Financial Review

Review of Results

Profit attributable to Company's shareholders for the year ended 30 June 2006 was HK$19,850 million, an increase of HK$1,950 million or 11% compared with HK$17,900 million for the previous year. The results reflected the adoption of new Hong Kong Financial Reporting Standards with effect from 1 July 2005 and in particular, included an increase in fair value of the Group's investment properties net of related deferred taxation of HK$7,116 million (2005: HK$6,755 million) and shared an increase in fair value of investment properties net of related deferred taxation of HK$2,305 million (2005: HK$1,493 million) of jointly controlled entities and associates, in accordance with HKAS 40 "Investment Properties". Underlying profit attributable to Company's shareholders which excluded the effect of fair value changes on investment properties amounted to HK$10,468 million, an increase of HK$206 million or 2% compared with the previous year of HK$10,262 million prepared on a comparable basis. Underlying earnings per share increased by 1.6% to HK$4.34 compared with the corresponding figure of HK$4.27 for the previous year. The increase in profit was primarily driven by higher profit contributions from property sales, which grew by HK$2,587 million or 58% to HK$7,049 million and continuous growth in net rental income, which increased by HK$548 million or 13.5% to HK$4,615 million, more than offsetting the increased finance expenses and the non-recurrence of significant exceptional profit from disposal of long-term investments compared with the previous year. Last year, the Group recorded a one-off capital gain of HK$1,417 million on sale of its interest in Asia Container Terminals Holdings Limited.

Financial Resources and Liquidity

(a) Net debt and gearing

The Group's shareholders' funds as at 30 June 2006 increased to HK$167,529 million or HK$67.3 per share from HK$143,923 million or HK$59.9 per share at the previous year end. The increase of HK$23,606 million or 16% was largely attributable to the net underlying profit retained during the year, the increase in fair value net of deferred taxation of HK$9,400 million of the Group's investment property portfolio, and the increase in the Company's equity of HK$7,837 million following the issue of 89 million new shares under a share placement made in May 2006.

The Group's financial position remains strong with a low debt leverage and high interest cover. Gearing ratio as at 30 June 2006, calculated on the basis of net debt to shareholders' funds, increased moderately to 13.4% from 11.5% at 30 June 2005. Interest cover, measured by the ratio of operating profit to total net interest expenses including those capitalized, was 9.9 times compared with 20.1 times for the previous year, reflecting higher interest rate environment and higher average borrowing due to higher expenditures incurred on land acquisitions during the year.

As at 30 June 2006, the Group's gross borrowings totalled HK$30,237 million. Of these, HK$1,903 million related to the bank borrowings of the Group's subsidiary, Route 3 (CPS) Company Limited, which were secured by way of charges over its assets. All other borrowings of the Group are unsecured. Net debt, after deducting cash and bank deposits of HK$7,806 million, amounted to HK$22,431 million. The maturity profile of the Group's gross borrowings is set out below:

	30 June 2006 HK$ Million	30 June 2005 HK$ Million
Repayable :		
Within one year	**2,950**	1,605
After one year but within two years	**1,815**	4,045
After two years but within five years	**22,902**	17,266
After five years	**2,570**	150
Total borrowings	**30,237**	23,066
Cash and bank deposits	**7,806**	6,519
Net debt	**22,431**	16,547

Financial Resources and Liquidity (cont'd)

(a) Net debt and gearing (cont'd)

The Group has also secured substantial committed and undrawn banking facilities, most of which are arranged on a medium to long term basis, which helps minimize refinancing risk and provides the Group with strong financing flexibility.

With ample committed banking facilities in place, continuous cash inflow from property sales and a solid base of recurrent income, the Group has adequate financial resources for its funding requirements.

(b) Treasury policies

The entire Group's financing and treasury activities are centrally managed and controlled at the corporate level. As at 30 June 2006, about 89% of the Group's borrowings were raised through its wholly-owned finance subsidiaries and the remaining 11% through operating subsidiaries.

The Group's foreign exchange exposure was minimal given its large asset base and operational cash flow primarily denominated in Hong Kong dollars. As at 30 June 2006, about 91% of the Group's borrowings were denominated in Hong Kong dollars, 5% in Singapore dollars, 3% in US dollars and 1% in other currencies. The foreign currency borrowings were mainly for financing property projects outside Hong Kong.

The Group's borrowings are principally arranged on a floating rate basis. For the fixed rate notes issued by the Group, interest rate swaps have been used to convert the rates to floating rate basis. The use of financial derivative instruments is strictly controlled and solely for management of the Group's underlying exposures. It is the Group's policy not to enter into derivative transactions for speculative purposes.

As at 30 June 2006, the Group had outstanding fair value hedges in respect of fixed-to-floating interest rate swaps in the aggregate amount of HK$3,450 million and a currency swap (to hedge principal repayment of USD debt) in the amount of HK$234 million.

Charges of assets

As at 30 June 2006, certain bank deposits of the Group's subsidiary, SmarTone, in the aggregate amount of HK$320 million, were pledged for securing performance bonds related to 3G licence and some other guarantees issued by the banks. Additionally, the assets of the Group's subsidiary, Route 3 (CPS) Company Limited, with an aggregate net book value of HK$4,962 million, have been charged as collateral securities for its bank borrowings. Except for the above two charges, all the Group's assets are free from any encumbrances.

Contingent liabilities

As at 30 June 2006, the Group had contingent liabilities in respect of guarantees for bank borrowings of joint venture companies and other guarantees in the aggregate amount of HK$5,302 million (2005: HK$4,194 million).