Financial Review

REVIEW OF RESULTS

For the six months ended 31 December 2006, the Group's turnover amounted to HK$4,524.6 million, an increase of HK$1,791.9 million or 65.6% over the same period of the previous year. The profit attributable to equity shareholders of the Company amounted to HK$3,793.6 million for the period under review, a decrease of HK$3,855.9 million or 50.4% from the same period of the previous year. The underlying profit, excluding the revaluation surplus of investment properties (net of deferred tax), was HK$2,427.9 million for the six months ended 31 December 2006, an increase of HK$70.4 million or 3.0%.

Property development revenue amounted to HK$2,714.9 million for the period under review, an increase of HK$2,311.8 million over the same period of the previous year. The increased revenue was mainly attributable to the satisfactory sales of various property development projects including Grand Waterfront, The Sherwood and CentrePlace. As a result, this business segment recorded a profit contribution of HK$1,150.9 million for the period under review, compared with HK$116.7 million for the corresponding period of the previous year.

Property leasing revenue including attributable contributions from rental properties owned by jointly controlled entities amounted to HK$1,522.7 million. This represented an increase of HK$298.9 million or 24.4% over the amount of HK$1,223.8 million for the previous interim period. Net rental income for the period was HK$1,003.3 million, up by 31.0% from HK$765.7 million for the same period of the previous year.

Excluding attributable contributions from jointly controlled entities, the Group's gross rental income grew by 12.9% to HK$1,220.2 million and accounted for 27.0% of the Group's total turnover. The increase reflected the higher rental rates in Hong Kong during the period under review as a result of the robust domestic economic activities. For the six months ended 31 December 2006, profit contribution of this business segment amounted to HK$772.8 million, an increase of HK$126.2 million or 19.5% over the amount of HK$646.6 million for the same period of the previous year.

Excluding those of jointly controlled entities, the revaluation surplus of the Group's investment properties (before deferred tax and minority interests) amounted to HK$751.9 million for the period under review, as compared with HK$5,018.5 million for the same period of the previous year.

Profit contribution from financial services, representing interest received on property mortgage loans provided to the purchasers of the Group's developments and on the shareholder loans provided to the joint venture developments in which the Group participated, amounted to HK$39.4 million for the period under review, a decrease of HK$30.9 million as compared with that for the same period of the previous year.

Building construction activities which are mainly catered to the developments in which the Group participated recorded a profit contribution of HK$32.7 million for the period under review, as against HK$15.5 million for the corresponding 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.

Hotel operations recorded a sales growth of 9.7% to HK$73.5 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 amounted to HK$28.7 million, an increase of HK$4.4 million or 18.1%.

The segment revenue of other business activities of the Group including department stores operations, property management and security guard services grew by HK$48.4 million or 17.2% to HK$329.6 million for the period under review. This segment recorded a profit of HK$38.3 million for the period, compared with HK$16.7 million for the same period of the previous year.

The Group's share of profits less losses of associates net of taxation amounted to approximately HK$1,619.8 million, as compared with HK$1,101.3 million for the same period of the previous year. Excluding the revaluation surplus of investment properties, the Group's share of the underlying profits less losses of associates amounted to some HK$1,352.9 million, an increase of 60.6% as compared with HK$842.5 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 revaluation surplus 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.

The Group's share of profits less losses net of taxation of jointly controlled entities which are mainly engaged in property development and property investment activities amounted to HK$1,332.8 million, as against HK$2,216.8 million for the same period of the previous year. Excluding revaluation surplus of investment properties (net of deferred tax), the Group's share of the underlying profits less losses of jointly controlled entities (but before minority interest) was HK$453.4 million, as compared with HK$725.8 million for the same period of the previous year. The decrease was mainly due to a smaller number of residential units in Grand Promenade having been sold during the period under review.

Finance costs charged to the profit and loss account amounted to HK$294.6 million as against HK$220.0 million for the same period of the previous year as a result of higher interest rate levels.

