Financial Review

Management Discussion and Analysis

The following comments should be read in conjunction with the Company's audited financial statements and the related notes thereto.

In preparing the financial statements for the year ended 30 June 2006, the Group has adopted the new and revised Hong Kong Financial Reporting Standards, including all applicable Hong Kong Accounting Standards and relevant Interpretations. Applicable prior year adjustments have also been made to the 2005 financial statements. The resulting effects of the changes in accounting policies and presentation are detailed in note 3 to the financial statements.

Turnover and Profit

For the year ended 30 June 2006, the Group's turnover amounted to HK$1,147.1 million, a decrease of HK$147.3 million or 11.4% over that for the previous year. The decrease in turnover was mainly attributable to reduced revenue contributions by the infrastructure and the others segments.

The profit attributable to equity shareholders of the Company amounted to HK$3,667.2 million for the year, an increase of HK$159.5 million or 4.5% over that for the year before. Earnings per share were HK$1.28 (2005 re-stated: HK$1.25).

The underlying profit for the year, excluding the unrealized surplus on revaluation of investment properties (net of deferred tax), was HK$2,066.1 million or a decrease of 6.9%. Based on the underlying profit, the earnings per share were HK$0.72 (2005 re-stated: HK$0.79).

Property Leasing

The overall rental property market continued to remain healthy in Hong Kong during the year. Property leasing revenue of the Group amounted to HK$613.8 million. This represented an increase of HK$4.0 million or 0.7% over the amount of HK$609.8 million for the previous year and accounted for 53.5% of the Group's turnover. Profit contribution of this business segment for the year amounted to HK$1,344.3 million, an increase of HK$115.3 million or 9.4% over the re-stated amount of HK$1,229.0 million for the previous year. Excluding the unrealized surplus on revaluation of investment properties (before deferred taxation and minority interests) amounting to HK$1,014.9 million (2005: HK$890.3 million), the underlying profit contribution of this business segment for the year decreased by HK$9.3 million or 2.7% to HK$329.4 million. The decrease was due to higher repair and maintenance costs incurred during the year.

Hotel

Revenue from hotel operations amounted to HK$95.3 million in the year under review as against HK$99.3 million for the previous year, a decrease of HK$4.0 million or 4.0%, while the profit contribution from this segment for the year increased by 25.4% to HK$35.6 million, as compared with the re-stated amount of HK$28.4 million for the year before. The increase in profit contribution was mainly attributable to better cost management during the year.

Infrastructure

Revenue from the investment in infrastructure projects in Mainland China that is mainly operated through China Investment Group Limited, amounted to HK$136.4 million, a decrease of HK$99.1 million or 42.1%. The decrease was mainly due to reduced traffic volume of a toll bridge in Hangzhou as a result of repair and maintenance work during the year. Profit contribution from this segment for the year decreased by HK$70.3 million or 46.2% to HK$81.8 million.

Others

The segment revenue of other business activities of the Group including department stores operation, security guard services and information technology services decreased by HK$48.2 million or 13.8% to HK$301.6 million for the year under review. This was mainly attributable to the reduced revenue contribution from the information technology services and the security service operations. The segment result showed a loss of HK$9.1 million (compared to a loss of HK$4.4 million for 2005) before the inclusion of the impairment loss on goodwill arising from the privatization of Henderson Cyber Limited of HK$161.8 million as described in the following paragraph.

Privatisation of Subsidiary

As a result of the privatisation of Henderson Cyber Limited, the Group recorded an impairment loss of HK$161.8 million.

Associates

The Group's share of profits less losses of associates net of taxation amounted to HK$2,489.1 million. This represented an increase of HK$97.0 million or 4.1% as compared with the re-stated amount of HK$2,392.1 million for the previous year. Excluding the unrealized surplus on revaluation of investment properties (net of deferred tax), the Group's share of underlying profits less losses of associates amounted to HK$1,749.7 million as against HK$1,868.6 million for the year before.

