FINANCIAL REVIEW

Capital Expenditure, Liquidity, Financial Resources and Gearing Ratio

Capital expenditure during the period amounted to HK$1,411 million, which was primarily funded by cash from operations and bank loans. As at 30th June 2001, total external borrowings were HK$16,016 million (at 31st December 2000 : HK$17,983 million), comprising unsecured bank loans, unsecured deferred creditors and debt securities in issue. In addition, undrawn committed credit facilities available to the Group totalled HK$1,260 million (at 31st December 2000 : HK$4,981 million). Gearing ratio (net debt/shareholders' funds) at 30th June 2001 was 50% (at 31st December 2000 : 56%).

Treasury Policies and Capital Structure

The Group continues to ensure that its businesses are financed from a variety of competitive sources and that committed facilities are available for future development. In addition, currency and interest risks are actively managed on a conservative basis.

The treasury focus during the period has been on the refinancing of the bridge facilities amounting to A$844 million drawn for the acquisition of a 50% interest in Powercor Australia Limited in September 2000. Of the total, A$405 million was refinanced by a 5-year syndicated term loan facility, with the balance refinanced by a combination of commercial paper and notes issued out of debt issuance programmes in the name of Powercor Australia Limited.

As at 30th June 2001, external borrowings of the Group amounted to HK$16,016 million with the following profile:

(1) 74% were either denominated or effectively hedged into Hong Kong dollars and 25% were denominated in Australian dollars;

(2) 71% were medium term loans, 20% were capital market instruments and 9% were suppliers' credits;

(3) 78% were repayable between 2 to 5 years and 6% were repayable beyond 5 years;

(4) 77% were fixed rate based.

It is the Group's treasury policy not to engage in speculative transactions. Foreign currency transaction exposure, other than US dollars, is managed in accordance with treasury guidelines, utilising forward contracts and interest and currency swaps. As at 30th June 2001, over 99% of the Group's transaction exposure was either hedged or denominated in Hong Kong or US dollars. Currency exposure arising from overseas investments is hedged by arranging comparable level of borrowings in the same currency as the underlying investments. Interest rate risk is managed by maintaining a substantial portion of the Group's debt portfolio in fixed rate. This is achieved either directly by means of fixed rate debt issues or by the use of interest rate swaps and caps. The contractual notional amounts of derivative instruments outstanding at 30th June 2001 amounted to HK$13,541 million (at 31st December 2000 : HK$9,885 million) equivalent.

Contingent Liabilities

At 30th June 2001, the Company has given a guarantee to bank in respect of banking facilities available to an associate amounting to HK$8 million (at 31st December 2000: HK$8 million).

At 30th June 2001, the Company has given guarantees in respect of bank and other borrowing facilities available to subsidiaries totalling HK$7,736 million (at 31st December 2000: HK$9,663 million) equivalent.

Employees

The Group continues its policy of pay by performance and market pay rates are monitored constantly to ensure competitiveness is maintained. The Group's total remuneration costs for the six months ended 30th June 2001, excluding directors' emoluments, amounted to HK$542 million (2000: HK$554 million). As at 30th June 2001, the Group employed 2,342 permanent staff. No share option scheme is in operation.

Apart from well-established training schemes for university graduates, trainee technicians and apprentices, the Group also provides training for staff in language, computer knowledge, the latest technology as well as numerous job-related courses to enhance the skills and knowledge of our employees.