FINANCIAL REVIEW

Capital Expenditure, Liquidity, Financial Resources and Gearing Ratio

Capital expenditure during the period amounted to HK$972 million, which was primarily funded by internal sources. As at 30th June 2003, total external borrowings were HK$15,365 million (at 31st December 2002: HK$16,354 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$4,700 million (at 31st December 2002: HK$4,480 million). Gearing ratio (net debt/shareholders' funds) at 30th June 2003 was 46% (at 31st December 2002: 50%).

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 2003, external borrowings of the Group amounted to HK$15,365 million, with the following profile:

(1) 60% was either denominated or effectively hedged into Hong Kong dollars and 40% was either denominated or effectively swapped into Australian dollars;

(2) 62% was bank loans, 31% was capital market instruments and 7% was suppliers' credits;

(3) 21% was repayable within 1 year, 69% was repayable between 2 to 5 years and 10% was repayable beyond 5 years;

(4) 78% was fixed rate or capped rate based and 22% was floating rate.

It is the Group's treasury policy not to engage in speculative transactions. Foreign currency transaction exposure is managed in accordance with treasury guidelines, utilising forward contracts and interest and currency swaps. As at 30th June 2003, over 90% 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 through the use of interest rate swaps and caps. The contractual notional amounts of derivative instruments outstanding at 30th June 2003 amounted to HK$19,049 million (at 31st December 2002: HK$18,358 million) equivalent.

Contingent Liabilities

As at 30th June 2003, the Company has issued a performance guarantee for an associate and a letter of awareness in respect of banking facilities available to an associate amounting to HK$42 million (at 31st December 2002: HK$41 million).

As at 30th June 2003, the Company has given a counter indemnity for a subsidiary, guarantees in respect of credit facilities available to subsidiaries and financial commitments of subsidiaries totalling HK$11,845 million (at 31st December 2002: HK$12,691 million) equivalent. Out of this amount, HK$11,011 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 2003, excluding directors' emoluments, amounted to HK$510 million (2002: HK$534 million). As at 30th June 2003, the Group employed 2,173 (2002: 2,286) 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, and the latest technology relevant to our industry as well as numerous job-related courses to enhance other more general skills and knowledge of our employees.