

MANAGEMENT DISCUSSION AND ANALYSIS

(I) Review of 2001 Results and Segmental Performance

The Group reported a profit attributable to shareholders of HK\$2,519 million for the year, compared to a restated profit of HK\$2,494 million in 2000, an increase of 1%. Earnings per share were HK\$1.03, compared to HK\$1.02 recorded last year.

Turnover for the year under review was HK\$11,725 million, a decrease of 2% from HK\$12,023 million last year. In spite of the difficult economic environment, the Group has continued to report consistent and robust growth in its CME (Communications, Media and Entertainment) business segment, which achieved total revenue of HK\$3,157 million in 2001, an increase of HK\$544 million or 21%, as a result of increase in revenue from Pay TV, Internet multimedia and telecommunication services.

Internet revenue grew by HK\$227 million or tripled with the rapid growth in Broadband subscribers being the driving force while Pay TV revenue grew by only HK\$54 million or 4%. The combined impact of continued growth in Pay TV and Internet related subscribers of the i-CABLE group increased its group revenue by 17% to HK\$1,931 million. Wharf New T&T increased its telecommunication revenue by 34% to HK\$1,089 million as revenue from fixed-line telephony services increased by 75% to HK\$703 million and accounted for 65% of its total revenue. Although operating in lacklustre market conditions, the Property Investment segment also managed to report revenue growth of 8% to HK\$3,889 million as a result of the pick up of new tenants for newly marketed properties at Gateway Tower 6, Gateway Apartments, Beijing Capital Times Square and Shanghai Times Square during 2001 which was encouraging. The Logistics segment reported a slight revenue reduction of 3% to HK\$3,348 million. The significant reduction in property sales has contributed to the decrease of the Group's total revenue growth for the year under review.

Operating profit before depreciation, amortisation, interest and tax ("EBITDA") for the year under review was HK\$6,138 million, representing a decrease of HK\$437 million, or 7% from HK\$6,575 million in 2000. Depreciation and amortisation for the year was HK\$1,086 million (including the amortisation of goodwill of HK\$22 million), increased slightly by 5% over last year.

Operating profit before borrowing costs for the year was HK\$5,052 million, a decrease of 9% from HK\$5,543 million in 2000 as a result of the mixed performance among the Group's business segments. The CME segment's operating results recorded significant growth of HK\$254 million to HK\$312 million, compared with a marginal profit of HK\$58 million in 2000. The i-CABLE group improved its operating profit by HK\$187 million to HK\$180 million due to rapid revenue growth coupled with disciplined cost control. Wharf New T&T recorded a turnaround profit of HK\$8 million from loss of HK\$68 million in 2000. Operating profit of Property Investment segment increased by 7% to HK\$2,736 million. Contributions from the Logistics segment decreased marginally while the Property Development segment recorded an operating loss of HK\$88 million, compared with a profit of HK\$198 million which was mainly derived from the sale of Serenade Cove units in 2000. The operating profit from Investment segment decreased significantly from HK\$874 million in 2000 to HK\$308 million in 2001 mainly due to a net loss of HK\$290 million on disposal of investment securities and interests in associates recorded in 2001 compared with a profit of HK\$776 million in 2000.

Net borrowing costs charged for the year were HK\$1,106 million, decreased substantially from HK\$1,593 million incurred in 2000 as a result of interest rate cuts during the year. The charge was after capitalisation of HK\$189 million for the current year under review compared to HK\$346 million in 2000. Net operating profit for the year is HK\$3,946 million, similar to last year's level.

Net other charges in 2001 amounted to HK\$99 million, compared to HK\$136 million in 2000. Net other charges in 2001 represented net provisions for impairment in value of non-trading securities of HK\$438 million partly set off by the net write-back of provisions of HK\$339 million for properties for development and for sale. The net provisions of HK\$438 million include a deficit of HK\$358 million transferred from the investments revaluation reserves of which HK\$343 million was brought forward from previous years in accordance with the Group's accounting policy on accounting for investments in securities. In 2000, provisions for impairment of non-trading securities and provisions for properties under development and for sale amounted to HK\$37 million and HK\$99 million respectively.

The share of losses of associates was HK\$281 million compared to HK\$154 million in 2000. The attributable losses in both years were mainly the results of the impairment provisions made by an associate in respect of a property development, namely, Bellagio.

The Group's profit before taxation was HK\$3,566 million, decreased slightly from last year's profit before taxation of HK\$3,660 million.

The taxation charge for the year under review was HK\$403 million compared to HK\$435 million for 2000.

