

COMMENTARY ON INTERIM ACCOUNTS

(I) Review of 2003/04 Interim Results and Segmental Performance

Profit attributable to shareholders

The Group reported an unaudited profit attributable to Shareholders of HK\$766.7 million for the six-month period ended 30 September 2003 against HK\$145.1 million for the corresponding period last year. Earnings per share were 37.7 cents (2002: 7.1 cents).

Included in last year's interim results is an attributable impairment provision totalling HK\$481.3 million for properties, compared to HK\$10.4 million for the period under review. Excluding the above-mentioned provisions in both periods, the Group's net profit would be HK\$777.1 million in the financial period under review, an increase of HK\$150.7 million or 24.1% over HK\$626.4 million for the same period in 2002/03.

Group turnover

The Group's turnover for the period was HK\$2,159.1 million, a significant decrease of HK\$1,173.0 million or 35.2% from HK\$3,332.1 million achieved in the same period in 2002/03. This resulted partly from the Group's disposal in February 2003 of all its retail businesses, which contributed revenue of HK\$952.7 million in the first half of 2002/03.

Property development

The depressed property sale market caused by the weak economic fundamentals and the imbalance of supply and demand persisted in the marketplace. Property sales for the first half of this financial year was HK\$1,907.9 million (2002: HK\$2,116.8 million), largely derived from the sale of residential units at Sorrento and Bellagio. In the period under review, 261 units at the Sorrento and 171 units at the Bellagio were sold. Other property sales include the residential units at Palm Cove, The Astrid, The Regalia and Forest Hill, and industrial units at Metro Loft owned by New Asia Realty and Trust ("NART"). Sale of Metro Loft units was launched in August 2003 with 43 units (out of the total 255 units) sold as at 30 September 2003.

Property investment

Despite a steady recovery in the business environment in Hong Kong following the subsidence of the SARS impact, the office leasing market remains very competitive. Chiefly as a result of the fall in the rental level for new supply, the Property Investment segment generated a total revenue of HK\$164.0 million, a decrease of HK\$10.9 million or 6.2% from HK\$174.9 million earned in the same period last year. Wheelock House was approximately 90% occupied while Fitfort, Lane Crawford House and Wheelock Place in Singapore were virtually fully let during the period under review.

Group operating profit

The Group's operating profit before borrowing costs and property provision was HK\$345.8 million, an increase of HK\$119.0 million or 52.5% from that reported in the corresponding period in 2002/03.

Property development

Property Development segment recorded a decrease in profit of HK\$91.9 million to HK\$153.0 million, as compared to HK\$244.9 million achieved in the same period last year. Property development profit contributed by Marco Polo Developments Limited ("MPDL") also dropped substantially in the period under review following the complete recognition of Ardmore Park's profit in previous financial years.

Property investment

The operating profit of the Property Investment segment decreased by HK\$9.9 million to HK\$119.0 million in the period resulting from the downward adjustments in rental rates as mentioned above.

Others

The Investment and Others segment recorded a profit of HK\$79.7 million against a loss of HK\$122.9 million for the corresponding period last year. The loss for last year's interim period mainly comprised the reported loss of HK\$191.1 million on disposal of certain non-trading securities.

Performance of the listed subsidiaries (already consolidated into the Group's results)

NART reported an unaudited profit attributable to shareholders of HK\$240.1 million for the six-month period ended 30 September 2003 against a loss of HK\$126.6 million for the corresponding period last year. The loss for last year's interim results was chiefly due to the inclusion of attributable impairment provisions totalling HK\$432.3 million for properties, including its attributable interest in the Bellagio development project.

MPDL reported an unaudited profit attributable to shareholders of S\$11.1 million for the six months ended 30 September 2003, compared to S\$77.8 million achieved in the same period in 2002/03. MPDL's profit for the first half of 2003/04 was principally derived from recurring rental income of Wheelock Place. Profit for the corresponding period last year was largely contributed from the sale of Ardmore Park units. All Ardmore Park units were sold and the remaining profit of the project was finally recognised in 2002/03. Sale of Grange Residences up to 30 September 2003 reached 14 units and a proportionate small profit therefrom was recognised according to its accounting policy by MPDL during the period under review.

