangpu District (黃浦區) in Shanghai, to the south of Zhong Hua Lu (中華路) and Huang Jia Que Lu (黃家闕路), to the west of Ying Xun Lu (迎勳路) and to the north of Lu Jia Bang Lu (陸家浜路) and within 717-719 Jie Lane (街坊) of Huang Pu District (黃浦區), Shanghai, the PRC with a site area of approximately 37,129 square meters (the "Property"). The property is designated for a residential and commercial development with a gross floor area of approximately 200,000 square meters. The property is currently at its early stage of development which primarily involves the relocation of the existing residents on the site.

In the third quarter of 2006, the Group acquired 51% interest in Shenyang Huarui Shiji Investment Development Limited (瀋陽華銳世紀投資發展有限公司) ("Huarui Shiji"), a company established in the PRC with limited liability. Huarui Shiji is principally engaged in project investment and consultation, real estate development, property management and property leasing. The site owned by Huarui Shiji is located in the central business district of Shenyang, the PRC. The site covers a total land area of 161,798.7 square meters, comprising two phases of development. Phase I covers a land area of 49,913.1 square meters with a total gross floor area of approximately 390,000 square meters comprising residential, office and shopping mall. Phase II covers a land area of 111,885.6 square meters with a total gross floor area of approximately 1,500,000 square meters.

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In the last quarter of 2006, the Group entered into a sale and purchase agreement to acquire additional 55% interest in Shanghai Shuo Cheng Real Estate Limited (上海碩誠置業有限公司) (“Shuo Cheng”), a company established in the PRC with limited liability. The effective interest in Shuo Cheng held by the Group was approximately 99.53% after the pass of resolution by the shareholder of the Company in the special general meeting held on 8 January 2007. The principal activity of Shuo Cheng is the development of Albany Oasis Garden which is located in the city center of Shanghai, about 2.5 kilometers from the “People Square” (人民廣場). The site is surrounded by Xi Zhang North Road (西藏北路) (the West), Zhong Xing Road (中興路) (the South), Bao Tong Road (寶通路) (the East) and Tian Tong An Road (天通庵路) (the North) with a gross floor area of approximately 480,000 square meters mainly for the development of residential, retails, office and hotel properties.

Employees

As at 31 December 2006, the Group had retained 1,330 (2005: 1,250) employees in Hong Kong and the PRC. Total staff costs of the Group, excluding directors’ remuneration, for the year under review amounted to approximately HK\$49.21 million (2005: approximately HK\$30.65 million). Staff remuneration packages were in line with the prevailing market practice and were determined on the basis of the performance and experience of individual employee.

Charges on Assets and Contingent Liabilities

At the balance sheet date, total bank loans of approximately HK\$1,674 million (2005: approximately HK\$1,316 million) were secured by pledge of the Group’s leasehold land, together with properties held or under development for sale and construction-in-progress. Details of which are set out in note 21 to the financial statements.

As at 31 December 2006, the Group had contingent liabilities of approximately HK\$58 million (2005: approximately HK\$33 million) in respect of guarantees to assist home buyers to obtain mortgage loans from banks and complete mortgage procedures, and of approximately HK\$35 million (2005: approximately HK\$43 million) in respect of guarantees to an associated company in respect of its banking facilities.