

REVIEW OF RESULTS

Profit attributable to Company's shareholders for the six months ended 31 December 2006 was HK\$10,910 million, a decrease of HK\$2,595 million or 19% compared to HK\$13,505 million for the corresponding period last year. The reported profit has included an increase in fair value of investment properties net of deferred taxation of HK\$5,639 million for the current period and HK\$7,426 million for the corresponding period of the last financial year. Underlying net profit for the period which excludes the impact of fair value changes on investment properties amounted to HK\$5,297 million, down by HK\$782 million or 12.9% compared to HK\$6,079 million in the same period last year. The decrease was primarily due to lower profit contributions from property sales, which dropped by HK\$1,418 million or 30% to HK\$3,281 million, largely as a result of smaller development profit margin compared to the first half of the last financial year. The profit decline was partly offset by strong growth in rental income. Net rental income for the period grew to HK\$2,535 million, 13.4% higher than HK\$2,235 million in the first half of the last financial year, mainly attributable to positive rental reversions across the various sectors, particularly the office sector.

FINANCIAL RESOURCES AND LIQUIDITY

(a) Net debt and gearing

The Group's financial position remains strong with a low debt leverage and strong interest cover. Gearing ratio as at 31 December 2006, calculated on the basis of net debt to Company's shareholders' funds, was 17.5% compared to 13.4% at 30 June 2006. Interest cover, measured by the ratio of underlying profit from operations to total net interest expenses including those capitalized, was 10.4 times compared to 13.8 times for the same period last year.

As at 31 December 2006, the Group's gross borrowings totalled HK\$37,791 million. Of these, HK\$1,673 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\$6,971 million, amounted to HK\$30,820 million. The maturity profile of the Group's gross borrowings is set out as follows :

	31 December 2006 HK\$ Million	30 June 2006 HK\$ Million
Repayable :		
Within one year	1,231	2,950
After one year but within two years	4,468	1,815
After two years but within five years	29,342	22,902
After five years	2,750	2,570
Total borrowings	37,791	30,237
Cash and bank deposits	6,971	7,806
Net debt	30,820	22,431

FINANCIAL RESOURCES AND LIQUIDITY (CONT'D)

(b) Treasury policies

The entire Group's financing and treasury activities are centrally managed and controlled at the corporate level. As at 31 December 2006, about 92% of the Group's borrowings were raised through its wholly-owned finance subsidiaries and the remaining 8% 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 31 December 2006, about 93% of the Group's borrowings were denominated in Hong Kong dollars, 4% in Singapore dollars, 2% 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 31 December 2006, the Group had outstanding fair value hedges in respect of fixed-to-floating interest rate swaps in the aggregate amount of HK\$2,900 million and a currency swap (to hedge principal repayment of USD debt) in the amount of HK\$234 million.

CHARGES OF ASSETS

As at 31 December 2006, certain bank deposits of the Group's subsidiary, SmarTone, in the aggregate amount of HK\$330 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\$4,800 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 31 December 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\$3,392 million (30 June 2006 : HK\$5,302 million).