Attributable profit for the six months to the Group from NART and MPDL, before property provision and dividend income from NART's 7% holdings in The Wharf (Holdings) Limited ("Wharf"), was HK\$111.2 million (2002: HK\$166.4 million). During the period under review, the Group received a cash dividend totalling HK\$76.8 million (2002: HK\$76.8 million) from NART.

Borrowing costs

Borrowing costs charged to the profit and loss account for the period were HK\$84.3 million, a substantial decrease of 43.4% from HK\$148.9 million reported in previous year's corresponding period. This was due to a persistently low interest rate environment as well as the Group's declining debt level, resulting from the attributable cash inflows generated from sale of Sorrento and Bellagio units and distributed by the project companies among their shareholders in proportion to their equity interests in the respective projects. For the period under review, the Group's average borrowing interest rate was approximately 1.7% per annum, a reduction from 2.4% for the same period last year.

Property provision

Following an internal review, a provision for impairment in value of HK\$6.1 million was made by NART in respect of its car park units. The provision of HK\$756.1 million made for the same period last year mostly comprised HK\$468.8 million made by NART, HK\$250.0 million made for the Bellagio project plus some attributable deficits for the Group's investment properties.

Share of profits less losses of associates

The share of profit of associates before taxation was HK\$837.8 million, substantially contributed by Wharf, against HK\$841.3 million for the corresponding period last year. Wharf, the major listed associate of and profit contributor to the Group, reported an unaudited profit attributable to shareholders of HK\$1,309 million for its six-month period ended 30 June 2003, compared to HK\$1,181 million achieved in the same period of 2002. Based on those results, Wharf's net profit contribution to the Group was HK\$629.9 million. Aggregate dividends received from Wharf by the Group during the period under review amounted to HK\$747.5 million (2002: HK\$620.8 million). The 2003 interim dividend of Wharf, comprising cash and the scrip dividend in the form of shares in i-CABLE Communications Limited ("i-CABLE"), was collected in the period under review. In the previous year, the interim dividend of Wharf was collected and reported in the second half of the Group's financial year. This change has no impact on the Group's results because of the adoption of equity accounting for Wharf's results.

Arising from the i-CABLE's share distribution, Wharf disclosed in its results announcement that a deemed profit of approximately HK\$319 million would be reported in the second half of its financial year 2003. Since the distribution effectively did no change to the Group's attributable interest in i-CABLE, the said deemed profit will not be recognised by the Group and will be fully eliminated in accordance with the Group's accounting policies.

Other items

A taxation charge of HK\$224.8 million was reported for the period against HK\$125.2 million for last year's corresponding period. The significant increase in tax charge primarily resulted from the inclusion in the last corresponding period of a write-back of tax provision for the Ardmore Park project of HK\$94.3 million subsequent to a reduction of the Singapore income tax rate from 24.5% to 22.0%. The increase was also partly due to the effect of the increased Hong Kong profits tax rate of 17.5% (2002/03: 16%) for the current tax and the deferred tax liabilities, the latter of which had been enlarged upon the adoption of the revised SSAP 12 "Income taxes" in the current financial year.

For the period under review, profit shared by minority interests amounted to HK\$101.7 million. The net loss shared by minority interests in the same period last year was HK\$107.2 million, which was mainly attributable to the loss incurred by NART and the Bellagio project.

(II) Liquidity and Financial Resources

Shareholders' funds

At 30 September 2003, the Group's shareholders' funds totalled HK\$23,704.2 million or HK\$11.67 per share, against HK\$22,790.3 million or HK\$11.22 per share at 31 March 2003.

Net debt and gearing

At 30 September 2003, the ratio of the Group's net debt to shareholders' equity was 29.7% (31/3/2003: 38.6%), while the ratio of net debt to total assets was 18.3% (31/3/2003: 22.7%).

At 30 September 2003, the Group's net debt amounted to HK\$7,032.8 million, comprising total debts of HK\$9,582.5 million less deposits and cash of HK\$2,549.7 million, as compared with a net debt of HK\$8,798.0 million at 31 March 2003. Excluding NART group's net debt of HK\$278.8 million, the Company together with its other subsidiaries had a net debt of HK\$6,754.0 million (31/3/2003: HK\$7,787.5 million). The reduction in the Group's net debt was mainly the result of cash inflow attributable to sale of Sorrento and Bellagio units distributed by the project companies among their shareholders in proportion to their equity interests in the respective projects.

