MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

GROUP RESULTS

Overview

Despite the global financial crisis and the general economic downturn, the Group was able to maintain a steady growth in its businesses in the year ended 30 June 2009. Both the turnover and earnings before interest and tax ("EBIT") have improved as compared with the previous year. The net profit figures, however, were grossly affected by the exceptional items. In last year, the Group benefited from the disposals of the Group's interest in a Macau property development project and in the Guangzhou East-South-West Ring Road project ("ESW Ring Road"). The absence of such exceptional gain in current year has caused a significant drop in the net profit.

For the year ended 30 June 2009, the Group's turnover by activities and their respective earnings before interest and tax are reported as follows:

	Turnover		Earnings before interest & tax	
In HK$ million	*2008*	***2009***	*2008 (restated)*	***2009***
Property letting, agency & management	485	**554**	254	**340**
Gain recognised on transfer of property to investment properties upon completion of development	—	**—**	371	**511**
Property development	6	**4**	(32)	**(29)**
Hotel operations, restaurant & catering	421	**410**	77	**68**
Toll road investment (net of interest and tax)*	1,720	**1,809**	1,098*	**1,062***
Power plant (net of interest and tax)*	—	**198**	(43)*	**(8)***
Others	288	**115**	169	**(45)**
(Note)	2,920	**3,090**	1,894	**1,899**

	Results	
In HK$ million	*2008 (restated)*	***2009***
Earnings before interest & tax	1,894	**1,899**
Finance cost	(87)	**(35)**
Taxation	(159)	**(187)**
Recurring profit	1,648	**1,677**
Exceptional items	4,791	**146**
Fair value gain on investment properties	270	**209**
Taxation in respect of the exceptional items and net fair value gain on investment properties	(180)	**(34)**
Profit for the year	6,529	**1,998**
Minority interests	(550)	**(317)**
Profit Attributable to Equity Holders of the Company	5,979	**1,681**

* Comprised share of net profit after interest and tax of jointly controlled entities

Note: Reconciliation to Consolidated Income Statement

In HK$ million	Turnover *2008*	Turnover ***2009***	Results *2008 (restated)*	Results ***2009***
Turnover/EBIT per Financial Review	2,920	**3,090**	1,894	**1,899**
Less:				
Treasury income	(288)	**(115)**	—	**—**
Share of turnover of jointly controlled entities engaged in				
— Toll road investment	(1,717)	**(1,809)**	—	**—**
— Power plant	—	**(198)**	—	**—**
Add:				
Gain arising from changes in fair value of investment properties	—	**—**	270	**209**
Gain arising from distribution in specie of shares in a subsidiary	—	**—**	—	**144**
Gain on disposal of available-for-sale investments	—	**—**	22	**2**
Gain on disposal of jointly controlled entities and associates	—	**—**	4,742	**—**
Gain on disposal of investment properties	—	**—**	27	**—**
Finance costs	—	**—**	(87)	**(35)**
Turnover/Profit before taxation per Consolidated Income Statement	915	**968**	6,868	**2,219**

Turnover

Turnover for the year ended 30 June 2009, including treasury income of group companies and the Group's attributable share of toll revenue of jointly controlled entities engaging in toll roads and power plant turnover, has gone up 6% to HK$3,090 million from HK$2,920 million of last year. The growth was the result of continued improvement in property letting, agency & management and toll road business, together with the commencement of power plant operation in the year.

Earnings before Interest and Tax

The Group's EBIT increased slightly to HK$1,899 million from HK$1,894 million of last year. The Property letting division recorded substantial growth of 34% in EBIT, mainly due to rise in rental income and successful cost control. This growth and the increase in "Gain recognised on transfer of property to investment properties upon completion of development" were partially offset by the decrease in treasury income which is grouped under "Others". Toll road's EBIT was able to maintain at a high level of HK$1,062 million despite a slight drop in road traffic. The share of loss in power plant of HK$8 million is mainly affected by the pre-operating expenses of Heyuan Power Plant booked in current year. Hotel operations, restaurant & catering division, however, was adversely affected by the global financial crisis, new PRC travel policy on tour packages pricing and the human swine influenza and a conceivable decline in EBIT was recorded. The drop in treasury income was due primarily to the plunge in deposit interest rates during the year.

