

Financial Review

Management discussion and analysis

Disposal of interests in certain companies of the Group

Pursuant to an agreement dated 27 March 2007 entered into between the Company and its intermediate holding company, Henderson Land Development Company Limited (“HLD”), the Company (i) disposed of its entire interests in certain subsidiaries and associates (collectively referred to as the “Sale Companies”) to HLD; and (ii) assigned the loans due to the Company by the Sale Companies, for a cash consideration of approximately HK\$12,072.6 million. The transaction was completed on 13 June 2007, resulting in a gain on disposal of the Sale Companies to the Group of approximately HK\$925.4 million.

Following the completion of the transaction on 13 June 2007, the Group ceased to be interested in the businesses of property leasing, hotel operation, security guard services and other businesses, as well as Miramar Hotel and Investment Company, Limited (“Miramar”) and Hong Kong Ferry (Holdings) Company Limited. For the purpose of presentation in the Group’s consolidated accounts for the year ended 30 June 2007, the abovementioned businesses were classified as discontinued operations of the Group. Commencing from 14 June 2007, the Group’s remaining business activities mainly comprise infrastructure business in mainland China and the Group’s interest in an associate, The Hong Kong and China Gas Company Limited (“Hong Kong and China Gas”), which are collectively classified as continuing operations of the Group.

Results of operations

The following discussions should be read in conjunction with the Company’s consolidated accounts for the year ended 30 June 2007.

Turnover and profit

	Turnover		Segment results	
	Year ended 30 June 2007 HK\$ million	Year ended 30 June 2006 HK\$ million	Year ended 30 June 2007 HK\$ million	Year ended 30 June 2006 HK\$ million
Continuing operations				
— Infrastructure	188.7	136.4	130.7	81.8
Discontinued operations				
— Property leasing (before changes in fair value of investment properties)	370.1	613.8	240.7	329.4
— Hotel operation	90.9	95.3	29.4	35.6
— Security guard services	65.3	64.8	1.4	2.3
— Other businesses	186.7	236.8	5.2	(173.2)
	713.0	1,010.7	276.7	194.1
	901.7	1,147.1	407.4	275.9

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	Year ended 30 June 2007 HK\$ million	Year ended 30 June 2006 HK\$ million
Profit attributable to equity shareholders of the Company		
— Continuing operations	3,626.3	1,928.0
— Discontinued operations	1,764.8	1,739.2
Total	5,391.1	3,667.2
	HK\$	HK\$
Earnings per share		
— Continuing operations	1.19	0.67
— Discontinued operations	0.58	0.61
Total	1.77	1.28

The Group's turnover from continuing and discontinued operations for the financial year amounted to HK\$901.7 million (2006: HK\$1,147.1 million), representing a decrease of HK\$245.4 million, or 21.4%, from the previous financial year. The decrease in the turnover was mainly attributable to the reduced revenue contribution from property leasing as a result of the termination of the property sub-letting business.

Profit attributable to equity shareholders of the Company from continuing operations for the financial year amounted to HK\$3,626.3 million (2006: HK\$1,928.0 million), representing an increase of HK\$1,698.3 million, or 88.1%, from the previous financial year, which was mainly attributable to the increase in profit contribution from the infrastructure business and the Group's share of profit from Hong Kong and China Gas which is further explained below. Earnings per share from continuing operations for the financial year were HK\$1.19 (2006: HK\$0.67).

Profit attributable to equity shareholders of the Company from discontinued operations for the financial year amounted to HK\$1,764.8 million (2006: HK\$1,739.2 million), representing an increase of HK\$25.6 million, or 1.5%, from the previous financial year. Earnings per share from discontinued operations for the financial year were HK\$0.58 (2006: HK\$0.61). Excluding the changes in fair value of investment properties of the Group and its associates (net of deferred taxation and minority interests), the underlying profit attributable to equity shareholders of the Company from discontinued operations for the financial year was HK\$1,378.4 million (2006: HK\$466.9 million), representing an increase of HK\$911.5 million, or 195.2%, which was mainly attributable to a gain on disposal of the Sale Companies of HK\$925.4 million (2006: HK\$Nil).

Detailed discussions on major business segments are set out below.

Continuing operations

Infrastructure

Infrastructure projects in mainland China reported a turnover of HK\$188.7 million for the financial year (2006: HK\$136.4 million), representing an increase of HK\$52.3 million, or 38.3%, from the previous financial year. This was mainly attributable to the increase in traffic volume of a toll bridge in Hangzhou following the completion of major repair and maintenance work during the financial year. Profit contribution from this business segment for the financial year increased by HK\$48.9 million, or 59.8%, to HK\$130.7 million (2006: HK\$81.8 million).

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Associate – Hong Kong and China Gas

The Group's share of post-tax profit of Hong Kong and China Gas during the financial year was approximately HK\$3,404.2 million (2006: HK\$1,798.9 million), representing an increase of HK\$1,605.3 million, or 89.2%, from the previous financial year. Excluding the changes in fair value of investment properties (net of deferred taxation), the Group's share of the underlying profit from Hong Kong and China Gas amounted to HK\$3,091.1 million (2006: HK\$1,470.1 million), representing an increase of HK\$1,621.0 million, or 110.3%, from the previous financial year. The abovementioned increases in earnings are attributable to the fact that during the financial year, Hong Kong and China Gas recorded a share of profit from the sale of Grand Waterfront, a large-scale waterfront development project completed by the end of 2006, and a gain from the sale of its interests in ten piped city-gas projects in mainland China to Towngas China Company Limited (formerly Panva Gas Holdings Limited).

