

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, amounted to HK\$13,883 million, a rise of HK\$1,468 million or 11.8% compared to HK\$12,415 million in the previous year. Net rental income for the year amounted to HK\$8,314 million, increased by HK\$1,043 million or 14.3% over the last year, benefited from positive rental reversions as well as the contribution from ION Orchard shopping mall in Singapore. Profit from property sales recorded a slight decrease to HK\$6,616 million, owing to fewer luxury residential sales in Hong Kong recognized this year. Hotel and telecommunication segments contributed an operating profit of HK\$373 million and HK\$327 million, a robust increase of 26.4% and 1.8 times, respectively, over the last year, resulting from improvement in general business conditions.

Profit attributable to the Company's shareholders for the year ended 30 June 2010 was HK\$28,043 million, an increase of HK\$17,687 million or 1.7 times compared to HK\$10,356 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\$14,965 million for the current year compared with a decrease of HK\$2,014 million for the previous year.

Financial Resources and Liquidity

(a) Net debt and gearing

The Company's shareholders' funds as at 30 June 2010 was HK\$245,078 million or HK\$95.4 per share compared to HK\$222,268 million or HK\$86.7 per share at the previous year end. The increase of HK\$22,810 million or 10.3% was mainly due to profit attributable to the Company's shareholders for the year of HK\$28,043 million, increase in the Company's equity of HK\$672 million in respect of shares issued for scrip dividends and mark-to-market gains of HK\$250 million on available-for-sale investments, offset in part by payment of HK\$6,539 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 2010, calculated on the basis of net debt to Company's shareholders' funds, was 15.2%, same as at 30 June 2009. Interest cover, measured by the ratio of operating profit to total net interest expenses including those capitalized, was 15.9 times compared to 13.7 times for the previous year.

As at 30 June 2010, the Group's gross borrowings totalled HK\$45,388 million. Net debt, after deducting cash and bank deposits of HK\$8,204 million, amounted to HK\$37,184 million. The maturity profile of the Group's gross borrowings is set out as follows:

	30 June 2010 HK\$ Million	30 June 2009 HK\$ Million
Repayable:		
Within one year	11,262	2,644
After one year but within two years	8,022	10,691
After two years but within five years	19,402	22,442
After five years	6,702	6,248
Total borrowings	45,388	42,025
Cash and bank deposits	8,204	8,143
Net debt	37,184	33,882

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 Review

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 2010, about 80% of the Group's borrowings were raised through its wholly-owned finance subsidiaries and the remaining 20% 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 2010, about 78% of the Group's borrowings were denominated in Hong Kong dollars, 7% in US dollars and 15% in Renminbi. 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. As at 30 June 2010, about 84% 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 16% were on fixed rate basis. The use of derivative instruments is strictly controlled and solely for management of the Group's underlying financial exposures for its core business operations. It is the Group's policy not to enter into derivative and structured product transactions for speculative purposes.

As at 30 June 2010, the Group had outstanding fair value hedges in respect of fixed-to-floating interest rate swaps in the aggregate amount of HK\$4,044 million, cash flow hedge in respect of a floating-to-fixed interest rate swap in the amount of HK\$100 million and currency swaps (to hedge principal repayment of USD borrowings) in the aggregate amount of HK\$452 million.

As at 30 June 2010, about 69% of the Group's cash and bank balances were denominated in Hong Kong dollars, 17% in United States dollars, 12% in Renminbi and 2% in other currencies.

Charges of Assets

As at 30 June 2010, certain bank deposits of the Group's subsidiary, Smartone, in the aggregate amount of HK\$340 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 carrying value of HK\$16,441 million have been charged, majority of which were for securing their bank borrowings on the mainland. Except for the above charges, all the Group's assets are free from any encumbrances.

Contingent Liabilities

As at 30 June 2010, 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\$3,041 million (30 June 2009: HK\$2,835 million).