

FINANCIAL REVIEW

Capital Expenditure, Liquidity, Financial Resources and Gearing Ratio

Capital expenditure during the period amounted to HK\$1,596 million, which was primarily funded by cash from operations and bank loans. As at 30th June 2002, total external borrowings were HK\$15,659 million (at 31st December 2001: HK\$14,338 million), comprising unsecured bank loans, unsecured deferred creditors and debt securities in issue. In addition, undrawn committed credit facilities available to the Group totalled HK\$4,253 million (at 31st December 2001: HK\$5,744 million). Gearing ratio (net debt/shareholders' funds) at 30th June 2002 was 46% (at 31st December 2001: 41%).

Treasury Policies and Capital Structure

The Group continues to ensure that its businesses are financed from a variety of competitive sources and that committed facilities are available for future development. In addition, currency and interest risks are actively managed on a conservative basis.

As at 30th June 2002, external borrowings of the Group amounted to HK\$15,659 million with the following profile:

- (1) 70% was either denominated or effectively hedged into Hong Kong dollars and 29% was denominated in Australian dollars;
- (2) 65% was bank loans, 27% was capital market instruments and 8% was suppliers' credits;
- (3) 82% was repayable between 2 to 5 years and 9% was repayable beyond 5 years;
- (4) 77% was fixed or capped rate based.

It is the Group's treasury policy not to engage in speculative transactions. Foreign currency transaction exposure, other than US dollars, is managed in accordance with treasury guidelines, utilising forward contracts and interest and currency swaps. As at 30th June 2002, over 99% of the Group's transaction exposure was either hedged or denominated in Hong Kong or US dollars. Currency exposure arising from overseas investments is hedged by arranging comparable level of borrowings in the same currency as the underlying investments. Interest rate risk is managed by maintaining a substantial portion of the Group's debt portfolio in fixed rate. This is achieved either directly by means of fixed rate debt issues or by the use of interest rate swaps and caps. The contractual notional amounts of derivative instruments outstanding at 30th June 2002 amounted to HK\$14,244 million (at 31st December 2001: HK\$14,034 million) equivalent.

Contingent Liabilities

At 30th June 2002, the Company has issued performance guarantees and letters of awareness to banks in respect of banking facilities available to associates amounting to HK\$42 million (at 31st December 2001: HK\$40 million).

At 30th June 2002, the Company has given guarantees and counter indemnities in respect of bank and other borrowing facilities available to subsidiaries and financial commitments of subsidiaries totalling HK\$9,924 million (at 31st December 2001: HK\$8,587 million) equivalent. Out of this amount HK\$9,075 million, while being a contingent liability of the Company, is reflected in the Consolidated Balance Sheet of the Group.

Employees

The Group continues its policy of pay by performance and market pay rates are monitored constantly to ensure competitiveness is maintained. The Group's total remuneration costs for the six months ended 30th June 2002, excluding directors' emoluments, amounted to HK\$534 million (2001: HK\$542 million). As at 30th June 2002, the Group employed 2,286 (2001: 2,342) permanent staff. No share option scheme is in operation.

Apart from well-established training schemes for university graduates, trainee technicians and apprentices, the Group also provides training for staff in language, computer knowledge, the latest technology as well as numerous job-related courses to enhance the skills and knowledge of our employees.