

Financial Review

Management discussion and analysis

Material acquisitions and disposals

Acquisition of remaining interest in China Investment Group Limited

On 29 August 2007, the Group entered into a sale and purchase agreement with certain parties in relation to the acquisition of the remaining 35.94% interest in China Investment Group Limited (“CIG”) for a cash consideration of approximately HK\$145 million. The acquisition was completed in September 2007 and CIG became a wholly-owned subsidiary of the Company.

Disposal of interest in The Hong Kong and China Gas Company Limited

On 2 October 2007, the Company and Henderson Land Development Company Limited (“Henderson Land”) entered into an agreement (as supplemented by a supplemental agreement dated 7 November 2007) in relation to the acquisition by Henderson Land of the Group’s entire interest in 2,366,934,097 shares of The Hong Kong and China Gas Company Limited (“Hong Kong and China Gas”), representing approximately 39.06% of the total issued share capital of Hong Kong and China Gas. Details of the transaction are set out in the Chairman’s Statement of this annual report.

Disposal of interests in the Ningbo Subsidiaries (as defined below)

The Group previously entered into a sale and purchase agreement with Fenghua Transportation Investment Co., Ltd. 奉化市交通投資公司, a minority shareholder of the Ningbo Subsidiaries (as defined below), to dispose of its entire interests in Ningbo Nickwell Highway Development Company Limited, Ningbo Wise Link Highway Development Company Limited and Ningbo Rayter Highway Development Company Limited (collectively referred to as the “Ningbo Subsidiaries”) for a cash consideration of RMB70 million (approximately HK\$75 million). The transaction was completed during the financial year ended 30 June 2008, as a result of which the Group recognised a gain on disposal of approximately HK\$21 million.

Save as disclosed above, the Group did not undertake any significant acquisition or disposal of subsidiaries or assets during the financial year ended 30 June 2008.

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Results of operations

The following discussions should be read in conjunction with the Company's consolidated accounts for the financial year ended 30 June 2008.

Turnover and profit

	Turnover		Segment results	
	Year ended 30 June		Year ended 30 June	
	2008 HK\$ million	2007 HK\$ million	2008 HK\$ million	2007 HK\$ million
Continuing operations				
— Infrastructure	272	189	193	131
Discontinued operations				
— Property leasing	—	370	—	241
— Hotel operation	—	91	—	29
— Security guard services	—	65	—	1
— Others	—	187	—	5
	—	713	—	276
	272	902	193	407

	Year ended 30 June	
	2008 HK\$ million	2007 (re-stated) HK\$ million
Profit attributable to equity shareholders of the Company		
— Continuing operations	125	222
— Discontinued operations	35,265	5,169
Total	35,390	5,391
	HK\$	HK\$
Earnings per share		
— Continuing operations	0.04	0.07
— Discontinued operations	11.57	1.70
Total	11.61	1.77

Continuing operations

The Group's continuing operations comprise the infrastructure business in mainland China, being the operation of a toll bridge in Hangzhou and the operation rights of a toll highway in Maanshan, Anhui Province. Turnover for the financial year amounted to HK\$272 million (2007: HK\$189 million), representing an increase of HK\$83 million, or 44%, over that for the previous financial year. This was mainly attributable to the increase in traffic volume of the toll bridge in Hangzhou following the completion of major repair and maintenance work in October 2006. Profit contribution (representing turnover less direct costs) from the infrastructure business for the financial year increased by HK\$61 million, or 44%, to HK\$200 million (2007: HK\$139 million).

Discontinued operations

The results of the Group's discontinued operations for the financial year comprised mainly (i) the Group's share of post-tax profit of Hong Kong and China Gas of HK\$1,484 million for the period from 1 July 2007 to 17 December 2007 (being the completion date of the Group's disposal of its entire interest in Hong Kong and China Gas to Henderson Land, as referred to in the paragraph headed "Material acquisitions and disposals" above); and (ii) the gain on the Group's disposal of its entire interest in Hong Kong and China Gas (as referred to in the paragraph headed "Material acquisitions and disposals" above) of HK\$33,781 million.

