

Management Discussion and Analysis

REVIEW OF 2000 RESULTS

The Group reported a profit attributable to shareholders of HK\$2,480 million for the year ended December 31, 2000, compared to HK\$3,511 million recorded in 1999. Earnings per share were HK\$1.01 compared to HK\$1.51 for the previous year. The profit for the preceding year included an exceptional gain of HK\$3,762 million (as restated) arising from the spin off of i-CABLE Communications Limited and provisions made for contingencies from litigation case of HK\$1,000 million and for certain properties under development of HK\$1,508 million. Excluding these items, the profit for current year would show an increase by 10 per cent.

Turnover for the year was HK\$12,023 million, as compared with HK\$10,521 million recorded in 1999. Turnover reported from the Group's Communications, Media and Entertainment ("CME") businesses increased by 23 per cent mainly as a result of increase in subscribers of Pay Television Services and the launching of a Broadband Internet service in March 2000. The Logistics business also reported a growth in turnover of seven per cent from 1999 contributed by an increase in throughput from the terminals operation. During the year, the Group earned a net income of HK\$739 million from the disposal of certain long term investments compared to HK\$1,088 million recorded in 1999.

Operating profit before depreciation, amortisation, interest and tax ("EBITDA") for 2000 was HK\$6,423 million, representing an increase of HK\$351 million, or six per cent from HK\$6,072 million in 1999. Depreciation and amortisation for the year was HK\$1,032 million, increase slightly by four per cent. Operating profit for the year was HK\$5,391 million, increased by six per cent from HK\$5,079 million in 1999. Contribution from the Group's property investment decreased slightly by four per cent but was offset by increased profit from the Logistics operations. The Group's CME businesses reported an operating profit of HK\$19 million during the year. This was compared to an operating loss of HK\$267 million in 1999.

Net borrowing costs charged for the year were HK\$1,593 million. This compared to HK\$1,939 million in 1999. The charge was after capitalisation of HK\$346 million, compared to HK\$722 million in 1999. Net operating profit for the year increased by 21 per cent to HK\$3,798 million.

The share of loss in associates was HK\$154 million, compared to a profit recorded in 1999 of HK\$64 million. The loss in 2000 was mainly due to provision made by an associate in respect of a property development project. During the year under review, the Group had disposed its entire 49.9 per cent interests in Beauforte Investors Corporation Limited.

The Group's profit before taxation was HK\$3,644 million. The amount recorded in 1999 was HK\$4,458 million.

Taxation charge for 2000 was HK\$435 million. The amount for 1999 was HK\$264 million. The increase for the year mainly resulted from a 10 per cent rebate of tax from the government in 1999 and an additional provision made by a subsidiary for additional assessments in respect of a dispute over the deductibility of certain interest payment in prior years.

Minority interests was HK\$729 million, compared to HK\$683 million in 1999.

Further information on the segmental details is provided in the Note 2 to the Accounts in F109.pdf.

In accordance with established accounting policies, the Group's investment and hotel property interests were revalued at December 31, 2000. On that basis, the consolidated net asset value of the Group at that date was HK\$23.14 per share, compared to HK\$22.24 per share at the end of 1999.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2000, the ratio of net debt to total assets decreased to 22 per cent. The ratio at the end of 1999 was 24 per cent. The Group's net debt decreased from HK\$21.6 billion at the end of 1999 to HK\$19.5 billion at December 31, 2000. The amount was made up of HK\$22.7 billion in debts less HK\$3.2 billion in deposits and cash. Included in the Group's net debts were loans of HK\$489 million borrowed by non-wholly owned subsidiaries. These loans were non-recourse to the Company and other subsidiaries of the Group.

For the year under review, net cash generated from the Group's operating activities amounted to HK\$5.5 billion. Other investment activities included HK\$1.5 billion in expenditure on purchase of fixed assets and net receipts of HK\$3.3 billion from the disposal of long-term investments.

The debt maturity profile of the Group at the end of 2000 is analysed as follows:

Debt Maturity	HK\$ Billion	
Repayable within 1 year	5.8	26%
Repayable between 1 to 2 years	5.3	23%
Repayable between 2 to 3 years	0.9	4%
Repayable between 3 to 4 years	7.3	32%
Repayable between 4 to 5 years	0.7	3%
Repayable after 5 years	2.7	12%
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- Secured	8.0	35%
- Unsecured	14.7	65%
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Total	<u>22.7</u>	<u>100%</u>

During the year, the Group arranged unsecured facilities totalling HK\$6.5 billion, replacing two secured facilities arranged in 1998 and 1999.

The Group's Samurai bonds issued in 1994 matured in March 2000 and were fully repaid. Holders of HK\$1.4 billion of the Group's floating rate notes issued in 1995 have exercised their option to extend the notes to July 2002.

Subsequent to the year end, Kowloon Properties Company Limited in which the Group has a 40 per cent interest, had also completed a project finance facility of HK\$3.4 billion to replace a previous facility of HK\$2.2 billion to finance the development of the Kowloon Station Package II project.

As the Group's borrowings are primarily denominated in Hong Kong and US dollars, there is no significant exposure to foreign exchange rate fluctuations.

The use of financial derivative products is strictly controlled. The majority of the derivative products entered into by the Group were used to hedge the Group's interest rate exposure.

The Group maintained a reasonable level of surplus cash, which was denominated principally in Hong Kong and US dollars, to facilitate the Group's business and investment activities.

As at December 31, 2000, the Group maintained a portfolio of long term investments, primarily in blue-chip securities, with a market value of HK\$1.8 billion, a decrease of \$3.4 billion from 1999.

EMPLOYEES

The Group has approximately 9,000 employees. They are remunerated according to the nature of the job and market trends, with built-in merit components incorporated in annual increments to reward and motivate individual performance. The Group also sponsors external training programmes that are complementary to certain job functions. Total staff costs for 2000 were HK\$1,977 million, compared to HK\$1,986 million in 1999.