Exceptional Items

Exceptional items for the year represented the gain arising from distribution in specie of shares in a subsidiary as dividend of HK$144 million and the gain on disposal of available-for-sale investments of HK$2 million. Gain from exceptional items of HK$4,791 million for the last year represented (i) gain on disposal of the Group's interest in the Macau property project of HK$3,948 million; (ii) gain on disposal of the Group's interest in ESW Ring Road of HK$793 million (after tax: HK$661 million); (iii) gain on disposal of investment properties in Allway Gardens of HK$27 million; and (iv) gain on disposal of available-for-sale investments of HK$22 million.

Profit Attributable to Equity Holders

The Group's profit attributable to equity holders was HK$1,681 million, representing a drop of 72% over HK$5,979 million of the last year. The decrease was mainly due to the drop in exceptional gain in current year as discussed in above.

Liquidity and Financial Resources

As of 30 June 2009, the Group's cash balances and available banking facilities are as below:

	As at 30 June	
In HK$ million	*2008*	***2009***
Cash		
HHI and its subsidiaries ("HHI Group")	5,997	**2,775**
HHL Group (excluding HHI Group)	4,785	**2,503**
	10,782	**5,278**
Available Committed Banking Facilities		
HHI Group	3,600	**3,600**
HHL Group (excluding HHI Group)	13,350	**13,350**
	16,950	**16,950**
Cash and Available Committed Banking Facilities		
HHI Group	9,597	**6,375**
HHL Group (excluding HHI Group)	18,135	**15,853**
	27,732	**22,228**

Maturity Profile of the Major Available Committed Banking Facilities	Maturity Date
HK$3,600 million syndicated loan for HHI Group	13 October 2010
HK$5,350 million syndicated loan for HHL Group (excluding HHI Group)	30 June 2011
HK$7,000 million syndicated loan for HHL Group (excluding HHI Group)	28 September 2014

On top of the above available committed banking facilities, the Group's available uncommitted banking facilities amounted to HK$502 million as at 30 June 2009 (HK$602 million as at 30 June 2008).

The main reasons for the decrease of cash balance over the last year are the payments of dividends and capital expenditures on developing and existing projects.

As at 30 June 2009, there was no corporate debt outstanding. The Group's financial position remains strong. With the cash balances in hand as well as the available banking facilities, the Group has sufficient financial resources to cater for its operating activities, present and potential investment activities.

Treasury Policies

The Group adopts prudent and conservative approach on treasury policies. The overall objective is to minimise the finance cost and optimise the return on financial assets.

The Group did not have any hedging arrangement to hedge the interest rate or exchange rate exposures during the year. However, the Group will continue to closely monitor such exposures from time to time.

The Group generally places all cash in short-term deposits denominated mainly in Hong Kong dollar and United States dollar. The Group has not invested in any Accumulator, Equity Linked Note or other financial derivative instruments during the year.

Project Commitments

Details of the project commitments are set out in note 40 to the consolidated financial statements.

Contingencies

Details of the contingent liabilities are set out in note 42 to the consolidated financial statements.

Charges on Assets

As at 30 June 2009, none of the Group's assets were pledged to secure any loans or banking facilities.

Material Acquisitions or Disposals

In order to strengthen the portfolio under "The East", the Group acquired the entire equity interests in Mingway Company, Limited ("Mingway") from a company beneficially owned by certain directors of the Company for a total consideration of HK$208.4 million during the year ended 30 June 2009. Mingway is principally engaged in property investment and its principal asset is its sole ownership of certain shops at Wu Chung House.

On 23 June 2009, the tender offer submitted by Grand Site Development Limited ("Grand Site"), a company jointly held by the Group and Sino Land Group, was accepted by the URA in respect of the development of the Lee Tung Street Project in Wanchai, covering a total site area of approximately 88,500 square feet. The Group and Sino Land Group will jointly hold and develop the Lee Tung Street Project through their respective shareholding of 50% in Grand Site. The total capital commitment of the Group in relation to Grand Site is expected to be approximately HK$4.15 billion, representing 50% of the budgeted development and related costs of the Lee Tung Street Project of approximately HK$8.3 billion. For details, please refer to the announcement made by the Company on 26 June 2009, entitled "Discloseable Transaction, Formation of a Joint Venture, Acquisition of Interest in Land".