FINANCIAL RESOURCES AND LIQUIDITY

(a) Net debt and gearing

The Group has a large capital base, with shareholders' funds as at 30 June 2004 totalling HK$135,239 million against HK$120,651 million at the previous year end. The increase was mainly attributable to the upward revaluation of HK$11,864 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 as at 30 June 2004, calculated on the basis of net debt to shareholders' funds, reduced to 9.4% from 10.9% at 30 June 2003. Interest cover, measured by the ratio of profit from operations to total net interest expenses including those capitalized, increased significantly to 29.4 times from 13.2 times for the previous year.

As at 30 June 2004, the Group's gross borrowings totalled HK$19,948 million. Net debt, after deducting cash and bank deposits of HK$7,207 million, amounted to HK$12,741 million. The maturity profile of the Group's gross borrowings is set out as follows:

	30 June 2004 HK$ Million	30 June 2003 HK$ Million
Repayable:		
Within 1 year	**1,078**	934
After 1 year but within 2 years	**3,224**	1,745
After 2 years but within 5 years	**11,012**	6,914
After 5 years	**4,634**	12,534
Total borrowings	**19,948**	22,127
Cash and bank deposits	**7,207**	8,891
Net debt	**12,741**	13,236

The Group has also secured substantial committed and undrawn banking facilities, all of which are unsecured and mostly arranged on a medium to long term basis, which will help minimize the refinancing risk of its debts and provide the Group with strong financing flexibility.

With ample committed banking facilities in place, continuous cash inflow from property sales and a solid base of recurrent income, the Group will have adequate financial resources for its capital and operational requirements.

(b) Treasury policies

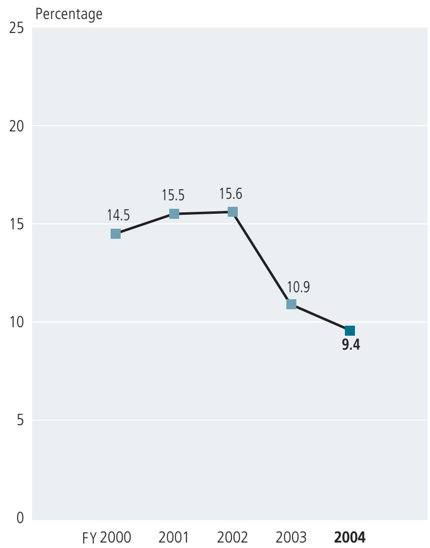
All the Group's financing and treasury activities are centrally managed and controlled at the corporate level. As at 30 June 2004, about 97% of the Group's borrowings were raised through its wholly-owned finance subsidiaries and the remaining 3% through operating subsidiaries.

The Group has no significant exposure to foreign exchange risk given its large asset base and operational cash flow primarily denominated in Hong Kong dollars. As at 30 June 2004, 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.

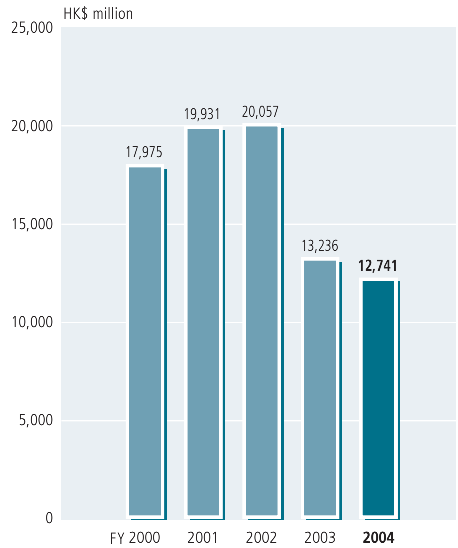
The Group's borrowings are principally arranged on a floating rate basis in view of the present low interest rate environment. For the fixed rate notes issued by the Group, interest rate swaps have been used to convert them into floating rate debts. The use of financial derivative instruments is strictly 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 30 June 2004, the Group had outstanding interest rate swaps (to swap into floating rate debts) in the aggregate amount of HK$2,450 million and a currency swap (to hedge principal repayment of USD debt) in the amount of HK$234 million.

Net Debt to Shareholders' Funds Ratio

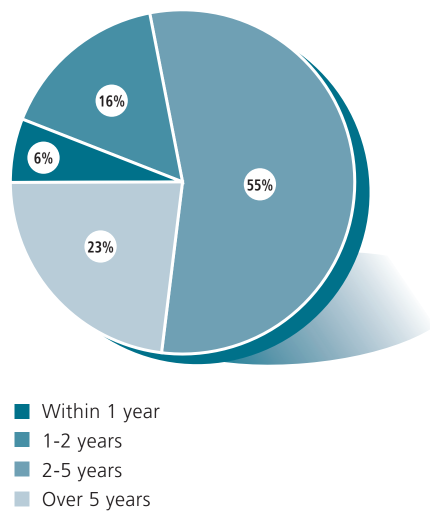


Net Debt



Debt Maturity Profile

As at 30 June 2004



CHARGE OF ASSETS

As at 30 June 2004, certain bank deposits of the Group's subsidiary, SmarTone, in the aggregate amount of HK$326 million, were pledged for securing performance bonds related to 3G licence and some other guarantees issued by the banks.

CONTINGENT LIABILITIES

As at 30 June 2004, 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$4,857 million (2003: HK$4,021 million).