

Financial Review

REVIEW OF RESULTS

During the six-month period which ended on 31st December, 2005, the Group's turnover amounted to approximately HK\$611 million, representing a decrease of 12.5% over that recorded in the corresponding period of the previous financial year. Profit attributable to shareholders of the Company amounted to approximately HK\$1,802 million in the period under review, representing an increase of 90% over the restated profit of HK\$948 million (previously stated as HK\$868 million) which was recorded in the corresponding period of the previous financial year. As from the financial year under review, the Group has started to adopt Hong Kong Accounting Standard 16 "Property, Plant and Equipment" ("HKAS 16"), Hong Kong Accounting Standard 17 "Leases" ("HKAS 17"), Hong Kong Accounting Standard 39 "Financial Instruments: Recognition and Measurement" ("HKAS 39") and HK Interpretation 2 "The Appropriate Accounting Policies for Hotel Properties" ("HK Int 2"), which all had their respective effects on the interim results of the Group and also led to the above-mentioned restatement of profit for the previous financial year. The Group's attributable profit excluding the impact of adopting Hong Kong Accounting Standard 40 "Investment Property" ("HKAS 40") and HK (SIC) Interpretation 21 "Income taxes - recovery of revalued non-depreciable assets" ("HK (SIC) Int 21") on investment properties and income taxes amounted to HK\$946 million, representing an increase of 12% over the restated figure of HK\$846 million in the corresponding period of the previous financial year.

The Group's total income generated from property rental during the period under review amounted to approximately HK\$335 million, showing an increase of 3% over that recorded in the corresponding period of the previous financial year under improving local economic conditions. Profit contribution from this business segment increased by 10% to approximately HK\$195 million in the interim period under review.

Subsidiaries of the Group recorded HK\$675 million in respect of fair value gain of investment properties during the financial period under review (corresponding period in FY2004 restated: nil) as a result of the adoption of HKAS 40.

During the six-month period which ended on 31st December, 2005, the hotel operation of the Group recorded a profit of approximately HK\$6.3 million as compared to a profit of approximately HK\$7.4 million registered in the corresponding period of the previous financial year. Also, the Group's department store operation benefited from increased local consumer spending and reported satisfactory growth in profit.

The Group's segmental result from its investment in infrastructure projects in Mainland China, mainly operated under China Investment Group Limited, amounted to approximately HK\$52 million as compared to HK\$107 million recorded for the corresponding period of the previous financial year mainly due to reduced traffic volume of a toll bridge in Hangzhou as a result of repair and maintenance worked in progress.

The segment of other activities of the Group, which mainly include securities investment, information technology and security services business, registered a combined loss of approximately HK\$9.5 million in the interim period under review as compared to a loss of HK\$2.1 million which was recorded in the corresponding period of the previous financial year due to increased loss from information technology services and reduced income from security services.

Share of results of associates net of taxation of the Group, which was mainly represented by contributions from the Group's investment in the three listed associates, amounted to approximately HK\$1,095 million as compared to the restated HK\$742 million recorded in the corresponding period of the previous financial year. Such share of profits less losses figures include HK\$313 million in respect of increase in fair value of investment properties (corresponding period in FY2004 restated: HK\$119 million) as a result of the adoption of HKAS 40 by the associates of the Group. The total profit net of taxation attributed to the three listed associates amounted to HK\$1,010 million during the period under review as compared to the restated HK\$670 million recorded in the corresponding period of the previous financial year. Such share of profits less losses figures include HK\$223 million in respect of increase in fair value of investment properties (corresponding period in FY2004 restated: HK\$119 million) as a result of the adoption of HKAS 40 by the three listed associates.

The Group recorded HK\$162 million impairment loss from privatization of Henderson Cyber Limited during the period under review.

FINANCIAL RESOURCES AND LIQUIDITY

As at 31st December, 2005, shareholders' fund of the Group amounted to approximately HK\$23,025 million, representing an increase of 7% when compared with the restated shareholder' funds of HK\$21,516 million as at 30th June, 2005. 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\$2,471 million, after netting off the total borrowings that stood at approximately HK\$265 million, and the Group was in a net cash position of approximately HK\$2,206 million. Except for the portion of the bank borrowings that amounted to approximately HK\$225 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.

Apart from the aforesaid privatization of Henderson Cyber Limited, 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, 2005 and 30th June, 2005 respectively are summarised as follows:

	As at 31st December, 2005 HK\$'000	As at 30th June, 2005 HK\$'000
Bank Loans and Borrowings Repayable:		
Within 1 year	174,692	127,024
After 1 year but within 2 years	54,672	50,130
After 2 years but within 5 years	35,664	85,965
	<u>265,028</u>	<u>263,119</u>
Total Bank Loans and Borrowings	265,028	263,119
Less: Cash at bank and in hand	<u>(2,471,007)</u>	<u>(2,800,155)</u>
Total Net Bank Deposits	<u>2,205,979</u>	<u>2,537,036</u>

GEARING RATIO

As interest rate continued to move upward during the period under review, the Group had adopted a more prudent financial management strategy. 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 reflecting in a position that was the same as that registered as at 30th June, 2005. The Group's profit from operations of HK\$818 million, when added to an aggregate amount of HK\$836 million representing the Group's share of operating profits less losses net of taxation of associates, covered the interest expense before capitalization of HK\$6 million (corresponding financial period in FY2004: HK\$7 million) by 275 times (corresponding financial period in FY2004 restated: 138 times).

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. 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. In order to contain its borrowing costs, the Group will consider making use of interest rate swap instruments, when appropriate, to lock in short to medium term interest rates for a portion of the Group's floating rate borrowings. 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 and the Group did not enter into any currency hedging agreement in the financial year under review.

CAPITAL COMMITMENTS

As at 31st December, 2005, capital commitments of the Group amounted to approximately HK\$15 million, as compared with HK\$21 million as at 30th June, 2005. 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 rental payable by the Group for retail shopping premises and these decreased to approximately HK\$33 million as at the end of the period under review from HK\$38 million that was recorded as at 30th June, 2005.

CONTINGENT LIABILITIES

The Group did not record any outstanding contingent liabilities as at 31st December, 2005.

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, 2005, the number of employees of the Group was about 1,450 as compared to about 1,400 employees as at 31st December, 2004. 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 staff costs amounted to HK\$100 million for the six-month period which ended on 31st December, 2005 and HK\$128 million for the corresponding period of last year.