Minority interests were HK\$644 million compared to HK\$731 million for 2000.

(II) Liquidity and Financial Resources

As at December 31, 2001, the Group's shareholders' funds totalled HK\$54,645 million, a decrease from HK\$57,950 million at December 31, 2000 mainly due to the downward revaluation of the Group's investment and hotel property interests. On that basis, the consolidated net asset value of the Group at December 31, 2001 was HK\$22.33 per share, compared to the restated net asset value of HK\$23.69 per share at the end of 2000.

For the year under review, net cash generated from the Group's operating activities amounted to HK\$4.5 billion. Other investing activities included expenditure of HK\$3.9 billion mainly on purchases of fixed assets (comprising expenditure for broadcasting and communication equipment for the Group's communication business, development expenditure for the Container Terminal 9 and various property development projects), the purchase of an additional interest of 4.5% in Modern Terminals Limited and the placements of long term deposits. Included in receipts from investing activities is HK\$3.1 billion arising mainly from repayments of net advances from associates, the disposal of the 26.7% interest in The Cross-Harbour (Holdings) Limited, net proceeds from disposals of investment securities and uplift of pledged deposits.

As at December 31, 2001, the ratio of net debt to total assets marginally increased to 23% from 22% at December 31, 2000. The Group's net debt slightly increased from HK\$19.5 billion in 2000 to HK\$19.8 billion in 2001. This was made up of HK\$23.9 billion in debts less HK\$4.1 billion in deposits, debt securities and cash. Included in the Group's net debts were loans of HK\$992 million borrowed by non-wholly owned subsidiaries, Modern Terminals Limited and Harbour Centre Development Limited. These loans are non-recourse to the Company and other subsidiaries of the Group.

High liquidity was sustained in the banking market during 2001. Capitalising on this opportunity, the Group arranged an aggregate of HK\$11.65 billion loan facilities to refinance a number of its loan facilities with a substantial reduction in interest costs and on more favourable terms such as longer maturities, more lenient covenants and the inclusion of revolving conditions. In addition, a HK\$3.4 billion project loan facility relating to the development of Sorrento (Kowloon Station Package II), in which the Group has a 40% interest, has been completed at a lower interest margin to replace the previous facility of HK\$2.2 billion. A project loan facility of HK\$3.8 billion relating to the development of Bellagio (San Miguel Site), in which the Group has a one-third interest, was also completed in late 2001.

Excluding the project loans for Sorrento and Bellagio which are undertaken by the associates, the Group's available committed loan facilities and debt securities amounted to HK\$34.2 billion and uncommitted facilities amounted to HK\$2.5 billion. Total debt in the amount of HK\$23.9 billion was outstanding at December 31, 2001. The maturity profile of the Group's total debt at December 31, 2001 is analysed as follows:

Debt Maturity	<i>HK\$ Billion</i>	
Repayable within 1 year	6.9	29%
Repayable between 1 to 2 years	0.4	2%
Repayable between 2 to 3 years	10.3	43%
Repayable between 3 to 4 years	1.0	4%
Repayable between 4 to 5 years	2.6	11%
Repayable after 5 years	2.7	11%
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– Secured	4.8	20%
– Unsecured	19.1	80%
Total	23.9	100%

As at December 31, 2001, the banking facilities of the Group were secured by mortgages over certain investment properties with carrying value of HK\$19,171 million. At December 31, 2000, the banking facilities were secured by mortgages over investment properties of HK\$20,413 million and other land and buildings of HK\$910 million.

As the Group's debts are primarily denominated in Hong Kong and US dollars and the US dollars loans have been effectively swapped into Hong Kong dollar loans by forward exchange contracts, there is no significant exposure to foreign exchange rate fluctuations.

An analysis of the Group's total debts by currency at December 31, 2001 is shown as below:

	<i>HK\$ Billion</i>
Hong Kong Dollar	16.0
United States Dollar	7.0
Other currencies	0.9
	23.9

The use of financial derivative products is strictly controlled. The majority of the derivative products entered into by the Group were used for management of the Group's interest rate exposures.

The Group maintained a reasonable level of surplus cash, which was denominated principally in Hong Kong and US dollars, to facilitate the Group's business and investment activities. As at December 31, 2001, the Group also maintained a portfolio of long term investments, primarily in blue-chip securities, with a market value of HK\$1.0 billion.

(III) Employees

The Group has approximately 9,300 employees. Employees are remunerated according to nature of the job and market trends, with a built-in merit component incorporated in the annual increment to reward and motivate individual performance. Total staff costs for the year amounted to HK\$1,987 million.