

# Financial Review

## Management discussion and analysis

### Results of operations

The following discussions should be read in conjunction with the Company's audited consolidated accounts for the eighteen months ended 31 December 2009.

#### Turnover and profit

	Turnover		Contribution from operations	
	Eighteen months ended 31 December 2009	Year ended 30 June 2008	Eighteen months ended 31 December 2009	Year ended 30 June 2008 (restated)
	HK\$ million	HK\$ million	HK\$ million	HK\$ million
Business segments				
— Property development	8,673	9,173	3,171	2,737
— Property leasing	4,178	2,625	2,621	1,741
— Construction	400	317	(20)	1
— Infrastructure	441	272	335	194
— Hotel operation	248	186	32	39
— Department store operation	406	257	64	42
— Other businesses	884	662	394	343
	15,230	13,492	6,597	5,097

	Eighteen months ended 31 December 2009	Year ended 30 June 2008 (restated)
	HK\$ million	HK\$ million
Profit attributable to equity shareholders of the Company		
— including the Group's attributable share of changes in fair value of investment properties (net of deferred taxation) held by the Group's subsidiaries, associates and jointly controlled entities	14,320	15,473
— excluding the Group's attributable share of changes in fair value of investment properties (net of deferred taxation) held by the Group's subsidiaries, associates and jointly controlled entities	6,088	5,708

## Financial Review

The Group recorded an increase in turnover for the eighteen months ended 31 December 2009 of HK\$1,738 million, or 13%, to HK\$15,230 million (Year ended 30 June 2008: HK\$13,492 million). The increase was mainly attributable to an extended accounting period of eighteen months currently being reported on when compared with the previous period of twelve months ended 30 June 2008. Nevertheless, turnover in the Group's property development business segment during the period decreased by HK\$500 million, or 5%, from that for the previous financial year for the reason that the Group's property sales during the first twelve months ended 30 June 2009 were adversely affected by the unfavourable market conditions after the outbreak of the global financial crisis in September 2008.

Profit attributable to equity shareholders of the Company for the eighteen months ended 31 December 2009, excluding the Group's attributable share of changes in fair value of investment properties (net of deferred taxation) held by the Group's subsidiaries, associates and jointly controlled entities, amounted to HK\$6,088 million (Year ended 30 June 2008 (restated): HK\$5,708 million), representing an increase of HK\$380 million, or 7%, over that for the previous financial year. Such increase was mainly attributable to the increase in profit contribution from the Group's business segments of property development, property leasing, infrastructure, department store operation and other businesses as referred to below.

Excluding the Group's attributable share of changes in fair value of investment properties (net of deferred taxation) held by the Group's subsidiaries, associates and jointly controlled entities, earnings per share for the eighteen months ended 31 December 2009 were HK\$2.84 (Year ended 30 June 2008: HK\$2.78).

Discussions on the major business segments are set out below.

### Property development

Revenue from property development for the eighteen months ended 31 December 2009 amounted to HK\$8,673 million (Year ended 30 June 2008: HK\$9,173 million), representing a decrease of HK\$500 million, or 5%, from that for the previous financial year. During the eighteen months ended 31 December 2009, the Group's sales of the major property projects included 39 Conduit Road, The Sparkle, 8 Royal Green, The Beverly Hills and Cité 33 in Hong Kong, as well as Hengli Wanpan Huayuan in Guangzhou and residential apartment units of Henderson Centre in Beijing, mainland China. Together with the sales of other completed properties, total profit contribution amounted to HK\$3,171 million during the eighteen months ended 31 December 2009 (Year ended 30 June 2008: HK\$2,737 million), representing an increase of HK\$434 million, or 16%, over that for the previous financial year.

During the eighteen months ended 31 December 2009, the Group's share of pre-tax profit contributions from subsidiaries, associates and jointly controlled entities in relation to property development segment in total amounted to HK\$3,739 million (Year ended 30 June 2008: HK\$4,385 million), comprising contribution from subsidiaries of HK\$3,171 million (Year ended 30 June 2008: HK\$2,737 million), contribution from associates of HK\$280 million (Year ended 30 June 2008: HK\$1,185 million) and contribution from jointly controlled entities of HK\$288 million (Year ended 30 June 2008: HK\$463 million). In respect of the foregoing, the contribution from associates during the eighteen months ended 31 December 2009 included (inter alia) profits generated from the sales of units of Grand Promenade held by The Hong Kong and China Gas Company Limited ("HKCG", a listed associate of the Company) and the sales of units of Shining Heights and The Spectacle held by Hong Kong Ferry (Holdings) Company Limited ("HK Ferry", a listed associate of the Company).