Committed and uncommitted facilities

(a) The Group's committed and uncommitted loan facilities amounted to HK\$12.1 billion and HK\$2.0 billion respectively. The debt maturity profile of the Group at 30 September 2003 is analysed as follows:

	30/9/2003 HK\$ Million	31/3/2003 HK\$ Million
Repayable within 1 year	1,082.1	1,945.0
Repayable after 1 year, but within 2 years	2,750.0	5,200.0
Repayable after 2 years, but within 5 years	5,750.4	4,835.7
	9,582.5	11,980.7
Undrawn facilities	4,500.0	5,200.0

(b) The following assets of the Group have been pledged for securing bank loan facilities:

	30/9/2003 HK\$ Million	31/3/2003 HK\$ Million
Investment properties	2,431.4	2,407.4
Properties under development / for sale	1,740.6	5,349.3
	4,172.0	7,756.7

(c) To minimise exposure on foreign exchange fluctuations, the Group's borrowings are primarily denominated in Hong Kong dollars except that the borrowings for financing Singapore assets are denominated in Singapore dollars. The Group has no other significant exposure to foreign exchange fluctuations except for its net investments in Singapore subsidiaries, which was partially hedged by forward exchange contracts entered into by the Group.

Long-term investments

At 30 September 2003, the Group maintained a portfolio of long-term investments of HK\$959.1 million, which comprised blue chip securities with a market value of HK\$952.2 million (31/3/2003: HK\$746.3 million).

In accordance with the Group's accounting policy, the non-trading securities classified as long-term investments are stated in the balance sheet at fair value. Changes in fair value are recognised in the investment revaluation reserves until the security is sold. At 30 September 2003, there was attributable investment revaluation deficit of HK\$103.4 million compared to HK\$316.3 million at 31 March 2003. The performance of the investment portfolio is basically in line with the general market trend of the stock markets.

(III) Major Property Development Projects

Sorrento and Bellagio

Sale of Sorrento and Bellagio units are continuing with good progress. At 30 September 2003, cumulative sales for Sorrento Phase I and Phase II reached 1,121 units or 88% and 490 units or 59%, respectively. The sale of Bellagio accumulated to 1,464 units or 86% of the 1,704 Phase I and II units. Construction works for Bellagio Phases III and IV commenced in March 2003 and are underway in accordance with schedule.

At 30 September 2003, the cash deposits in Sorrento's stakeholders' account amounted to HK\$541 million, which would be sufficient to fully cover its outstanding construction cost for completion of the whole project. Following the completion of Bellagio Phase I and II units, the cash deposits of HK\$1.2 billion kept in the relevant stakeholders' account at 31 March 2003 were distributed to the shareholders of the project company, namely, the Company, Wharf and NART, in proportion to their equity interests in the project in April 2003. The two project companies did not have any bank borrowings at 30 September 2003.

Parc Palais

Pre-sale of Parc Palais, 20%-owned by NART, was first launched in August 2003 with good market response. Proceeds from pre-sale of the project will be utilised to meet its outstanding construction cost. As the project is still at its development stage, the pre-sale has no significant impact on the results for the period under review.

Grange Residences

The official launch of this residential project, with 150 apartments remaining unsold out of a total 164, is now targeted to take place in the first quarter of 2004, upon MPDL receiving the Temporary Occupation Permit.

(IV) Contingent Liabilities

- (a) Guarantee given by the Group in respect of banking facilities available to associates amounted to HK\$559.7 million (31/3/2003: HK\$560.9 million) of which HK\$398.1 million (31/3/2003: HK\$349.9 million) had been drawn at the balance sheet date.
- (b) The Company together with two non wholly-owned subsidiaries and two associates have jointly and severally guaranteed the performance and observance of the terms by another subsidiary under an agreement for the development of the Sorrento project.

(V) Acquisition of Properties

Mer Vue Developments Pte. Ltd., a wholly-owned subsidiary of MPDL, recently entered into a sale and purchase agreement to acquire the Sea View Hotel site in Singapore at purchase price of S\$255 million. The site is for a proposed residential condominium development of approximately 500 apartments. 10% of the purchase price or S\$25.5 million was paid. The acquisition is expected to be completed by early 2004.

