FINANCIAL REVIEW

REVIEW OF RESULTS

The Group's profit attributable to shareholders for the year ended 30th June 2003 was HK$6,584 million, a decrease of HK$1,935 million compared to HK$8,519 million achieved in the previous year. The results for the year under review included a provision of HK$1,106 million for diminution in value of the Group's interest in certain property development projects and impairment provisions, made by its subsidiary, SUNeVision, of HK$252 million for its equity technology investments and HK$123 million for revaluation deficit on its properties operating as internet data centres.

The Group's turnover for the year was HK$22,945 million, down by HK$2,428 million over the previous year. The decline was mostly due to decrease of HK$3,621 million in property sales turnover.

Profit generated from property sales, including share of property sales from joint ventures, was HK$3,694 million, a decrease of HK$1,143 million compared to the previous year. While sales at Park Central Phases 1 & 2 had made a substantial contribution to the Group's property development profit, the segment results was dragged by a lack of profit contribution from the sales at Park Island Phase 1. In light of the downward adjustments of property prices during the year, the Group had made an aggregate provision of HK$1,106 million for impairment in value of certain property development projects, mainly the remaining phases of Park Island and Ocean Shores.

Gross rental income amounted to HK$5,628 million, a decrease of HK$216 million compared to the previous year. Net rental income, including share of rental income from joint ventures amounted to HK$4,100 million, down by HK$332 million over the previous year. The decline was mostly attributed to the weak office rental market with both occupancies and achieved rents below the previous year. The results was also affected by the loss of rental income as a result of disposal of two non-core investment properties during the year. The Group's retail segment, which accounted for about 57% of the total rental income, showed a steady performance over the previous year.

Operating profit from hotel operation was HK$154 million, a decrease of HK$35 million compared to the previous year. The results were adversely affected by the SARS outbreak during the last three months of the financial year, which had caused a sharp fall in occupancy rates. Since the containment of the SARS and lifting of related travel warnings, occupancies have rebounded strongly and performance is expected to improve in the coming year.

Operating profit generated from the Group's other business activities increased by HK$252 million to HK$650 million. The increase was partly due to the consolidation of the pre-tax operating profit of HK$120 million from SmarTone since it became a subsidiary of the Group in January 2003. In addition, results from property management, SuneVision and logistics business continued to improve over the previous year.

Other revenue, comprising mainly income from investment in securities and interest income from advances to joint venture companies, amounted to HK$339 million (2002: HK$394 million). The decline was mainly due to reduced gains on disposal of marketable securities compared to the previous year.

Net finance cost for the year reduced significantly to HK$225 million from HK$566 million incurred in the previous year. This was a result of reduction in the Group's average borrowing level and the low interest rate environment

During the year, the Group disposed of its 25% equity interests in two non-core commercial complexes in the New Territories generating a capital profit of HK$305 million. It also made a profit of HK$43 million (2002: HK$48 million) from disposal of certain listed investments originally held for long-term investment purposes.

Share of pre-tax profit from associates and jointly controlled entities totalled HK$1,587 million (2002: HK$1,717 million), of which HK$565 million (2002: HK$782 million) was contributed from non-property related business. The major non-property associate is KMB which contributed a pre-tax profit of HK$398 million (2002: HK$599 million). The Group had recognized, under equity accounting, its 30% attributable share of pre-tax profit of HK$84 million (2002: HK$35 million) from SmarTone up to January 2003. Since then, the results of SmarTone was fully consolidated in the Group's profit and loss account.

FINANCIAL RESOURCES AND LIQUIDITY

(a) Net debt and gearing

As at 30th June 2003, the Group's total shareholders' funds totalled HK$121,721 million against HK$128,598 million at the previous year end. The decrease was mainly caused by the downward revaluation of HK$7,931 million of the Group's investment property portfolio.

The Group's financial position remains strong with a lower debt leverage and higher interest cover compared to the previous year. Gearing ratio at 30th June 2003, calculated on the basis of net debt to shareholders' funds, reduced to 10.9% from 15.6% at 30th June 2002. Interest cover, measured by the ratio of profit from operations to total net interest expenses including those capitalized, increased significantly to 13.2 times from 9.8 times for the previous year.

At 30th June 2003, the Group's gross borrowings totalled HK$22,127 million. Net debt, after deducting cash and bank deposits of HK$8,891 million, amounted to HK$13,236 million. The maturity profile of the Group's gross borrowings is set out as follows:

	30th June 2003 HK$ Million	30th June 2002 HK$ Million
Repayable:		
Within one year	**934**	3,828
After one year but within two years	**1,745**	6,277
After two years but within five years	**6,914**	8,335
After five years	**12,534**	9,889
Total borrowings	**22,127**	28,329
Cash and bank deposits	**8,891**	8,272
Net debt	**13,236**	20,057

In addition, the Group has secured substantial committed and undrawn banking facilities, all of which are unsecured and mostly arranged on a medium to long term basis, which helps minimize the refinancing risk of its debts and provides the Group with strong financing flexibility.