## Financial Review

Turnover for the eighteen months ended 31 December 2009 included an amount of HK\$3,280 million (Year ended 30 June 2008: HK\$Nil) relating to the sale of 25 units at 39 Conduit Road. At the recent requests of the buyers, the completion dates of the sale of 24 units have been extended by two to four months from February 2010. The turnover and profit after taxation arising from these 24 units attributable to the Group for the eighteen months ended 31 December 2009 amounted to HK\$1,912 million and HK\$973 million respectively. Currently, there are no reasons to believe that the sale of such 24 units would not proceed. However, in the event that the sale of such 24 units is not completed, and before taking into account any re-sale of such units, the Group shall recognise an attributable loss of approximately HK\$780 million after forfeiture of deposits.

### Property leasing

Revenue from property leasing for the eighteen months ended 31 December 2009 amounted to HK\$4,178 million (Year ended 30 June 2008: HK\$2,625 million), representing an increase of HK\$1,553 million, or 59%, over that for the previous financial year. At 31 December 2009, the Group's major investment properties in Hong Kong (other than those investment properties which were completed after 1 January 2008) recorded an average occupancy rate of 97% (30 June 2008: 95%). The average occupancy rate of those investment properties which were completed after 1 January 2008, of which Manulife Financial Centre in Kwun Tong (formerly known as Kwun Tong 223) is the largest by measurement of gross floor area, increased to 60% as at 31 December 2009. During the period, there were increases in the new rents upon lease renewals and new lettings in a number of cases when compared with the corresponding passing rents. Profit contribution from property leasing for the eighteen months ended 31 December 2009 amounted to HK\$2,621 million (Year ended 30 June 2008: HK\$1,741 million), representing an increase of HK\$880 million, or 51%, over that for the previous financial year.

Taking into account the Group's share of leasing revenue from properties owned by subsidiaries, associates and jointly controlled entities, gross revenue from property leasing attributable to the Group during the eighteen months ended 31 December 2009 amounted to HK\$6,522 million (Year ended 30 June 2008: HK\$3,872 million), representing an increase of HK\$2,650 million, or 68%, over that for the previous financial year.

During the eighteen months ended 31 December 2009, the Group's share of pre-tax net rental income from properties owned by subsidiaries, associates and jointly controlled entities (before any changes in fair value of investment properties and related deferred taxation) in total amounted to HK\$4,540 million which represents an increase of HK\$1,812 million, or 66%, over the corresponding amount of HK\$2,728 million for the previous financial year. The Group's share of pre-tax net rental income comprises contribution from subsidiaries of HK\$2,621 million (Year ended 30 June 2008: HK\$1,741 million), contribution from associates of HK\$653 million (Year ended 30 June 2008: HK\$346 million) and contribution from jointly controlled entities of HK\$1,266 million (Year ended 30 June 2008: HK\$641 million).

The abovementioned increases in the Group's revenue, net rental income and profit contribution from property leasing for the eighteen months ended 31 December 2009 were mainly attributable to an extended accounting period of eighteen months currently being reported on when compared with the previous period of twelve months ended 30 June 2008, as well as the increases in the new rents upon lease renewals and new lettings in a number of cases when compared with the corresponding passing rents.

