

# *Management Discussion and Analysis*

---

## **Financial Performance**

For the year ended 31st December 2005, the turnover of the Group (including share of turnover of an associated company) was HK\$48,502,000 (2004: HK\$604,706,000), representing a decrease of 92% as compared with last year. The decrease in turnover was mainly because most properties of Shimao Lakeside Garden have been sold with the majority of the revenue recognised prior to 2004. Therefore, contribution from the project for the year was insignificant. Moreover, since Suifenhe Shimao is still under development and at pre-sale stage. Under the new accounting policies of the Group, even though the property has commenced pre-sale, revenue can only be recognised by the Group upon completion of the project. Therefore revenue from the pre-sale of Suifenhe Shimao during the year has not been recognised. Profit attributable to shareholders of the Group during the period decreased to HK\$109,009,000.

2005 is the first year of adoption of applicable new accounting standards. Accordingly, changes in fair value of investment properties were required to be recognised in the profit and loss, resulting in a gain on revaluation of investment properties (net of deferred tax) of HK\$150,510,000.

Finance cost increased substantially during the year, mainly contributable to the amortised cost and interest on promissory notes and convertible note. The rise in interest rate also contributed to the increase in finance cost.

## **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 31st December 2005, total assets of the Group reached HK\$2,158,359,000, of which current assets amounted to HK\$313,516,000, total liabilities was HK\$1,410,487,000, non-current liabilities was HK\$1,039,023,000 and equity attributable to the shareholders of the Company amounted to HK\$747,872,000, increased by 13% over HK\$661,795,000 of last year .

Moreover, as at 31st December 2005, the Group had aggregate cash and bank balances of approximately HK\$27,574,000 (31st December 2004: HK\$18,359,000) and bank borrowings of approximately HK\$407,639,000 (31st December 2004: HK\$196,420,000). Average interest rate of the bank loans ranged between 1.6% to 6.0%.

## **Pledge of Assets**

As at 31st December 2005, the Group had leasehold land and buildings with a total carrying amount of approximately HK\$518,974,000 (31st December 2004: HK\$522,407,000) under pledge in favour of banks to secure the facilities granted to the Group. The facilities utilised as of 31st December 2005 amounted to HK\$407,639,000 (31st December 2004: HK\$196,420,000).

# *Management Discussion and Analysis*

---

## **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 of the Group 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 31st December 2005, the Group had 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-recognised corporate management standards to safeguard the interests of shareholders.

## **Employees and Remuneration Policy**

As at 31st December 2005, the Group employed a total of 124 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.