(VI) Employees

At 30 September 2003, the Group has approximately 872 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. The Group also sponsors external training programmes that are complementary to certain job functions. Total staff costs for the six-month period ended 30 September 2003 amounted to HK\$75.3 million.

COMPLIANCE WITH CODE OF BEST PRACTICE

None of the Directors of the Company is aware of any information which would reasonably indicate that the Company was not in compliance with the Code of Best Practice, as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), at any time during the six months ended 30 September 2003.

DIRECTORS' INTERESTS IN SHARES

At 30 September 2003, Directors of the Company had the following beneficial interests, all being long positions, in the share capitals of the Company, of an associate of the Company, namely, The Wharf (Holdings) Limited ("Wharf"), and of a subsidiary of the Company, namely, New Asia Realty and Trust Company, Limited ("New Asia"):

	No. of Ordinary Shares	Nature of Interest
The Company		
Mr. Peter K. C. Woo	1,204,934,330	Corporate Interest in 209,712,652 shares and Other Interest in 995,221,678 shares
Mr. B. M. Chang	8,629,575	Corporate Interest
Mr. G. W. J. Li	1,486,491	Personal Interest
Mr. S. T. H. Ng	300,000	Personal Interest
Wharf		
Mr. G. W. J. Li	686,549	Personal Interest
Mr. S. T. H. Ng	650,057	Personal Interest
New Asia		
Mr. G. W. J. Li	2,900	Personal Interest

Notes:

- (1) *The 995,221,678 shares of the Company stated above as "Other Interest" against the name of Mr. Peter K. C. Woo represented an interest comprised in certain trust properties in which Mr. Woo was taken, under certain provisions in Part XV of the Securities and Futures Ordinance (the "SFO") which are applicable to a director or chief executive of a listed company, to be interested.*
- (2) *The shareholdings classified as "Corporate Interest" in which the Directors concerned were taken to be interested as stated above were interests of corporations at respective general meetings of which the relevant Directors were respectively either entitled to exercise (or taken under Part XV of the SFO to be able to exercise) or control the exercise of one-third or more of the voting power in general meetings of such corporations.*
- (3) *The 209,712,652 shares of the Company stated above as "Corporate Interest" against the name of Mr. Peter K. C. Woo represented the same block of shares as that of the shareholding interest of Mrs. Bessie P. Y. Woo stated below in the section headed "Substantial Shareholders' Interests".*
- (4) *The 995,221,678 shares of the Company as referred to under Note (1) above are entirely duplicated or included in the shareholding interest of Bermuda Trust (Guernsey) Limited stated below under the section headed "Substantial Shareholders' Interests".*

Except as disclosed above, as recorded in the register kept by the Company under section 352 of the SFO in respect of information required to be notified to the Company and the Stock Exchange pursuant to the SFO or to the Model Code for Securities Transactions by Directors of Listed Companies:

- (i) there were no interests, both long and short positions, held as at 30 September 2003 by any of the Directors or Chief Executive of the Company in shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO); and
- (ii) there existed during the financial period no rights to subscribe for any shares, underlying shares or debentures of the Company which were held by any of the Directors or Chief Executive of the Company or any of their spouses or children under 18 years of age nor had there been any exercises during the financial period of any such rights by any of them.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

Given below are the names of all parties, other than person(s) who is/are Director of the Company, who/which were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital of the Company and the respective relevant numbers of shares in which they were, and/or were deemed to be, interested as at 30 September 2003 as recorded in the register kept by the Company under section 336 of the SFO:

Names	No. of Ordinary Shares
(i) Mrs. Bessie P. Y. Woo	209,712,652
(ii) Bermuda Trust (Guernsey) Limited	1,095,300,362

Note: Duplication occurred in respect of the abovementioned shareholding interests as set out above in Notes (3) and (4) under the section headed "Directors' Interests in Shares".

All the interests stated above represented long positions and as at 30 September 2003, there were no short positions recorded in the abovementioned register.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company during the financial period under review.

BOOK CLOSURE

The Register of Members will be closed from Monday, 5 January 2004 to Thursday, 8 January 2004, both days inclusive, during which period no transfer of shares of the Company can be registered. In order to qualify for the abovementioned interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Registrars, Tengis Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not later than 4:30 p.m. on Friday, 2 January 2004.

By Order of the Board

Wilson W. S. Chan

Secretary

Hong Kong, 25 November 2003