As a result of the disposal of its interests in eleven investment properties to Sunlight REIT, an amount of HK$103.8 million by way of other operating loss was recorded during the period under review. In contrast, an amount of HK$650.7 million by way of other operating net income arising from the privatisation of Henderson China and Henderson Cyber was included in the corresponding period of the previous year.

ISSUE OF NEW SHARES

On 10 November 2006, pursuant to a placing agreement, a subsidiary of Henderson Development Limited (the controlling shareholder of the Company) sold 128 million existing shares of the Company at the placing price of HK$43.05 per share. Pursuant to the placing agreement, the Company then issued 128 million new shares to Henderson Development Limited at the placing price adjusted for this purpose by the expenses incurred in relation to the placing and the subscription, raising net proceeds of approximately HK$5,508.0 million. The new shares represented approximately 7.05% of the Company's then existing issued share capital and about 6.59% of its issued share capital as enlarged by the subscription. With an enlarged shareholder base, this put the Group in a better financial position for future expansion, both in Hong Kong and Mainland China.

FINANCIAL RESOURCES AND LIQUIDITY

In July 2006, the Group concluded a HK$13,350 million syndicated credit facility of five years in tenor. This financing transaction took the form of a revolving credit facility and offered optimal flexibility for the general corporate funding purposes of the Group. A syndicate of 24 international banks as well as local banks originating from ten countries in all participated in this credit facility, whilst the interest margin was extremely preferential. These fully demonstrated the support and confidence that the banking community has placed on the Group.

Shortly after the end of the period under review, a financing arm of Group's jointly controlled entity that owns the IFC project has concluded a five-year syndicated term loan facility of HK$17,350 million. It set a new record in the local syndicated loan market as being the largest in transaction size for private sector borrowings ever raised in Hong Kong Dollars. On the strength of quality tenant portfolio and landmark status for the underlying IFC project, this stand-alone project loan was concluded on very favourable terms.

At 31 December 2006, the aggregate amount of the Group's total net bank borrowings amounted to approximately HK$11,300.9 million (30 June 2006: HK$13,035.4 million). The Group's borrowings were mainly unsecured, with the vast majority having been obtained on a committed term basis. With abundant committed banking facilities in place and continuous cash inflow generated from a steady 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 some property interests 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 borrowings repayable:		
Within 1 year	**4,213.7**	7,029.2
After 1 year but within 2 years	**764.5**	3,848.5
After 2 years but within 5 years	**15,661.2**	6,085.0
After 5 years	**–**	3,731.8
Total bank borrowings	**20,639.4**	20,694.5
Deduct: Cash at bank and in hand	**9,338.5**	7,659.1
Total net bank borrowings	**11,300.9**	13,035.4
Total equity attributable to equity shareholders of the Company	**86,359.3**	77,964.1
Gearing ratio (%)	**13.1%**	16.7%

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 stood at 13.1% as compared with 16.7% at 30 June 2006.

	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 taxation)	**3,909**	3,203
Interest expense (before capitalization of interest)	**534**	379
Interest cover (number of times)	**7**	8

Interest cover is measured by reference to (a) the Group's profit from operations before changes in fair value of investment properties plus the Group's share of profits less losses of associates and jointly controlled entities (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 7 times, compared to 8 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 loans and 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 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.

CAPITAL COMMITMENTS

At 31 December 2006, capital commitments of the Group amounted to HK$9,132.0 million (30 June 2006: HK$7,264.7 million).

CONTINGENT LIABILITIES

Contingent liabilities of the Group at 31 December 2006 amounted to HK$29.1 million. As at 30 June 2006, contingent liabilities of the Group amounted to HK$2,088.3 million.

EMPLOYEES

At 31 December 2006, the Group had about 7,100 (31 December 2005: 6,600) 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$530.7 million, representing an increase of HK$91.7 million or 20.9% over the same period of the previous year.