

Review of Results

Profit attributable to Company's shareholders for the year ended 30 June 2007 was HK\$21,226 million, an increase of HK\$1,376 million or 6.9% compared with HK\$19,850 million for the previous year. The reported profit has included an increase in fair value of investment properties net of related deferred taxation of HK\$9,778 million for the current year and HK\$9,400 million for the previous year. Underlying profit attributable to Company's shareholders which excluded the effect of fair value changes on investment properties increased by HK\$1,027 million or 9.8% to HK\$11,495 million compared with the previous year of HK\$10,468 million, driven mainly by higher profit contributions from property sales and rental income. Profit from property sales and net rental income for the year amounted to HK\$7,698 million and HK\$5,245 million, representing an increase of 9.2% and 13.7%, as compared to HK\$7,049 million and HK\$4,615 million, respectively, for the last year.

Financial Resources and Liquidity

(a) Net debt and gearing

The Company's shareholders' funds as at 30 June 2007 increased to HK\$185,476 million or HK\$74.4 per share from HK\$167,529 million or HK\$67.3 per share at the previous year end.

The Group's financial position remains strong with a low debt leverage and high interest cover. Gearing ratio as at 30 June 2007, calculated on the basis of net debt to shareholders' funds, increased moderately to 14% from 13.4% at 30 June 2006. Interest cover, measured by the ratio of operating profit to total net interest expenses including those capitalized, was 9.2 times compared with 9.9 times for the previous year.

As at 30 June 2007, the Group's gross borrowings totalled HK\$33,332 million. All borrowings of the Group are unsecured except for HK\$1,449 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. Net debt, after deducting cash and bank deposits of HK\$7,364 million, amounted to HK\$25,968 million. The maturity profile of the Group's gross borrowings is set out below:

	30 June 2007 HK\$ Million	30 June 2006 HK\$ Million
Repayable :		
Within one year	773	2,950
After one year but within two years	5,429	1,815
After two years but within five years	21,585	22,902
After five years	5,545	2,570
Total borrowings	33,332	30,237
Cash and bank deposits	7,364	7,806
Net debt	25,968	22,431

The Group has also procured 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.

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 30 June 2007, 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 30 June 2007, about 85% of the Group's borrowings were denominated in Hong Kong dollars, 9% in US dollars, 4% in Singapore dollars and 2% 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 some of 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 2007, 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 30 June 2007, certain bank deposits of the Group's subsidiary, SmarTone, in the aggregate amount of HK\$324 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\$4,656 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 2007, 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\$3,402 million (2006 : HK\$5,302 million).