# Financial Review

## Construction

The Group principally engages in construction contracts for property development projects in which the Group participates, including property development projects undertaken by the Group's associates and jointly controlled entities. During the eighteen months ended 31 December 2009, turnover from construction activities increased by 26% to HK\$400 million (Year ended 30 June 2008: HK\$317 million) as a result of the Group's undertaking of construction contracts for two major projects, namely Shining Heights and The Spectacle held by HK Ferry, during the period. Nevertheless, the construction segment reported a loss from operations of HK\$20 million during the eighteen months ended 31 December 2009 (Year ended 30 June 2008: profit contribution of HK\$1 million), for the reasons that (i) the construction segment recorded depreciation charge of HK\$7 million in relation to the construction plant and machinery which were acquired by the Group during the period to undertake the construction activities, whilst no similar depreciation charge was recorded for the previous financial year; (ii) there was a decrease in the gain on disposal of tower cranes by an amount of HK\$4 million as less number of tower cranes were sold during the period when compared with the previous financial year; and (iii) there was an increase in administrative expenses for the construction segment of HK\$6 million due to an extended accounting period of eighteen months being reported on when compared with the previous period of twelve months ended 30 June 2008.

## Infrastructure

Infrastructure projects in mainland China reported a turnover of HK\$441 million for the eighteen months ended 31 December 2009 (Year ended 30 June 2008: HK\$272 million), representing an increase of HK\$169 million, or 62%, over that for the previous financial year. The increase was primarily driven by an extended accounting period of eighteen months currently being reported on when compared with the previous period of twelve months ended 30 June 2008, as well as the increase in traffic volume of the toll bridge in Hangzhou and the exchange gain upon conversion of Renminbi ("RMB") to Hong Kong dollars during the eighteen months ended 31 December 2009 when compared with the previous financial year. Profit contribution from this business segment for the eighteen months ended 31 December 2009 increased by HK\$141 million, or 73%, to HK\$335 million (Year ended 30 June 2008 (restated): HK\$194 million).

## Hotel operation

Turnover from hotel operation amounted to HK\$248 million for the eighteen months ended 31 December 2009, representing an increase of HK\$62 million, or 33%, over that for the previous financial year for the reason of an extended accounting period of eighteen months currently being reported on when compared with the previous period of twelve months ended 30 June 2008. However, due to the adverse impacts of the unfavourable economic conditions after the outbreak of the global financial crisis in September 2008 and the outbreak of the H1N1 pandemic in the second quarter of 2009, profit contribution from this business segment for the eighteen months ended 31 December 2009 decreased by HK\$7 million, or 18%, from that for the previous financial year to HK\$32 million.

# Financial Review

## Department store operation

During the eighteen months ended 31 December 2009, the Group operated five department stores under the name of “Citistore” and three boutique stores in Hong Kong. Revenue from department store operation for the eighteen months ended 31 December 2009 amounted to HK\$406 million (Year ended 30 June 2008: HK\$257 million), which recorded an increase of HK\$149 million, or 58%, over that for the previous financial year. Profit contribution from department store operation for the eighteen months ended 31 December 2009 amounted to HK\$64 million (Year ended 30 June 2008: HK\$42 million), representing an increase of HK\$22 million, or 52%, over that for the previous financial year.

The abovementioned increases in the Group’s revenue and profit contribution from department store operation for the eighteen months ended 31 December 2009 were mainly attributable to an extended accounting period of eighteen months currently being reported on when compared with the previous period of twelve months ended 30 June 2008.

## Other businesses

Other businesses comprise mainly provision of finance, investment holding, project management, property management, agency services and provision of cleaning and security guard services, which altogether reported a turnover of HK\$884 million for the eighteen months ended 31 December 2009 (Year ended 30 June 2008: HK\$662 million), representing an increase of HK\$222 million, or 34%, over that for the previous financial year. The increase in turnover during the eighteen months ended 31 December 2009 is mainly attributable to an extended accounting period of eighteen months currently being reported on when compared with the previous period of twelve months ended 30 June 2008, the effect of which was partially offset by a decrease in turnover from project management and sale of leasehold land during the period when compared with that for the financial year ended 30 June 2008. Profit contribution from other businesses for the eighteen months ended 31 December 2009 increased by HK\$51 million, or 15%, to HK\$394 million (Year ended 30 June 2008: HK\$343 million), for the same reason of an extended accounting period of eighteen months (as referred to above) but the effect of which was partially offset by the absence during the period of an exchange gain recognised during the financial year ended 30 June 2008 in the amount of HK\$116 million.

