Financial Review

Review of Results

Underlying profit attributable to the Company's shareholders for the year, excluding the effect of fair value changes on investment properties, was HK$12,415 million, a rise of HK$229 million or 1.9% compared to HK$12,186 million in the previous year. Net rental income for the year amounted to HK$7,271 million, increased by HK$1,279 million or 21.3% over the last year, reflecting contributions from new projects and positive rental reversions in the Group's rental portfolio. Profit from property sales reported an increase of HK$670 million to HK$7,113 million, owing to increase in sales volume of residential units. Hotel and telecommunication segments contributed an operating profit of HK$295 million and HK$115 million, a decrease of 33.6% and 66.6%, respectively, over the last year, as a result of the global economic downturn.

Profit attributable to the Company's shareholders for the year ended 30 June 2009 was HK$10,356 million, a decrease of HK$17,246 million or 62.5% compared to HK$27,602 million for the previous year. The reported profit has included a decrease in fair value of investment properties net of related deferred taxation of HK$2,014 million for the current year whereas an increase of HK$15,851 million for the previous year.

Financial Resources and Liquidity

(a) Net debt and gearing

The Company's shareholders' funds as at 30 June 2009 was HK$222,268 million or HK$86.7 per share compared to HK$219,250 million or HK$85.5 per share at the previous year end. The increase of HK$3,018 million or 1.4% was mainly due to profit attributable to the Company's shareholders for the year of HK$10,356 million, offset by mark-to-market losses on available-for-sale investments and payment of HK$6,410 million in dividends.

The Group's financial position remains strong with a low debt leverage and strong interest cover. Gearing ratio as at 30 June 2009, calculated on the basis of net debt to Company's shareholders' funds, was 15.2% compared to 15.3% at 30 June 2008. Interest cover, measured by the ratio of operating profit to total net interest expenses including those capitalized, was 13.6 times compared to 7.6 times for the previous year.

As at 30 June 2009, the Group's gross borrowings totalled HK$42,025 million. Net debt, after deducting cash and bank deposits of HK$8,143 million, amounted to HK$33,882 million. The maturity profile of the Group's gross borrowings is set out as follows:

	30 June 2009 HK$ Million	30 June 2008 HK$ Million
Repayable:		
Within one year	**2,644**	2,051
After one year but within two years	**10,691**	5,548
After two years but within five years	**22,442**	27,426
After five years	**6,248**	5,278
Total borrowings	**42,025**	40,303
Cash and bank deposits	**8,143**	6,796
Net debt	**33,882**	33,507

Financial Resources and Liquidity (cont'd)

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

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.

(b) Treasury policies

The entire Group's financing and treasury activities are centrally managed and controlled at the corporate level. As at 30 June 2009, about 84% of the Group's borrowings were raised through its wholly-owned finance subsidiaries and the remaining 16% 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 2009, about 80% of the Group's borrowings were denominated in Hong Kong dollars, 3% in Singapore dollars, 8% in US dollars and 9% in Renminbi. The foreign currency borrowings were mainly for financing property projects outside Hong Kong.

The Group's borrowings were 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. As at 30 June 2009, about 83% of the Group's borrowings were on floating rate basis including those borrowings that were converted from fixed rate basis to floating rate basis and 17% were on fixed rate basis. The use of financial derivative instruments is strictly controlled and solely for hedging the Group's underlying exposures for its core business operations. It is the Group's policy not to enter into derivative or structured product transactions for speculative purposes.

As at 30 June 2009, the Group had outstanding fair value hedges in respect of fixed-to-floating interest rate swaps in the aggregate amount of HK$3,696 million and currency swaps (to hedge principal repayment of USD borrowings) in the aggregate amount of HK$683 million.

As at 30 June 2009, about 53% of the Group's cash and bank balances were denominated in Hong Kong dollars, 34% in United States dollars, 11% in Renminbi and 2% in other currencies.

Charges of Assets

As at 30 June 2009, certain bank deposits of the Group's subsidiary, Smartone, in the aggregate amount of HK$389 million, were pledged for securing performance bonds related to 3G licence and some other guarantees issued by the banks. Additionally, certain assets of the Group's subsidiaries with an aggregate net book value of HK$7,436 million have been charged to secure their bank borrowings. Except for the above charges, all the Group's assets were free from any encumbrances.

Contingent Liabilities

As at 30 June 2009, 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$2,835 million (30 June 2008: HK$2,427 million).