

Financial Review

REVIEW OF RESULTS

During the six-month period which ended on 31st December, 2004, the Group's turnover amounted to approximately HK\$699 million, representing an increase of 16% over that recorded in the corresponding period of the previous financial year. The Group's profit attributable to shareholders amounted to approximately HK\$868 million in the period under review, representing an increase of 4.6% over the restated profit of HK\$830 million (previously stated as HK\$822 million) which was recorded in the corresponding period of the previous financial year. The above-mentioned restatement of profit was made in accordance with the SSAP Interpretation 22 in relation to accounting policy regarding amortisation and depreciation methods which the Group adopted with effect from 1st July, 2004 in connection with subsidiaries of the Group engaging in the infrastructural business.

The Group's total income generated from property rental during the period under review amounted to approximately HK\$325.4 million, showing an increase of 3.2% over that recorded in the corresponding period of the past financial year under improving local economic conditions. Profit contribution from this business segment increased by 2% to approximately HK\$181.8 million in the interim period under review.

During the six-month period which ended on 31st December, 2004, segmental result from the hotel operation of the Group recorded a profit of approximately HK\$7.4 million after deducting all relevant operating costs and expenses, due to recovery recorded in room rates and occupancy. This compares with a loss figure of HK\$1.8 million registered for the six-month period which ended on 31st December, 2003. The Group's department store operation benefited from increase in tourist arrival and consumer spending and reported a profit of approximately HK\$4.4 million as compared to a profit of approximately HK\$2.5 million registered in the corresponding period of the previous financial year.

The Group's segmental result from its investment in infrastructure projects in Mainland China, mainly operated under the Group's subsidiary, China Investment Group Limited, amounted to approximately HK\$107.2 million as compared to the restated figure of HK\$58.6 million (previously stated as HK\$69.7 million) recorded for the corresponding period of the previous financial year mainly due to increased vehicular traffic of a toll bridge in Hangzhou.

The segment of other activities of the Group, which mainly include securities investment and information technology business, registered a combined loss of approximately HK\$2.1 million in the financial period under review as compared to a profit restated at HK\$22.7 million (previously stated as loss of HK\$5 million) which was recorded in the corresponding period of the previous financial year.

Share of results of associates of the Group, which was mainly represented by contributions from the Group's investment in the three listed associates, amounted to approximately HK\$802 million as compared to HK\$632 million that was recorded in the corresponding period of the previous financial year. The total profit attributed to the three listed associates amounted to HK\$730 million during the period under review as compared to HK\$619 million recorded in the corresponding period of the previous financial year, reflecting the improved operating conditions in the local utility as well as the property and hotel sectors.

FINANCIAL RESOURCES AND LIQUIDITY

As at 31st December, 2004, shareholders' fund of the Group amounted to approximately HK\$21,410 million, representing an increase of 3% when compared with the restated shareholder' funds of HK\$20,785 million as at 30th June, 2004. The Group is in a strong financial position and possesses a large capital base. As at the end of the six-month period under review, the cash holdings of the Group amounted to approximately HK\$2,179 million, after netting off the total borrowings that stood at approximately HK\$279 million, and the Group was in a net cash position of approximately HK\$1,900 million. Except for the portion of the bank borrowings that amounted to approximately HK\$229 million related to a subsidiary of the Group that engages in infrastructural investments in Mainland China, banking facilities made available to the Group were unsecured and with the vast majority being obtained on a committed term basis. With substantial committed banking facilities in place and continuous cash inflow generated from a solid base of recurrent income, the Group has adequate financial resources for funding its ongoing operations as well as future expansion.

The Group did not undertake any significant acquisition or disposal of assets outside its core business during the period under review.

LOAN MATURITY PROFILE

The maturity profile of the Group's bank loans and borrowings outstanding as at 31st December, 2004 and 30th June, 2004 respectively are summarised as follows:

	As at 31st December, 2004 HK\$'000	As at 30th June, 2004 HK\$'000
Bank Loans and Borrowings Repayable:		
Within 1 year	143,113	127,731
After 1 year but within 2 years	49,889	47,744
After 2 years but within 5 years	<u>85,790</u>	<u>135,679</u>
Total Bank Loans and Borrowings	278,792	311,154
Less: Cash at bank and in hand	<u>(2,179,311)</u>	<u>(1,863,818)</u>
Total Net Bank Deposits	<u>(1,900,519)</u>	<u>(1,552,664)</u>

GEARING RATIO

As at the end of the period under review, the gearing ratio of the Group which was calculated on the basis of the total net bank borrowings as a ratio of the Group's shareholders' fund was zero, in a position that was the same as that registered as at 30th June, 2004. The Group's total interest expense was recorded at approximately HK\$7 million for the six-month period which ended on 31st December, 2004 and profit from operations of HK\$328 million covered the total interest expense by 46.9 times for the period under review, as compared to 47.6 times that was posted as at the end of the corresponding period of the previous financial year.

INTEREST RATE EXPOSURE AND EXCHANGE RATE EXPOSURE

The Group's financing and treasury activities were managed centrally at the corporate level. Banking facilities obtained by the Group to finance its Hong Kong operations were mainly denominated in Hong Kong Dollars. Bank loans and borrowings of the Group, which are primarily obtained from international banks in Hong Kong with interests chargeable mainly based on certain agreed interest margins over the Hong Kong Interbank Offer Rate, are therefore mainly of floating rate in nature. In respect of the Group's subsidiary, China Investment Group Limited, a portion of its borrowings was denominated in Renminbi during the period under review to fund its infrastructure projects in Mainland China. As a whole, the core operations of the Group can therefore be considered as not exposed to foreign exchange rate risk to any significant extent. The use of financial derivative instruments is strictly controlled and is solely for management of the Group's interest rate and foreign currency exchange rate exposures in connection with its borrowings. With the aim to control the Group's future cost of borrowing effectively, the Group has been taking advantage of the low local interest rates and has from time to time locked in interest rates of one year term and longer to match part of the medium-term funding needs of the Group by obtaining fixed-rate borrowings or entering into Hong Kong Dollars interest rate swap agreements in respect of a portion of such borrowings.

CAPITAL COMMITMENTS

As at 31st December, 2004, capital commitments of the Group amounted to approximately HK\$15 million which was similar as that outstanding as at 30th June, 2004. These were mainly made up of contracted commitments of the Group for acquisition of property, plant and equipment, and for property development and renovation expenditure. Other commitments of the Group were related to operating lease commitments being mainly rentals payable by the Group for retail shopping premises and these decreased to approximately HK\$53 million as at the end of the period under review from HK\$90 million that was recorded as at 30th June, 2004.

CONTINGENT LIABILITIES

The Group did not record any outstanding contingent liabilities as at 31st December, 2004.

USE OF CAPITAL AND FUNDING

Capital of the Company and retained profits of the Group will continue to be put to good use to develop the Group's business. The Group has adequate capital resources and abundant unutilised banking facilities for funding its ongoing operations and further expansion.

EMPLOYEES

As at 31st December, 2004, the number of employees of the Group was about 1,400 as compared to about 1,300 employees as at 31st December, 2003. The remuneration of employees was in line with the market trend and commensurable to the level of pay in the industry. Discretionary year-end bonus was paid to employees based on individual performance. Other benefits to employees include medical insurance, retirement scheme, training programmes and educational subsidies.

Total employees' costs amounted to HK\$128 million for the six-month period which ended on 31st December, 2004 and HK\$105 million for the corresponding period of last year.