Management Discussion and Analysis

1. REVIEW OF 2001 INTERIM RESULTS

The Group reported a profit attributable to shareholders of HK$1,145 million for the period ended June 30, 2001, compared to HK$1,128 million for the same period in 2000, an increase of 1.5%. Earnings per share were HK$0.47 compared to HK$0.46 for the previous period.

Turnover for the period was HK$5,803 million, as compared with HK$5,769 million recorded in the corresponding period in 2000. The Group continued to report sustained growth in its CME (Communication, Media and Entertainment) business segment, which achieved a total revenue of HK$1,463 million in the first half of 2001, a year-on-year increase of HK$294 million or 25%, as a result of increase in revenue from Pay TV, internet multimedia and telecommunication services. The continued growth in Pay TV and Internet related subscribers of i-CABLE increased its group revenue by 21% to HK$934 million. New T&T increased its telecommunication revenue by 43% to HK$463 million as revenue from fixed line telephony services almost doubled to $260 million and accounted for 56% of its total revenue. The Property Investment segment also managed to report revenue growth of 8% to HK$1,911 million under the recent lacklustre market conditions. The Logistics segment reported moderate revenue growth of 1% to HK$1,598 million mainly due to increase in throughput from the terminals operation. Lower sales proceeds from property trading has deterred the Group's total revenue growth for the period.

Operating profit before depreciation, amortisation, interest and tax ("EBITDA") for the period under review was HK$3,000 million, representing an increase of HK$56 million, or 2% from HK$2,944 million in first half of 2000. Depreciation and amortisation for the period was HK$527 million (including the amortisation of goodwill HK$11 million), increased slightly by 5% over the comparative period.

Operating profit for the period was HK$2,473 million, increased by 1% from HK$2,442 million in first half of 2000 as a result of mixed performance among the Group's business segments. CME's operating results recorded a turnaround to profit of HK$97 million from loss of HK$102 million incurred in first half of 2000 as i-CABLE achieved a triple growth in its Pay TV operating profit to HK$185 million while New T&T reduced its operating losses by HK$47 million. The operating profits of both the Property Investment and Logistics segments marginally increased. Adversely affected by the thin profit from sales of trading properties and lack of profit on disposal of investments in the period under review while there was profit on disposal of investments of HK$189 million in previous period, the Group's total operating profit only increased marginally by 1% over the comparative period.

Net borrowing costs charged for the period were HK$632 million, decreased substantially from HK$844 million incurred in the first half of 2000 as a result of the reduction of the Group's average borrowings and interest rate cuts. The charge was after capitalisation of HK$111 million for the current period under review, compared to HK$147 million in previous period.

The share of loss in associates was HK$158 million, compared to a profit of HK$22 million recorded in the previous period. The loss in the current period under review was mainly related to the impairment provision made by an associate in respect of a property development.

Taxation charge for the period under review was HK$191 million compared to HK$172 million in the last corresponding period.

Minority interests were HK$347 million, compared to HK$320 million in last period.

Further information on the segmental details is provided in the Note 2 to the Accounts in F105.pdf.

2. LIQUIDITY AND FINANCIAL RESOURCES

For the period under review, net cash generated from the Group's operating activities amounted to HK$1.3 billion. Other investment activities included HK$1.1 billion in expenditures mainly on purchases of fixed assets and the purchase of the additional interest of 4.5% in Modern Terminal Limited, and receipt of HK$1.1 billion mainly from disposal of the 26.7% interest in The Cross-Harbour (Holdings) Limited and repayment of loans from an associate.

As at June 30, 2001, the ratio of net debt to total assets was 23% compared to that of 22% at the end of 2000. The Group's net debt increased from HK$19.5 billion at the end of 2000 to HK$20.8 billion at June 30, 2001, which was made up of HK$24.3 billion in debts less HK$3.5 billion in deposits and cash. Included in the Group's debts were loans of HK$1,640 million borrowed by non-wholly owned subsidiaries, Modern Terminals Limited and Harbour Centre Development Limited, which are non-recourse to the Company and other subsidiaries of the Group.

High liquidity was sustained in the banking market during the first six months of 2001. Capitalising on this opportunity, the Group arranged an aggregate of HK$6.5 billion loan facilities to refinance a number of its loan facilities with substantial reduction in interest costs and on more favourable terms such as longer maturities, more lenient covenants and inclusion of revolving condition. In addition, HK$3.4 billion project loan facility related to the development of Sorrento (Kowloon Station Package II), in which the Group has 40% interest, has been completed to replace the previous facility of HK$2.2 billion at a lower interest margin.

The debt maturity profile of the Group as at June 30, 2001 is analysed as follows:

Debt Maturity	HK$ Billion	
Repayable within 1 year	2.6	11%
Repayable between 1 to 2 years	4.8	20%
Repayable between 2 to 3 years	8.5	35%
Repayable between 3 to 4 years	5.5	22%
Repayable between 4 to 5 years	0.2	1%
Repayable after 5 years	2.7	11%
- Secured	4.9	20%
- Unsecured	19.4	80%
Total	24.3	100%

An Analysis of the Group's total borrowings by currency at June 30, 2001 is shown as below:

	HK$ Billion
Hong Kong Dollar	19.4
United States Dollar	4.3
Other currencies	0.6
	24.3

As the Group's borrowings are primarily denominated in Hong Kong and US dollars and the US dollar loans have been effectively swapped into Hong Kong dollar loans by forward exchange contracts, 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 for management of the Group's interest rate exposures.

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 June 30, 2001, the Group maintained a portfolio of long term investments, primarily in blue-chip securities, with a market value of HK$1.5 billion, a decrease of $0.3 billion from the end of 2000.

As at June 30, 2001, the banking facilities of the Group were secured by mortgages over certain investment properties with carrying value of HK$20,430 million. At December 31, 2000, the banking facilities were secured by mortgages over investment properties of HK$20,413 million and land and buildings of HK$910 million.

The consolidated net asset value of the Group as at June 30, 2001 was HK$58.1 billion or HK$23.77 per share compared to HK$23.69 per share at December 31, 2000.

3. 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 the six months ended June 30, 2001 were HK$1,001 million, compared to HK$917 million in first half of 2000.