

Financial Review

Liquidity and Financial Resources

The Group maintains a strong financial position with net cash balances, including those held by HHI, of HK\$3,096 million as at 31st December, 2005 (30th June, 2005: HK\$3,329 million).

In October 2005, HHI successfully completed a 5-year unsecured syndicated bank revolving credit and term loan facility of HK\$ 3,600 million. As at 31st December, 2005, the Group's deposits, cash holdings, and liquid notes as well as the existing banking facilities, amounted to approximately HK\$12,268 million (30th June, 2005: HK\$8,897 million).

The Group is financially well positioned for recurring operating activities, present and potential investment activities given its solid deposits, cash holdings as well as the available banking facilities on hand. The expected cash proceeds from the pre-sales of Nova City in Macau and Hopewell New Town in Huadu will further strengthen the Group's financial position.

Treasury Policies

The Group centralizes its treasury activities at group level for better management of financial risks and for obtaining cost efficient funds. The use of financial instruments is strictly controlled and is solely for managing the Group's interest rate and foreign currency exchange rate exposures in connection with its borrowings.

The reform of Renminbi exchange rate regime, with an initial appreciation of approximately 2% in July 2005, benefited the Group as a whole given the revenue from business operations of HHI and its jointly controlled entities are mainly denominated in Renminbi.

In terms of bank borrowings, the Group has no significant exposure to foreign exchange risk given the majority of its borrowings was denominated in Hong Kong dollars. As at 31st December, 2005, the Group's borrowings, which are principally arranged on a floating rate basis, amounted to HK\$55 million (30th June, 2005: HK\$55 million) with a maturity period of two years.

The Group's capital structure, which is mainly financed by equity, is shown as below:

	<i>As at</i>	
	<i>30.6.2005</i>	<i>31.12.2005</i>
	<i>(Note)</i>	
	<i>HK\$'M</i>	<i>HK\$'M</i>
Equity attributable to equity holders of the Company	15,466	16,371
Minority interests	2,469	2,556
Total Equity	17,935	18,927
Bank Borrowings	55	55
Total Capitalization	17,990	18,982

(Note): Following the adoption of the New Accounting Standards, the comparative figures as of 30th June, 2005 has been restated to facilitate evaluation of financial performance.

Financial Review (continued)

Contingent Liabilities

Details of the contingent liabilities are set out in note 24 to the condensed financial statements.

Charges on Assets

During the six months ended 31st December, 2005, no mortgage was charged on the Group's properties.

Project Commitments

Details of the project commitments are set out in note 23 to the condensed financial statements.

Material Acquisitions or Disposal

Other than the disposal of Hopewell (Thailand) Limited as mentioned under the Business Review section, there was no material acquisition or disposal of the Company's subsidiaries and associates during the six months ended 31st December, 2005.

Prospects

The Group will continue to focus on Infrastructure, Property and Hospitality businesses, and pursue our goal of maintaining a leading position in these sectors in the PRD. It believes that the robust economic recovery in Hong Kong, the strong economic growth of Macau and the continued rapid economic development in other areas within the PRD, coupled with the economic integration brought by the CEPA initiatives, will bolster the performance of its three core businesses.

Riding on the favourable property market, the Group has made good progress on its property development projects, including the two new property projects at Queen's Road East in Wanchai. The Group will continue with its phased development of Nova City in Macau and Hopewell New Town in Huadu district of Guangzhou. On materialization of the completion as planned of the pre-sold flats in Nova City, the Group would be in a position to recognize such gains in the financial year ending June 2006. For the Mega Tower Hotel project, the Group is continuing its efforts to materialize it. Through HHI, the Group has commenced construction works of Phase II West in December 2005. It will also continue its efforts to finalize the preparation works relating to the Phase III West and to complete the feasibility study of widening the GS Superhighway. We believe HHI is well positioned to play a vital role in the Hong Kong-Zhuhai-Macau Bridge project when it proceeds.