## Associates

The Group’s share of post-tax profits less losses of associates during the eighteen months ended 31 December 2009 amounted to HK\$3,074 million (Year ended 30 June 2008: HK\$3,224 million), representing a decrease of HK\$150 million, or 5%, from that for the previous financial year. Excluding the Group’s attributable share of changes in fair value of investment properties (net of deferred taxation) held by the associates of HK\$467 million during the eighteen months ended 31 December 2009 (Year ended 30 June 2008: HK\$1,015 million), the Group’s share of the underlying post-tax profits less losses of associates for the eighteen months ended 31 December 2009 amounted to HK\$2,607 million (Year ended 30 June 2008: HK\$2,209 million), representing an increase of HK\$398 million, or 18%, over that for the previous financial year.

## Financial Review

In respect of the Group's three listed associates (namely, HKCG, Miramar Hotel and Investment Company, Limited ("Miramar") and HK Ferry), the Group's aggregate share of their post-tax profits for the eighteen months ended 31 December 2009 amounted to HK\$3,014 million (Year ended 30 June 2008: HK\$2,844 million), representing an increase of HK\$170 million, or 6%, over that for the previous financial year. Excluding the Group's attributable share of changes in fair value of investment properties (net of deferred taxation) held by these three listed associates of HK\$482 million during the eighteen months ended 31 December 2009 (Year ended 30 June 2008: HK\$833 million), the Group's share of the underlying post-tax profits of these three listed associates amounted to HK\$2,532 million for the eighteen months ended 31 December 2009 (Year ended 30 June 2008: HK\$2,011 million), representing an increase of HK\$521 million, or 26%, over that for the previous financial year. During the eighteen months ended 31 December 2009, the Group recorded (i) an increase in the share of profits from HKCG of HK\$218 million, mainly for the reason of increased share of profit contribution from property leasing and gas operation businesses in the aggregate amount of HK\$892 million due to an extended accounting period of eighteen months currently being reported on when compared with the previous period of twelve months, which is partially offset by the decrease in share of profit contribution from property sales of HK\$707 million; (ii) a decrease in the share of profits from Miramar of HK\$166 million, mainly for the reasons of the decrease in the Group's share of profit contribution from hotel operations of HK\$54 million due to the phased closure of guestrooms for remodelling and refitting under The Mira Hong Kong's rebranding programme during the financial year ended 31 March 2009 and an increase in the Group's share of fair value loss (after deferred taxation) on Miramar's investment properties of HK\$209 million during the financial period from 1 April 2008 to 31 December 2009 compared with the previous financial year ended 31 March 2008, which are partially offset by an increase in the Group's share of profit contribution from property leasing business in the amount of HK\$123 million due to an extended accounting period of eighteen months currently being reported on when compared with the previous period of twelve months; and (iii) an increase in the share of profits from HK Ferry of HK\$118 million, mainly for the reason of the increase in the Group's share of profit contribution from property sales of HK\$141 million due to the sales launch of Shining Heights and The Spectacle during the period.

### Jointly controlled entities

The Group's share of post-tax profits less losses of jointly controlled entities which are mainly engaged in property development and property investment activities amounted to HK\$4,363 million (Year ended 30 June 2008: HK\$3,938 million), representing an increase of HK\$425 million, or 11%, over that for the previous financial year. Excluding the Group's attributable share of changes in fair value of investment properties (net of deferred taxation) held by the jointly controlled entities of HK\$3,000 million during the eighteen months ended 31 December 2009 (Year ended 30 June 2008: HK\$2,976 million), the Group's share of the underlying post-tax profits less losses of jointly controlled entities for the eighteen months ended 31 December 2009 amounted to HK\$1,363 million (Year ended 30 June 2008: HK\$962 million), representing an increase of HK\$401 million, or 42%, over that of the previous financial year. Such increase was mainly attributable to (i) the increase in the Group's share of profit contribution from property leasing, mainly in relation to the ifc complex of HK\$518 million due to favourable rental reversions upon lease renewals as well as an extended accounting period of eighteen months currently being reported on when compared with the previous period of twelve months; and (ii) the increase in the Group's share of profit contribution from department store operation in mainland China in the amount of HK\$36 million due to an extended accounting period of eighteen months currently being reported on when compared with the previous period of twelve months, which are partially offset by the decrease in the Group's share of profit contribution from property sales of Grand Promenade of HK\$128 million during the period.

