Review of Interim Results

The Group's profit attributable to shareholders for the six months ended 31st December 2000 was HK$5,301 million compared to HK$5,253 million for the corresponding period in the previous year. The turnover and profit from operations are analysed in Note 2 to the Interim Financial Statements.

Development margin improved significantly during the period. Property sale revenue for the period under review was HK$6,388 million, compared to HK$13,088 million for the same period last year. Profits generated from property sales dropped slightly by 3.5 per cent to HK$2,860 million. The decline in turnover was mainly due to the fact that about half of the volume of property developments completed for sale was engaged through joint venture companies whereby the sales were recognized under the share of results from jointly controlled entities and associates. The two major development profit contributors were Le Sommet and Chelsea Heights Phase 2, both of which achieved a high margin primarily due to the low land cost.

Performance of the Group's rental portfolio was satisfactory. Average occupancy levels stayed high and rental rates remained stable throughout the period. Gross rental income recorded a marginal increase of HK$23 million to HK$2,651 million. Net rental income was HK$2,003 million compared to HK$2,025 million for the same period last year. These figures have not included the rental contribution from jointly controlled entities. Including the Group's share of rental income from jointly controlled entities, total gross and net rental income would be HK$2,897 million and HK$2,192 million, up by 3.8 per cent and 2.1 per cent respectively. The growth was mainly due to the full six-month rental contribution from One International Finance Centre and Millennium City Phase 2.

The Group's property management business has been growing steadily with gradual expansion in the property management portfolio. The profit contribution from property management business increased by 9 per cent to HK$146 million.

The substantial increase in contribution from the hotel operation, by 46 per cent to HK$108 million, was the combined result of increased average occupancy rates and room rates. The hotel business achieved higher operating efficiency as well as a greater profit margin.

Total profits generated from other business activities declined by HK$196 million to HK$44 million, mainly due to the operating loss (before interest income) incurred by its subsidiary, SUNeVision.

Net finance cost for the period increased by 20 per cent to HK$675 million as a result of an increase in average net debt.

The Group recorded a profit of HK$282 million from disposal of investments, comprising mainly listed shares originally held for long-term investment.

Total net profit contributions from associates and jointly controlled entities increased by HK$870 million to HK$981 million. The increase was mainly due to profits generated from joint venture development projects including The Belcher's Phase 1, Royal Peninsula and Ocean Shores Phase 1 (Blocks 5 & 6). Share of profit from KMB increased by 22 per cent to HK$141 million whereas share of loss from SmarTone reduced significantly to HK$31 million from HK$104 million.

Financial Resources and Liquidity

Total shareholders' funds as at 31st December 2000 increased by HK$3,765 million to HK$124,669 million, representing an increase of 3.1 per cent compared to the previous year end. The increase was attributable to the profits retained during the period.

All the Group's borrowings are unsecured. Maturity profile of the Group's debt at 31st December 2000 is set out as follows:

	31st December 2000	30th June 2000
	HK$M	HK$M
Repayable within one year	**6,647**	4,584
After one year but within two years	**12,440**	12,868
After two years but within five years	**8,028**	9,522
After five years	**3,786**	1,415
Total borrowings	**30,901**	28,389
Bank deposits and balances	**9,037**	10,414
Net debt	**21,864**	17,975

During the period under review, the Group's net debt increased by HK$3,889 million as a result of the increased expenditures for land acquisitions, including the land premium for the Airport Railway Kowloon Station Development Packages 5, 6 & 7. Net debt to shareholders' funds ratio at 31st December 2000 was 17.5 per cent (at 30th June 2000: 14.9 per cent).

Interest coverage for the period, measured by the ratio of profit from operations to net interest expenses before capitalisation, remained high at 5.4 times (1999: 8.9 times). The reduction of interest coverage was primarily caused by higher net interest expenses.

All the Group's funding and treasury activities are centrally managed and controlled at the corporate level. There is no significant change in respect of treasury and financing policies from the information disclosed in the Group's latest annual report.

The Group has no significant exposure to foreign exchange rate fluctuations. About 95 per cent of the Group's borrowings is denominated in Hong Kong dollars, with the balance in US dollars and Renminbi to fund property projects on the Mainland.

Apart from cash and bank deposits, the Group also has substantial committed undrawn credit facilities from its relationship banks, providing the Group with strong financing flexibility, ample financial resources and liquidity to meet its funding needs and on-going working capital requirements.

Employee

At 31st December 2000, the Group had about 17,000 employees. The Group provides competitive remuneration packages to employees commensurable to the level and market trend of pay in the businesses in which the Group operates, with incentive schemes composed of discretionary bonus and other merit payments to reward employees on the basis of individual performance. The Group also provides retirement schemes, medical benefit and training programs for all staff. Details of share option schemes were disclosed in the 1999/2000 annual report.