FINANCIAL REVIEW

REVIEW OF RESULTS

The Group's profit attributable to shareholders for the year ended 30th June 2002 was HK$8,519 million, increased by HK$189 million compared to HK$8,330 million achieved in the previous year. The results for the year under review included an exceptional impairment provision of HK$356 million made by its subsidiary, SUNeVision, for its technology investments and one-off costs of HK$131 million as a result of a restructuring programme of its business.

The Group's turnover for the year was HK$25,373 million, an increase of HK$7,672 million over the previous year. The increase was mainly due to higher property sales turnover.

Profit generated from property sales, including share of property sales from jointly controlled entities and associates, was HK$4,837 million (2001: HK$4,861 million). Profit contributions for the year mainly came from The Leighton Hill in Happy Valley, The Parcville in Yuen Long, Prima Villa in Shatin, The Belcher's Phase 2 in western Mid-Levels and Les Saisons on Island East.

Net rental income, including share of rental income from jointly controlled entities and associates, was HK$4,432 million, representing an increase of HK$31 million over the previous year. The marginal increase was mainly due to the contributions from new rental properties completed during the year including the Citygate commercial centre in Tung Chung and The Westwood shopping arcade at The Belcher's as well as saving on outgoings, more than offsetting the impact of lower rents upon lease renewals.

Operating profit from hotel operation was HK$189 million (2001: HK$195 million). The slight decrease was due to room renovation works in Royal Garden causing a drop in room revenue.

Profits generated from other business activities increased by HK$24 million to HK$398 million, mainly due to improved operating results of SUNeVision over the previous year.

Other revenue, which comprised mainly income from investment in securities and interest income from advances to joint venture companies, was HK$394 million (2001: HK$547 million) and the decrease was mainly due to reduced gains on disposal of marketable securities.

Net finance cost for the year reduced substantially to HK$566 million (2001: HK$1,158 million) as a result of reduction in the Group's average borrowings and lower interest rates.

The Group recorded a profit of HK$48 million (2001: HK$445 million) from disposal of investments, comprising mainly listed shares originally held for long-term investment.

Share of profits before taxation from associates and jointly controlled entities totalled HK$1,717 million (2001: HK$1,582 million). The major non-property associates are KMB, which contributed a pre-tax profit of HK$599 million (2001: HK$304 million) and SmarTone, which contributed a pre-tax profit of HK$35 million (2001: loss of HK$81 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 slightly to HK$128,598 million as at 30th June 2002 from HK$128,408 million at the previous year end, mainly due to the earnings retained in the year partially offset by the downward revaluation of the Group's investment property portfolio.

At 30th June 2002, the Group's total borrowings amounted to HK$28,329 million. Net debt, after deducting cash and bank deposits of HK$8,272 million, was HK$20,057 million. The Group's borrowings are all unsecured and mainly arranged on a medium to long term basis with a maturity profile set out as follows:

As at 30th June	**2002 HK$ Million**	2001 HK$ Million
Repayable:		
Within one year	**3,828**	4,997
After one year but within two years	**6,277**	6,680
After two years but within five years	**8,335**	10,473
After five years	**9,889**	6,842
Total borrowings	**28,329**	28,992
Cash and bank deposits	**8,272**	9,061
Net debt	**20,057**	19,931

Gearing ratio at the year end, measured by net debt to shareholders' funds, stayed low at 15.6 per cent (2001: 15.5 per cent). Interest cover for the year, measured by the ratio of profit from operations to net interest expenses before capitalization, increased significantly to 9.8 times (2001: 4.8 times).

At the balance sheet date, the Group had contingent liability in respect of guarantees for bank borrowings of joint venture companies in the aggregate amount of HK$3,789 million (2001: HK$7,698 million). The significant reduction in contingent liability was mainly due to repayment of bank loans of two joint venture projects namely, Ocean Shores and The Belcher's.

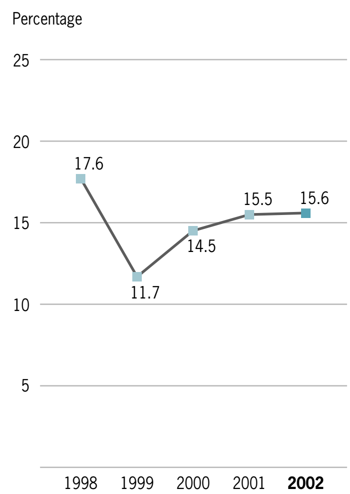
Apart from refinancing short term debts with long term borrowings, the Group has also secured substantial undrawn facilities on a committed basis from its relationship banks, which helps the Group minimize refinancing risk of its debts and provides the Group with strong financing flexibility.

All the Group's financing and treasury activities are centrally managed and controlled at the corporate level. As at 30th June 2002, 98 per cent of the Group's borrowings were raised through its wholly-owned finance subsidiaries and the remaining two per cent through operating subsidiaries.

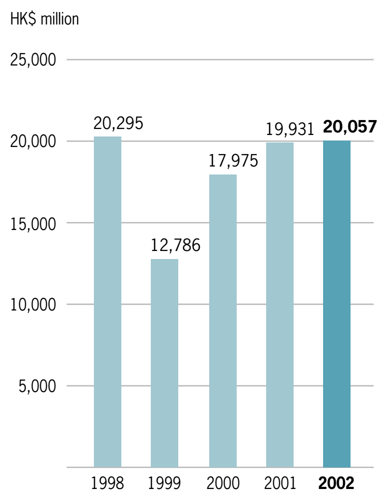
The Group adopts a conservative policy on foreign exchange risk management. Approximately 96 per cent of the Group's borrowings were denominated in Hong Kong dollars, with the balance in US dollars and Reminbi to fund property projects in the Mainland. The Group's borrowings are principally arranged on a floating rate basis. For the fixed rate notes issued under the Euro Medium Term Note Programme, interest rate swaps have been utilised 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 policy of the Group not to enter into derivative transactions for speculative purposes. As of 30th June 2002, total outstanding interest rate swaps (to swap into floating rate debt) and currency swaps (to hedge principal repayment of USD debt) amounted to HK$3,050 million (2001: HK$3,625 million) and HK$234 million (2001: HK$234 million) respectively.

Expenditures incurred on land acquisitions for the year amounted to HK$2,080 million, which were financed primarily by internally generated funds from operations. 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.

Net Debt to Shareholders' Funds Ratio



Net Debt



Debt Maturity Profile

As at 30th June 2002