# Financial Review

## Finance costs

Finance costs recognised as expenses for the eighteen months ended 31 December 2009 were HK\$1,341 million (Year ended 30 June 2008: HK\$576 million). Finance costs before interest capitalisation for the eighteen months ended 31 December 2009 were HK\$1,912 million (Year ended 30 June 2008: HK\$1,096 million). During the eighteen months ended 31 December 2009, the Group's effective borrowing rate was approximately 3.11% per annum (Year ended 30 June 2008: approximately 4.01% per annum).

## Revaluation of investment properties

The Group recognised an increase in fair value on its investment properties (before deferred taxation and minority interests) of HK\$7,156 million in the consolidated profit and loss account for the eighteen months ended 31 December 2009 (Year ended 30 June 2008: HK\$6,706 million).

## Financial resources and liquidity

### Maturity profile and interest cover

At 31 December 2009, the aggregate amount of the Group's bank and other borrowings amounted to approximately HK\$36,031 million (30 June 2008: HK\$35,626 million), of which 99.9% (30 June 2008: 99.9%) in value was unsecured. The maturity profile of the bank and other borrowings, the cash and bank balances and the gearing ratio of the Group were as follows:

	At 31 December 2009 HK\$ million	At 30 June 2008 HK\$ million
Bank and other borrowings repayable:		
— Within 1 year	4,869	3,307
— After 1 year but within 2 years	5,646	9,093
— After 2 years but within 5 years	19,502	19,914
— After 5 years	6,014	3,312
Total bank and other borrowings	36,031	35,626
Less: Cash and bank balances	(10,531)	(15,675)
Net bank and other borrowings	25,500	19,951
Shareholders' funds (2008 – restated)	133,127	121,196
Gearing ratio (%)	19.2%	16.5%

Gearing ratio is calculated based on the net bank and other borrowings and shareholders' funds of the Group at the balance sheet date. The Group's gearing ratio increased from 16.5% at 30 June 2008 to 19.2% at 31 December 2009, which is attributable mainly to the combined effect of the increases, at the end of the period, in the Group's net bank and other borrowings and shareholders' funds.

## Financial Review

The interest cover of the Group is calculated as follows:

	Eighteen months ended 31 December 2009 HK\$ million	Year ended 30 June 2008 (restated) HK\$ million
Profit from operations (before changes in fair value of investment properties) plus the Group's share of the underlying profits less losses of associates and jointly controlled entities (before taxation) (2008 – restated)	9,972	8,168
Interest expense (before interest capitalisation)	1,782	1,055
Interest cover (times)	6	8

With abundant banking facilities in place and the recurrent income generation from its operations, the Group has adequate financial resources in meeting the funding requirements for its ongoing operations as well as its future expansion.

### Treasury and financial management

The Group is exposed to interest rate and foreign exchange risks. To efficiently and effectively manage these risks, the Group's financing and treasury activities were centrally co-ordinated at the corporate level. As a matter of policy, all transactions in derivative financial instruments are undertaken solely for risk management purposes and no derivative financial instruments are held by the Group for speculative purposes.

The Group conducts its business primarily in Hong Kong with the related cash flows, assets and liabilities being denominated mainly in Hong Kong dollars. The Group's primary foreign exchange exposure arises from its property developments and investments in mainland China which are denominated in RMB, the guaranteed notes ("Notes") which are denominated in United States dollars and Sterling, as well as certain bank borrowings ("USD borrowings") and the fixed coupon rate bond ("Bond") which are denominated in United States dollars.

In respect of the Group's operations in mainland China, apart from its capital contributions and, in some cases, loan contributions to projects which are denominated in RMB and are not hedged, the Group endeavours to establish a natural hedge by maintaining an appropriate level of external borrowings in RMB. In respect of the Notes, the Bond and the USD borrowings in the aggregate principal amounts of US\$1,023,520,408 and £50,000,000 at 31 December 2009 (30 June 2008: US\$325,000,000 and £50,000,000), there were interest rate swap contracts and cross currency swap contracts which were entered into between the Group and certain counterparty banks for hedging purpose as referred to below. Furthermore, in respect of certain of the Group's bank loans denominated in Hong Kong dollars in the aggregate principal amount of HK\$5,500,000,000 at 31 December 2009 (30 June 2008: HK\$Nil) which bear floating interest rates ("HKD borrowings"), there were interest rate swap contracts which were entered into between the Group and certain counterparty banks for hedging purpose as referred to below.