In particular, the Group's share of after tax profits from the three listed associates amounted to approximately HK$2,380.1 million for the year as against the re-stated amount of HK$2,213.1 million for the previous year. Excluding the unrealized surplus on revaluation of investment properties (net of deferred tax), the Group's share of profits less losses of the three listed associates amounted to HK$1,726.5 million as against HK$1,786.2 million for the year before. The slight decrease in such underlying profits was due to a smaller number of units in a property development project which were sold during the year, as compared with that for the year earlier.

Issue of New Shares

On 18 April 2006, pursuant to a placing agreement, a subsidiary of Henderson Land Development Company Limited, the Company's holding company, sold 230 million existing shares of the Company at the placing price of HK$13.55 per share. Pursuant to the placing agreement, the Company then issued 230 million new shares to Henderson Land Development Company Limited at the placing price adjusted for this purpose by the expenses incurred in relation to the placing and the subscription. The new shares represented approximately 8.2% of the Company's then existing issued share capital and about 7.5% of its issued share capital as enlarged by the subscription.

Financial Resources and Liquidity

(a) **Net Borrowings and Gearing**

At 30 June 2006, the aggregate amount of the Group's bank loans and borrowings amounted to HK$113.9 million (2005: HK$262.6 million). The maturity profiles of the Group's bank loans and borrowings were as follows:

	At 30 June 2006 **HK$ million**	At 30 June 2005 re-stated HK$ million
Bank loans and borrowings repayable:		
Within 1 year	**87.8**	126.9
After 1 year but within 2 years	**20.6**	50.0
After 2 years but within 5 years	**5.5**	85.7
Total bank loans and borrowings	**113.9**	262.6
Deduct: Cash at bank and in hand	**5,177.0**	2,800.2
Total net bank deposits	**5,063.1**	2,537.6
Shareholders' Funds	**27,652.6**	21,516.5
Gearing Ratio (%)	**Nil**	Nil

Calculated on the basis of total net bank borrowings as a ratio of shareholders' funds at 30 June 2006, the Group's gearing ratio was nil (2005: Nil) as it is in a net cash position.

	Year ended 30 June 2006 **HK$ million**	Year ended 30 June 2005 re-stated HK$ million
Profit from operations plus Group's share of the underlying profits less losses of associates (after excluding the unrealized surplus on revaluation of investment properties)	**2,410.4**	2,818.5
Interest expenses (before capitalization of interest)	**10.0**	13.0
Interest cover (number of times)	**241.0**	216.8

Interest cover is measured by reference to (a) the Group's profit from operations plus the Group's share of profits less losses of associates (after excluding the unrealized surplus on revaluation of investment properties) and (b) the interest expenses before capitalization of interest. On this basis the Group's interest cover for the year was 241.0 times, compared to 216.8 times for the year before.

The Group is in a strong financial position by having (a) a large capital base; (b) a net cash position; and (c) high interest cover. With abundant committed banking facilities in place and continuous cash inflow generated from a solid base of recurrent income, the Group has adequate financial resources in meeting the funding requirements for its ongoing operations as well as future expansion.

During the year, apart from the privatization of Henderson Cyber Limited, the Group did not undertake any significant acquisition or disposal of assets outside of its core business.

(b) **Treasury & Financial Management**

The Group's financing and treasury activities were centrally managed at the corporate level. Bank loans and borrowings facilities of the Group are principally of floating rate in nature obtained from international banks in Hong Kong. Apart from its investments in China which are denominated in Renminbi and are not hedged, the Group had no other material open foreign exchange positions at the year end.

Assets of the Group had not been charged to any third parties in the financial year under review except that security was provided in respect of a very small portion of project financing facilities that was extended by banks to a subsidiary of the Group engaged in infrastructural projects in Mainland China.

(c) **Future Plans of Material Investments or Capital Assets**

At 30 June 2006, capital commitments of the Group amounted to HK$34.2 million (2005: HK$21.3 million).

Contingent Liabilities

Contingent liabilities of the Group amounted to HK$30.1 million at 30 June 2006 (2005: HK$33.6 million). These mainly comprised guarantees given by the Company to commercial banks to secure banking facilities granted to the group companies.

Employees

At 30 June 2006, the Group had about 1,500 (2005: 1,500) full-time employees. The remuneration of employees was in line with the market trend and commensurable with 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 employee costs for the year amounted to HK$201.1 million (2005: HK$228.6 million).