

Financial Review

FINANCIAL RESOURCES, TREASURY ACTIVITIES AND GEARING RATIO

The Group's capital expenditure and investments for the period were funded from cash on hand, internal cash generation, the syndication loan drawn since September 1997 and new project loans drawn during the period.

The Group maintained bank balances and cash totalling HK\$3,213 million as at 30th June, 2001, of which more than 90 per cent. were denominated in Hong Kong dollars or U.S. dollars.

As at 30th June, 2001, total borrowings of the Group amounted to HK\$8,409 million, which included Hong Kong dollar syndication loan of HK\$3,800 million, foreign currency bank and other borrowings of HK\$4,477 million and RMB bank loans of HK\$132 million. Of the total borrowings, 47 per cent. were repayable in 2002, 4 per cent. repayable in 2003 and the remaining portion repayable in 2004 to 2006. Committed borrowing facilities available to the Group, but not yet drawn as at 30th June, 2001, amounted to HK\$25 million. Of these undrawn facilities, 37 per cent. will expire in 2002 and the remaining portion will expire in 2003. The Group's financing activities continue to be well received and fully supported by its bankers.

The Group adopts conservative treasury policies in cash and financial management. To achieve better risk control and minimise cost of funds, the Group's treasury activities are centralised. Cash is generally placed in short-term deposits mostly denominated in Hong Kong or U.S. dollars. The Group's liquidity and financing requirements are reviewed regularly. The Group will consider new financing while maintaining an appropriate level of gearing in anticipation of new investments or maturity of bank loans.

As at 30th June, 2001, the Group maintained a gearing ratio at 20 per cent. which was based on its net debt of HK\$5,196 million and equity of HK\$25,436 million. This ratio was lower than the gearing ratio of 34 per cent. at the end of 2000, mainly because of the repayment of a short-term Australian dollar bridging loan during the period. In view of the expiry of the HK\$3,800 million syndication loan in 2002 and potential project financing requirements from business growth, the Group has established a medium term note programme of up to US\$2 billion in March 2001.

To minimise currency risk exposure, the Group has a policy of hedging its investments in other countries with the appropriate level of borrowings denominated in the local currencies of those countries. As at 30th June, 2001, the Group has swapped the floating interest rates of its borrowings totalling HK\$4,294 million into fixed interest rates. The Group will consider entering into further interest and currency swap transactions to hedge against its interest rate and currency risk exposures, as appropriate.

Financial Review (Cont'd)

CHARGE ON GROUP ASSETS

As at 30th June, 2001, certain of the Group's land and buildings and a fixed deposit with net book values totalling HK\$59 million were pledged to secure a bank loan and a performance bond totalling HK\$61 million.

The assets of a non-wholly owned subsidiary with a net book value of HK\$52 million were pledged as a floating charge to secure debentures with a face value totalling HK\$5 million issued by the aforesaid subsidiary. In addition to the floating charge, a second charge on the subsidiary's land and buildings with a net book value of HK\$7 million was created to secure a mortgage loan of HK\$7 million borrowed by the subsidiary.

CONTINGENT LIABILITIES

As at 30th June, 2001, the Group was subject to outstanding performance bonds totalling HK\$25 million.

EMPLOYEES

The Group, including its subsidiaries but excluding associated companies, employs a total of 2,352 employees. Employees' cost (excluding directors' emoluments) amounted to HK\$217 million. The Group ensures that the pay levels of its employees are competitive and that its employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system.

Preferential subscription of 2,978,000 new shares of the Company had been given to its employees who had submitted the pink application forms to subscribe for shares of HK\$1.00 each in the Company at HK\$12.65 per share on flotation of the Company in 1996. The Group does not have any share option scheme for employees.