The purpose of the abovementioned swap contracts is to enable the Group to hedge against (i) the interest rate risk and foreign exchange risk which may arise during the financial years between the issuance date and the maturity date in respect of the entire amount of each tranche of the Notes and the entire amount of the Bond and between the drawdown dates and the repayment dates in respect of the entire amounts of the USD borrowings; and (ii) the interest rate risk which may arise during the financial years between the drawdown dates and the repayment dates in respect of the HKD borrowings to the extent of HK\$5,500,000,000 at 31 December 2009. As a result, the Group does not expect any significant interest rate risk and foreign exchange risk exposures in relation to the Notes, the Bond and the USD borrowings, and any significant interest rate risk exposure in relation to the Group's HKD borrowings to the extent of HK\$5,500,000,000 at 31 December 2009.

# Financial Review

## Material acquisitions and disposals

On 12 March 2009, Hong Kong Vigorous Limited (“Vigorous”), a 70%-owned subsidiary of Henderson Investment Limited (a listed subsidiary of the Company), entered into an agreement (the “Agreement”) with 馬鞍山市過境公路建設開發有限公司 (Maanshan City Cross Border Highway Construction Development Company Limited) (“Maanshan Highway JV Partner”), a state-owned enterprise which has a 30% beneficial interest in Maanshan Huan Tong Highway Development Limited (“Maanshan Highway JV”, being the joint venture engaged in the operation of Maanshan City Ring Road), in relation to the sale by Vigorous of its entire 70% interest in Maanshan Highway JV to Maanshan Highway JV Partner for a consideration of RMB122 million (equivalent to HK\$139 million). At 31 December 2009, the transaction had yet to be completed and the assets and liabilities associated with the operations of Maanshan Highway JV, including the toll highway operating right, were classified as held for sale. Further details are set out in note 33 to the Company’s audited consolidated accounts for the eighteen months ended 31 December 2009.

On 26 February 2010, the transaction was completed. A net gain on disposal attributable to equity shareholders of the Company of approximately HK\$18 million will be recognised in the Group’s accounts for the year ending 31 December 2010.

Save as disclosed above, the Group did not undertake any significant acquisition or other significant disposals of subsidiaries or assets during the eighteen months ended 31 December 2009.

## Charge on assets

Assets of the Group were not charged to any third parties at 31 December 2009, except that certain project financing facilities which were extended by banks to a subsidiary of the Company engaged in infrastructure projects in mainland China were secured by the Group’s toll highway operating right. At 31 December 2009, the outstanding balance of the Group’s secured bank loans grouped under “Liabilities associated with assets classified as held for sale” was HK\$22 million (30 June 2008: HK\$40 million which was grouped under “Bank loans and overdrafts”).

## Capital commitments

At 31 December 2009, capital commitments of the Group amounted to HK\$33,801 million (30 June 2008: HK\$16,703 million).

## Contingent liabilities

At 31 December 2009, the Group’s contingent liabilities amounted to HK\$90 million (30 June 2008: HK\$124 million).

# Financial Review

## Employees and remuneration policy

At 31 December 2009, the Group had approximately 7,700 (30 June 2008: 7,300) full-time employees. The remuneration of the employees is in line with the market and commensurable with the level of pay in the industry. Discretionary year-end bonuses are payable to the employees based on individual performance. Other benefits to the employees include medical insurance, retirement scheme, training programmes and education subsidies.

Total staff costs for the eighteen months ended 31 December 2009 amounted to HK\$2,239 million (Year ended 30 June 2008: HK\$1,355 million), which comprised (i) staff costs included under directors' remuneration of HK\$235 million (Year ended 30 June 2008: HK\$148 million); and (ii) staff costs (other than directors' remuneration) of HK\$2,004 million (Year ended 30 June 2008: HK\$1,207 million).