Financial Review

Review of Results

Profit attributable to the Company's shareholders for the year ended 30 June 2011 was HK$48,097 million, an increase of HK$18,058 million or 60.1% compared to HK$30,039 million for the last year. The reported profit has included an increase in fair value of investment properties net of related deferred taxation and non-controlling interests of HK$26,996 million (2010: HK$17,005 million).

Underlying profit attributable to the Company's shareholders for the year ended 30 June 2011, excluding the net effect of changes in the valuation of investment properties, increased by HK$7,596 million or 54.7% to HK$21,479 million compared to HK$13,883 million for the last year. Profit from property sales increased by HK$10,031 million to HK$16,647 million, owing to substantial increase in sales recognized for residential projects including Aria, The Latitude, Larvotto, Valais and The Orchard Residences in Singapore. Net rental income grew 14.4% to HK$9,511 million, driven by continuous positive rental reversions as well as contribution from new investment properties including ICC Office in Hong Kong and Shanghai IFC Mall in Mainland China. Telecommunication segment contributed an operating profit of HK$967 million, a robust increase of HK$640 million or 2 times over the last year, on the back of strong growth in number of customers. Hotel profit increased by 48.3% to HK$553 million, boosted by growth in both occupancy and room rates amid improvement in economic conditions.

Financial Resources and Liquidity

(a) Net debt and gearing

As at 30 June 2011, the Company's shareholders' funds increased by HK$43,744 million to HK$306,965 million, equivalent to an increase of 16.6% to HK$119.4 per share (30 June 2010: HK$102.4 per share).

The Group's financial position remains strong with a low debt leverage and strong interest cover. Gearing ratio as at 30 June 2011, calculated on the basis of net debt to Company's shareholders' funds, was 17.1% compared to 14.1% at 30 June 2010. Interest cover, measured by the ratio of operating profit to total net interest expenses including those capitalized, was 16.9 times compared to 15.9 times for the previous year.

As at 30 June 2011, the Group's gross borrowings totalled HK$60,435 million. Net debt, after deducting cash and bank deposits of HK$7,898 million, amounted to HK$52,537 million, an increase of HK$15,353 million since 30 June 2010. The increase principally reflects the Group's continued acquisitions and investment in property projects in Hong Kong and Mainland China. The maturity profile of the Group's gross borrowings is set out as follows:

	30 June 2011 HK$ Million	30 June 2010 HK$ Million
Repayable:		
Within one year	**9,682**	11,262
After one year but within two years	**23,334**	8,022
After two years but within five years	**17,916**	19,402
After five years	**9,503**	6,702
Total borrowings	**60,435**	45,388
Cash and bank deposits	**7,898**	8,204
Net debt	**52,537**	37,184

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 2011, about 78% of the Group's borrowings were raised through its wholly-owned finance subsidiaries and the remaining 22% 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 2011, about 74% of the Group's borrowings were denominated in Hong Kong dollars, 17% in Renminbi and 9% in US dollars. 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 2011, about 81% 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 19% 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 2011, the Group had outstanding fair value hedges in respect of fixed-to-floating interest rate swaps in the aggregate carrying amount of HK$4,644 million, cash flow hedge in respect of a floating-to-fixed interest rate swap in the carrying amount of HK$100 million and currency swaps (to hedge principal repayment of USD borrowings) in the aggregate carrying amount of HK$452 million.

As at 30 June 2011, about 59% of the Group's cash and bank balances were denominated in Hong Kong dollars, 23% in United States dollars, 16% in Renminbi and 2% in other currencies.

Charges of Assets

As at 30 June 2011, certain bank deposits of the Group's subsidiary, SmarTone, in the aggregate amount of HK$411 million, were pledged for securing performance bonds related to telecommunications licences and some other guarantees issued by the banks. Additionally, certain assets of the Group's subsidiaries with an aggregate carrying value of HK$20,274 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 2011, 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$1,650 million (30 June 2010: HK$3,041 million).