The Group's share of post-tax profit of Hong Kong and China Gas of HK\$1,484 million for the period from 1 July 2007 to 17 December 2007 (Period from 1 July 2006 to 31 December 2006: HK\$1,290 million) represents an increase of HK\$194 million, or 15%. Such increase is mainly attributable to the increase in profit contribution from the property development segment of Hong Kong and China Gas, for the reason that there were increased property sales of the Grand Waterfront project during the period from 1 July 2007 to 17 December 2007 when compared with the corresponding period from 1 July 2006 to 31 December 2006.

Profit attributable to equity shareholders

Profit attributable to equity shareholders for the financial year amounted to HK\$35,390 million (2007: HK\$5,391 million), representing an increase of HK\$29,999 million over that for the previous financial year.

Profit attributable to equity shareholders from continuing operations for the financial year amounted to HK\$125 million (2007 (re-stated): HK\$222 million), representing a decrease of HK\$97 million, or 44%, from the previous financial year. This was mainly attributable to the fact that the Group earned less bank interest income during the financial year, for the reason that the Group maintained a lower average cash balance during the financial year when compared with that of the previous financial year, subsequent to the Group's cash distributions to shareholders of approximately HK\$15,237 million (or HK\$5 per share) in June 2007, approximately HK\$3,139 million (or HK\$1.03 per share) in December 2007 and approximately HK\$3,687 million (or HK\$1.21 per share) in January 2008. During the financial year, the effect of reduced bank interest income to the Group was partially offset by an increase in profit contribution from the infrastructure business to the Group.

Profit attributable to equity shareholders from discontinued operations for the financial year amounted to HK\$35,265 million (2007 (re-stated): HK\$5,169 million). The increase of HK\$30,096 million was mainly attributable to the gain on disposal of the Group's entire interest in Hong Kong and China Gas (as referred to in the paragraph headed "Material acquisitions and disposals" above) of HK\$33,781 million, which is offset against the profits attributable to equity shareholders derived from (i) the Group's interest in Hong Kong and China Gas of HK\$1,920 million during the corresponding period from 18 December 2006 to 30 June 2007 (given the completion date of the Group's disposal of its interest in Hong Kong and China Gas to Henderson Land on 17 December 2007); and (ii) certain subsidiaries and associates sold by the Group to Henderson Land during the year ended 30 June 2007 of HK\$835 million and the Group's profit on disposal arising therefrom of HK\$930 million, all of which amounts did not recur for the year ended 30 June 2008.

Financial resources, liquidity and loan maturity profile

At 30 June 2008, the aggregate amount of the Group's bank borrowings was HK\$40 million (2007: HK\$29 million). The cash and bank balances, the maturity profile of the bank borrowings and the gearing ratio of the Group were as follows:

	At 30 June 2008 HK\$ million	At 30 June 2007 HK\$ million
Cash and bank balances	836	3,684
Less: Bank borrowings repayable		
— Within 1 year	11	23
— After 1 year but within 2 years	18	—
— After 2 years but within 5 years	11	6
Total bank borrowings	40	29
Net cash and bank balances	796	3,655
Gearing ratio	Nil	Nil

Finance costs for the financial year amounted to HK\$5 million (2007: HK\$4 million) which were immaterial to the Group's operations.

Based on the Group's net cash and bank balances of HK\$796 million at 30 June 2008, 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. The Group's bank borrowings bear floating interest rates and are 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 exposure and foreign exchange rate exposure (the latter being its investments in the infrastructure business in mainland China which is denominated in Renminbi and is not hedged) 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 at 30 June 2008.

Charge on assets

Assets of the Group were not charged to any third parties at 30 June 2008, except that certain project financing facilities which were extended by banks to a subsidiary of the Company engaged in infrastructure projects in mainland China were secured by the Group's toll highway operation rights. At 30 June 2008, the outstanding balance of the Group's secured bank loans was HK\$40 million (2007: HK\$29 million).

Capital commitments

At 30 June 2008, the Group did not have any capital commitments (2007: Nil).

Contingent liabilities

At 30 June 2008, the Group did not have any contingent liabilities (2007: Nil).

Employees and remuneration policy

At 30 June 2008, the Group had approximately 215 (2007: 330) 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 education subsidies.

Total staff costs for the continuing and discontinued operations for the financial year amounted to HK\$13 million (2007: HK\$125 million).