REVIEW OF RESULTS

The Group's profit attributable to shareholders for the year ended 30th June 2001 was HK$8,330 million, lower by 23 per cent compared to HK$10,822 million achieved in the previous year. The profit for the previous year included an exceptional gain of HK$2,688 million arising from the spin off of SUNeVision. Excluding this non-recurring item, the profit for the current year would show an increase of 2.4 per cent.

Property Sales

Property sales revenue for the year was HK$8,218 million (2000: HK$16,957 million). Profit generated from property sales was HK$3,625 million (2000: HK$4,078 million). The decline in sales revenue and profit reported at the Group level was mainly due to the fact that almost half of the volume of property developments completed for sale was engaged through joint venture companies whereby the sales were recognized under the share of results from jointly controlled entities and associates. Including the Group's share of the jointly controlled entities and associates, property sale turnover was HK$14,359 million, down by 17 per cent whereas profit from property sales was HK$4,861 million, up by 18 per cent over the previous year. The improvement in profitability was mainly attributable to the two major development profit contributors, Le Sommet and Chelsea Heights Phase 2, both of which achieved a high margin primarily due to the low land cost.

Rental Income

Performance of the Group's rental portfolio was satisfactory. Average occupancy levels stayed high throughout the year. Gross rental income increased marginally by almost 2 per cent to HK$5,392 million. Net rental income was HK$4,073 million compared to HK$4,059 million last year. These figures have not included the rental contributions from joint venture companies. Including the Group's share of rental income from jointly controlled entities, total gross and net rental income was HK$5,877 million and HK$4,401 million, up by 3.7 per cent and 1.7 per cent respectively over the previous year. The growth was mainly due to the full-year rental contribution from One International Finance Centre, Millennium City Phase 1 and Phase 2 as well as the increased rental income from investment properties in China, namely Sun Dong An Plaza in Beijing and Central Plaza in Shanghai, following the continuous improvement on the occupancy levels.

Property Management

Profit contribution from property management business grew steadily by 7.7 per cent to HK$252 million with the gradual expansion of the Group's property management portfolio.

Hotel Operations

Both average occupancy rates and room rates of the Group's three hotels continued to improve during the year resulting in higher operating efficiency and greater profit margin. Operating profit from hotel operations increased substantially by 30 per cent to HK$195 million.

Other Business Activities

Profits generated from other business activities reported a decline by HK$141 million to HK$122 million, mainly due to the operating loss incurred by its subsidiary, SUNeVision.

Other Revenue

Other revenue, which comprised mainly income from investments in securities and interest income from advances to joint venture companies, increased to HK$547 million (2000: HK$42 million), due to increase in investment activities during the year.

Finance Costs

Net finance costs for the year increased by HK$21 million to HK$1,158 million after capitalization of HK$593 million (2000: HK$114 million). The increase in net finance costs was the result of an increase in average net debt. More interest was capitalized for the year than last year owing to higher capital expenditures incurred on investment properties under development.

Profit on Disposal of Investments

The Group recorded a profit of HK$445 million (2000: HK$1,236 million) from disposal of investments, comprising mainly listed shares originally held for long-term investment.

Share of Profits Less Losses of Associates and Jointly Controlled Entities

Share of profits before taxation from associates and jointly controlled entities increased by HK$1,204 million to HK$1,582 million. The increase was mainly due to profits from property sales in the total amount of HK$1,236 million generated from joint venture property development projects including The Belcher's Phase 1, Royal Peninsula, Ocean Shores Phase 1 and Villa Esplanada Phase 3. Share of pre-tax profit from KMB increased by seven per cent to HK$304 million while share of loss from SmarTone reduced to HK$81 million from HK$96 million.

FINANCIAL RESOURCES AND LIQUIDITY

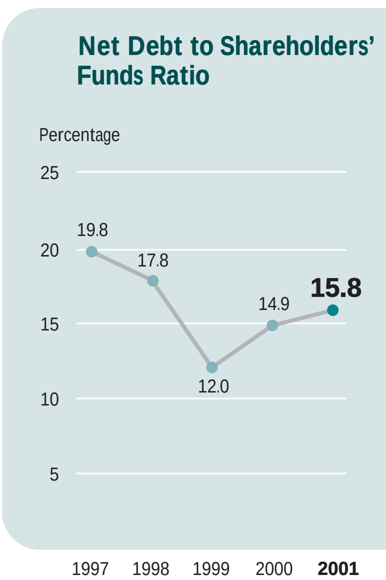
The Group's financial position remains strong, with a large capital base and a low debt leverage. The Group's total shareholders' funds increased to HK$126,007 million as at 30th June 2001 compared to HK$120,904 million at the previous year end, mainly due to the upward revaluation of the Group's investment property portfolio and profits retained for the year.