Discontinued operations

Property leasing

Revenue from property leasing for the financial year amounted to HK\$370.1 million (2006: HK\$613.8 million), representing a decrease of HK\$243.7 million, or 39.7%, from the previous financial year. The decrease in turnover was largely attributable to the termination of the property sub-letting business as the operating costs of this business segment were affected by rising rental rates. Profit contribution from this business segment (before changes in fair value of investment properties) amounted to HK\$240.7 million (2006: HK\$329.4 million), representing a decrease of HK\$88.7 million, or 26.9%, from the previous financial year.

Hotel operation

Newton Hotel Hong Kong and Newton Hotel Kowloon underwent substantial refurbishment work during the period from September 2006 to March 2007. Accordingly, revenue and profit contribution dropped to HK\$90.9 million (2006: HK\$95.3 million) and HK\$29.4 million (2006: HK\$35.6 million), respectively.

Security guard services

Security guard services reported a turnover of HK\$65.3 million (2006: HK\$64.8 million) and profit contribution of HK\$1.4 million (2006: HK\$2.3 million) during the financial year.

Other businesses

Turnover of other businesses decreased by HK\$50.1 million, or 21.2%, to HK\$186.7 million for the financial year (2006: HK\$236.8 million) which was largely attributable to the cessation of the information technology business in July 2006. Profit contribution from other businesses for the financial year amounted to HK\$5.2 million (2006: loss of HK\$173.2 million). A significant improvement was noted in view of a one-off provision for impairment loss on goodwill of HK\$161.8 million relating to the information technology business which was made during the previous financial year.

Associates

The Group's share of post-tax profits less losses from associates, which ceased to be held by the Group with effect from 14 June 2007, amounted to HK\$429.7 million (2006: HK\$690.2 million), representing a decrease of HK\$260.5 million, or 37.7%, from the previous financial year. Excluding the changes in fair value of investment properties (net of deferred taxation), the Group's share of underlying post-tax profits less losses from associates for the financial year amounted to HK\$224.4 million (2006: HK\$279.7 million), representing a decrease of HK\$55.3 million, or 19.8%, from the previous financial year, which was mainly attributable to a lower amount of profit from sale of land in the United States by Miramar during the financial year.

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Financial resources and liquidity

At 30 June 2007, the aggregate amount of the Group's bank borrowings was approximately HK\$28.9 million (2006: HK\$113.9 million). The cash and bank balances, the maturity profile of the bank borrowings and the gearing ratio of the Group are as follows:

	As at 30 June 2007 HK\$ million	As at 30 June 2006 HK\$ million
Cash and bank balances	3,684.1	5,177.0
Less: Bank borrowings repayable:		
— Within 1 year	22.7	87.8
— After 1 year but within 2 years	—	20.6
— After 2 years but within 5 years	6.2	5.5
Total bank borrowings	28.9	113.9
Net cash and bank balances	3,655.2	5,063.1
Gearing ratio	Nil	Nil

The interest cover of the Group is calculated as follows:

	Year ended 30 June 2007 HK\$ million	Year ended 30 June 2006 HK\$ million
Profit from continuing and discontinued operations (before changes in fair value of investment properties) plus the Group's share of the underlying profits less losses of associates (before taxation)	5,207.4	2,410.4
Less: Gain on disposal of the Sale Companies	(925.4)	—
Adjusted profit	4,282.0	2,410.4
Interest expense	4.1	10.0
Interest cover (times)	1,044	241

During the financial year, the Group demonstrated a strong ability in servicing its interest payments.

Based on the Group's net cash balance of HK\$3,655.2 million as at 30 June 2007, the abundant banking facilities in place and the recurrent income generation from its continuing operations, the Group has adequate financial resources in meeting the funding requirements for its ongoing operations as well as its future expansion.

Treasury and financial management

The Group's financing and treasury activities are centrally managed at the corporate level. Bank borrowings of the Group principally bear floating interest rates. Certain of the Group's bank borrowings were denominated in Renminbi to finance its infrastructure business in mainland China. During the financial year, the Group did not enter into any derivative financial instruments for speculative or hedging purposes. The Group monitors closely its interest rate and foreign exchange rate exposures and will consider hedging these exposures should the need arise.

Apart from the foregoing, the Group did not have any material exposures to interest rates or foreign exchange rates as at 30 June 2007.

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Material acquisitions and disposals

Save as disclosed under the section headed "Disposal of interests in certain companies of the Group", the Group did not undertake any significant acquisition or disposal of subsidiaries or assets during the financial year.

Charge on assets

Assets of the Group had not been charged to any third parties as at 30 June 2007, except that certain project financing facilities which were extended by banks to a subsidiary of the Company engaged in infrastructural projects in mainland China were secured by the Group's toll highway operation rights.

Capital commitments

As at 30 June 2007, the Group did not have any capital commitments (2006: HK\$34.2 million).

Contingent liabilities

As at 30 June 2006, the Company had contingent liabilities of HK\$30.1 million in respect of guarantees given to the banks to secure the banking facilities granted to certain subsidiaries. As at 30 June 2007, the Company did not have similar contingent liabilities for reason that the Company had disposed of the aforementioned subsidiaries (being members of the Sale Companies) pursuant to an agreement dated 27 March 2007 entered into between the Company and HLD.

As at 30 June 2006 and 2007, the Group did not have any contingent liabilities.

Employees and remuneration policy

At 30 June 2007, the Group had approximately 330 (2006: 1,500) full-time employees. The remuneration of the employees is in line with the market and commensurable with the level of pay in the industry. Discretionary year-end bonuses are payable to the employees based on individual performance. Other benefits to the employees include medical insurance, retirement scheme, training programmes and educational subsidies. Total staff costs for continuing and discontinued operations during the financial year amounted to HK\$124.6 million (2006: HK\$202.5 million).