

## Financial Review

### REVIEW OF RESULTS

For the six months ended 31 December 2006, the Group's turnover amounted to HK\$507.0 million, a decrease of HK\$104.3 million or 17.1% from the same period of the previous year. The profit attributable to equity shareholders of the Company amounted to HK\$1,951.5 million for the period under review, an increase of HK\$149.5 million or 8.3% over the same period of the previous year. The underlying profit, excluding the unrealised surplus on revaluation of investment properties (net of deferred tax), was HK\$1,510.3 million for the six months ended 31 December 2006, an increase of HK\$566.6 million or 60.0%.

During the period under review, property leasing revenue decreased by HK\$118.5 million or 38.1% to HK\$192.7 million, accounting for 38.0% of the Group's turnover. The fall in revenue was mainly due to the termination of the subletting business as the costs of such business are subject to the adverse effect of rising rental. The profit contribution from this segment amounted to HK\$134.2 million, as compared with HK\$184.5 million for the same period of the previous year.

The revaluation surplus of the Group's investment properties (before deferred tax and minority interests) amounted to HK\$219.3 million for the period under review, as compared with HK\$674.6 million for the same period of the previous year.

Revenue from the investment in infrastructure projects in Mainland China that is mainly operated through the Group's subsidiary, China Investment Group Limited, amounted to HK\$72.9 million, representing a decrease of HK\$19.5 million or 21.1%. The decrease was mainly due to the fact that the repair work on a toll bridge in Hangzhou which had commenced since October 2005 was still ongoing by the period end. Accordingly, the profit contribution from this segment decreased by HK\$8.5 million or 16.4% to HK\$43.2 million.

Revenue from hotel operations increased by 10.2% to HK\$51.8 million for the period under review, on the back of higher average occupancy and average room rates which benefited from an increase in inbound tourists. The profit contribution from this segment increased by 19.4% to HK\$20.9 million.

Security guard services reported a turnover of HK\$36.1 million, up by 4.9% as compared with the same period of the previous year. Profit contribution remained stable at HK\$2.3 million.

The Group's share of profits less losses of associates net of taxation amounted to approximately HK\$1,516.4 million, as compared with HK\$1,094.6 million for the same period of the previous year. Excluding the unrealised surplus on revaluation of investment properties (net of deferred tax), the Group's share of the underlying profits less losses of associates amounted to HK\$1,256.1 million, an increase of 50.3% as compared with HK\$835.7 million for the previous interim period.

In particular, the Group's share of after tax profits from the three listed associates totalled approximately HK\$1,462.1 million for the period under review as against HK\$1,010.2 million for the corresponding period of the previous year. Excluding the unrealised surplus on revaluation of investment properties (net of deferred tax), the Group's share of the underlying profits of the three listed associates increased from HK\$825.1 million to HK\$1,242.2 million as a substantial share of profits arising from the sale of Grand Waterfront, a large-scale waterfront development project completed by the end of 2006, was accounted for in the period under review by The Hong Kong and China Gas Company Limited.

As a result of the share placement in April 2006, other income, which included interest income, was up by 103.2% to HK\$122.3 million for the period under review. In contrast, due to the privatisation of Henderson Cyber Limited, an impairment loss of HK\$161.8 million was recorded in the corresponding period of the previous year.

## FINANCIAL RESOURCES AND LIQUIDITY

At 31 December 2006, the aggregate amount of the Group's bank borrowings was HK\$80.5 million (30 June 2006: HK\$113.9 million). 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 requirement for its ongoing operations as well as future expansion.

During the period under review, apart from the disposal of the property interest to Sunlight REIT, the Group did not undertake any significant acquisition or disposal of assets outside its core business.

## LOAN MATURITY PROFILE

The maturity profiles of the Group's bank borrowings were as follows:

	At 31 December 2006 HK\$ million	At 30 June 2006 HK\$ million
Bank loans and borrowings repayable:		
Within 1 year	74.5	87.8
After 1 year but within 2 years	–	20.6
After 2 years but within 5 years	6.0	5.5
Total bank borrowings	80.5	113.9
Deduct: Cash at bank and in hand	5,043.8	5,177.0
Total net bank deposits	4,963.3	5,063.1
Total equity attributable to equity shareholders of the Company	29,254.9	27,652.6
Gearing ratio (%)	Nil	Nil

Calculated on the basis of total net bank borrowings as a ratio of total equity attributable to equity shareholders of the Company at 31 December 2006, the Group's gearing ratio was nil (30 June 2006: nil) as it was in a net cash position.

	6 months ended 31 December 2006 HK\$ million	6 months ended 31 December 2005 HK\$ million
Profit from operations before changes in fair value of investment properties plus the Group's share of the underlying profits less losses of associates and jointly controlled entities (after excluding the unrealised surplus on revaluation of investment properties and related taxation)	1,785.2	1,067.6
Interest expense (before capitalization of interest)	2.1	6.1
Interest cover (number of times)	850	175

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 unrealised surplus on revaluation of investment properties and related taxation) and (b) the interest expenses before capitalization of interest. On this basis the Group's interest cover for the period under review was 850 times, compared to 175 times for the same period of the previous year.

### **INTEREST RATE EXPOSURE AND EXCHANGE RATE EXPOSURE**

The Group's financing and treasury activities are centrally managed at the corporate level. Bank borrowings of the Group are principally of a floating rate in nature obtained from international banks in Hong Kong. While the Group's borrowings were denominated mainly in Hong Kong Dollars, a portion of such borrowings was in Renminbi to support the Group's business activities in Mainland China. 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. The Group does not make use of any derivative instruments for speculative purposes.

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

### **CAPITAL COMMITMENTS**

At 31 December 2006, capital commitments of the Group amounted to HK\$47.2 million (30 June 2006: HK\$34.2 million).

### **CONTINGENT LIABILITIES**

Contingent liabilities of the Group amounted to HK\$2.4 million at 31 December 2006 (30 June 2006: HK\$30.1 million). These mainly comprised the guarantees given by the Company to commercial banks to secure banking facilities granted to the group companies.

### **EMPLOYEES**

At 31 December 2006, the Group had about 750 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 six months ended 31 December 2006 amounted to HK\$65.6 million.