With substantial committed banking facilities in place, continuous cash inflow from property sales and a solid base of recurrent income, the Group is in a strong liquidity position and has sufficient financial resources to satisfy its capital commitments and ongoing working capital requirements.

FINANCIAL REVIEW

(b) Treasury policies

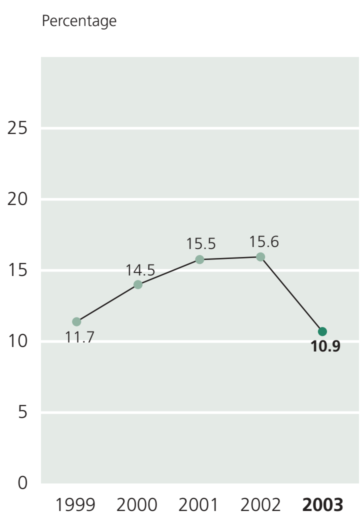
All the Group's financing and treasury activities are centrally managed and controlled at the corporate level. As at 30th June 2003, about 98% of the Group's borrowings were raised through its wholly-owned finance subsidiaries and the remaining 2% through operating subsidiaries.

The Group adopts a conservative policy on foreign exchange risk management. As at 30th June 2003, about 94% of the Group's borrowings were denominated in Hong Kong dollars, with the balance in US dollars mainly for the purpose of funding property projects in the Mainland. With its assets, liabilities and operational cash flows primarily denominated in Hong Kong dollars, the Group has no significant exposure to foreign exchange rate fluctuations.

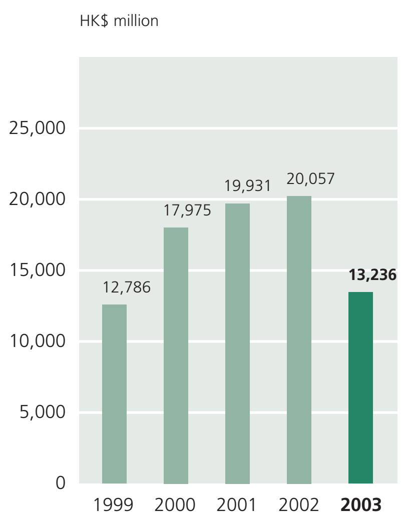
The Group's borrowings are principally arranged on a floating rate basis in view of the present low interest rate environment. For the fixed rate notes issued by the Group, interest rate swaps have been used to convert them into floating rate debts. The use of financial derivative instruments is strictly controlled and solely for management of the Group's interest rate and foreign currency exchange rate exposures in connection with its borrowings. It is the Group's policy not to enter into derivative transactions for speculative purposes.

As at 30th June 2003, the Group had total outstanding interest rate swaps (to swap into floating rate debt) in the amount of HK$3,050 million and currency swaps (to hedge principal repayment of USD debt) in the amount of HK$234 million.

Net Debt to Shareholders' Funds Ratio

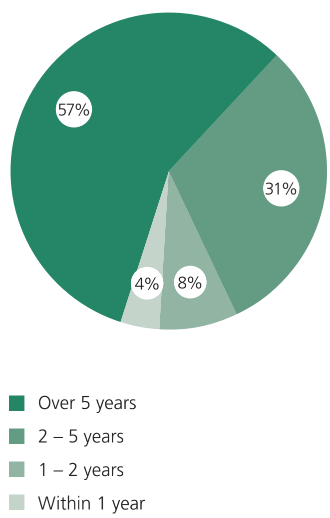


Net Debt



Debt Maturity Profile

As at 30th June 2003



ACQUISITION OF SUBSIDIARIES

In January 2003, the Group acquired an additional 21% interest in SmarTone at HK$8.5 per share, as a result of a Mandatory General Offer triggered by the Group electing to receive SmarTone's scrip dividend. A total sum of HK$1,051 million was paid by the Group for the general offer, raising its total interest in SmarTone to 51%. The Group has fully consolidated the results of SmarTone since it became the Group's subsidiary in January 2003. Profit contribution from SmarTone from January 2003 to 30th June 2003 consolidated in the Group's profit and loss account is analysed as follows:-

	HK$ Million
Turnover	1,095
Cost of sales and operating expenses	(740)
	355
Selling and marketing expenses	(154)
Administrative expenses	(81)
Profit from operations	120
Other revenue	7
Interest income	16
Share of loss of an associate	(17)
Net profit	126
Minority interest	(64)
Profit attributable to shareholders	62

CHARGE OF ASSETS

As at 30th June 2003, certain bank deposits of Group's subsidiary, SmarTone, with the aggregate amount of HK$392 million were pledged for securing performance bonds related to 3G licence and some other guarantees issued by the banks.

CONTINGENT LIABILITIES

As at 30th June 2003, the Group had contingent liabilities in respect of guarantees for bank borrowings of joint venture companies and other guarantees in the aggregate amount of HK$4,021 million (2002: HK$3,789 million).