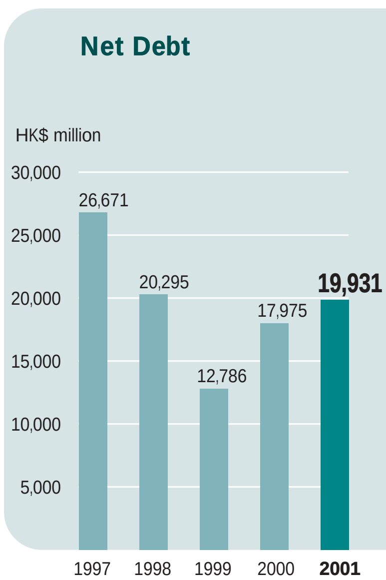
At 30th June 2001, the Group's total borrowings amounted to HK$28,992 million. Net debt (after deducting cash and bank deposits of HK$9,061 million) amounted to HK$19,931 million. All of the Group's borrowings are unsecured and arranged on a committed, medium to long term basis with a maturity profile analyzed as follows :

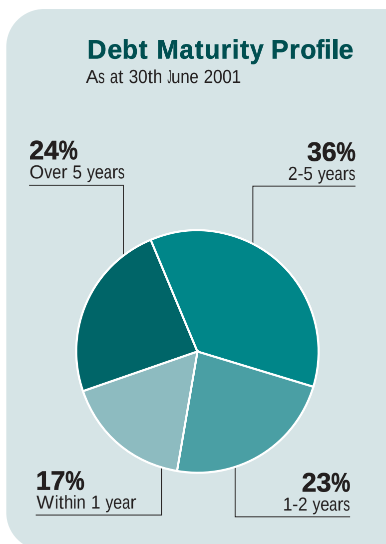
	2001 HK$M	2000 HK$M
Repayable:		
Within one year	**4,997**	4,584
After one year but within two years	**6,680**	12,868
After two years but within five years	**10,473**	9,522
After five years	**6,842**	1,415
Total borrowings	**28,992**	28,389
Cash and bank deposits	**9,061**	10,414
Net debt	**19,931**	17,975

The Group's net debt was up by HK$1,956 million during the year. The increase in net debt level was primarily due to increased expenditure for land acquisitions, including the land premium for the Airport Railway Kowloon Station Development Packages 5, 6 and 7. Gearing ratio at the year end, measured by net debt to shareholders' funds, stood at 15.8 per cent (2000: 14.9 per cent). Interest coverage for the year, measured by the ratio of profit from operations to interest expenses before capitalization, remained strong at 4.8 times (2000: 6.7 times).

Apart from refinancing short term debts with long term borrowings, the Group has also secured substantial undrawn facilities on a committed basis from its relationship banks, which helps the Group minimize refinancing risk of its debt and provides the Group with strong financing flexibility.







All the Group's financing and treasury activities are centrally managed and controlled at the corporate level. As at 30th June 2001, 96 per cent of the Group's borrowings were raised through its wholly-owned finance subsidiaries and the remaining 4 per cent through operating subsidiaries.

The Group adopts a conservative policy in financial risk management, having little exposure to foreign exchange and interest rate risks. Approximately 95 per cent of the Group's borrowings were denominated in Hong Kong dollars, with the balance in US dollars and Renminbi to fund property projects in the Mainland. The Group's borrowings are mostly arranged on a floating rate basis. For the fixed rate notes issued under the Euro Medium Term Note Programme, interest rate swaps have been utilized to convert the rates into floating rate basis. When appropriate, hedging instruments including interest rate and currency swaps are used to assist the Group to manage its exposure to interest rate and foreign currency exchange fluctuations in connection with its borrowings. The Group will not enter into derivative transactions for speculative purposes.

Expenditures incurred on acquisitions of land for the year amounted to HK$7,400 million, which were financed primarily by internally generated funds from operations and, to the extent required, by debt financing. 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.