

COMMENTARY ON INTERIM ACCOUNTS

(I) Review of 2002/03 Interim Results and Segmental Performance

The Group reported a profit attributable to Shareholders of HK\$158.3 million for the six months ended 30 September 2002, a decrease of HK\$302.5 million or 65.6% as compared to HK\$460.8 million for the corresponding period last year. The reduction in profit for the period under review is mainly due to the inclusion of a provision of HK\$756.1 million made for impairment in value of certain properties. Earnings per share were 7.8 cents, against 22.7 cents for the previous year's same period.

Turnover and revenue

The Group's turnover for the period was HK\$3,332.1 million as opposed to HK\$3,316.9 million recorded in the corresponding period in 2001/02, a slight increase of HK\$15.2 million or 0.5%.

For the Property Development segment, revenue recognised from property sales for the period amounted to HK\$2,116.8 million compared to HK\$2,096.2 million achieved in the corresponding period in 2001/02. Although lower property sales revenue was recognised by Marco Polo Developments group ("MPDL") in respect of its sale of Ardmore Park units in Singapore, the revenue from pre-sale of residential units at the Sorrento Phase I in Hong Kong substantially offset the Ardmore Park's impact. Good progress on pre-sale of Sorrento Phase I was made with accumulated sales exceeding 80% of the 1,272 Phase I units by the end of the period under review. Other property sales during the period included the pre-sale of residential units at Palm Cove of Realty Development Corporation group ("RDC") and the pre-sale of Bellagio Phase I. Out of the total 260 units of Palm Cove, 194 units were sold. The pre-sale of Bellagio Phase I was first launched in the second half of September 2002 with tremendous success but revenue therefrom would mostly be recognised subsequent to the period under review according to the Group's accounting policy.

Notwithstanding the lackluster market condition, the Property Investment segment managed to report an increase in revenue from the same period last year of HK\$4.6 million to HK\$147.0 million. This was mainly attributable to an overall improvement in occupancy rate. Wheelock House and Fitfort were fully-let at the end of the period under review. Wheelock Place, Singapore was 96% leased at satisfactory rental rates.

Under the difficult retail market conditions, Lane Crawford and Joyce on a combined basis reported retail sales of HK\$952.7 million, up by 2.5% against previous year's same period.

Operating results

The Group's operating profit before property provisions for the period was HK\$226.8 million, down from HK\$832.9 million for last year's corresponding period. The decrease was mainly due to lower property sale contribution, particularly from the Ardmore Park project. The inclusion of the provision of HK\$756.1 million (2001: HK\$273.8 million for Singapore's properties) made for impairment in value of certain properties in Hong Kong reduced the Group's operating result to a loss of HK\$529.3 million compared to a profit of HK\$559.1 million in last year's corresponding period.

Comparing to the corresponding period last year, the profit contribution from the Property Development segment for the period under review decreased by HK\$473.9 million to HK\$244.9 million. This was mainly due to lower property sale contribution from MPDL, which recognised 4% profit of the sold Ardmore Park's units in the period under review against 25% in the same period last year. 8 apartments at Grange Residences, Singapore were sold in September 2002 on a deferred payment scheme and accordingly, proportionate profits on the units sold would only be recognised in the second half of 2002/03. Against the results in the first half of last year, property sale contributions from RDC decreased by HK\$18.0 million to HK\$1.2 million due to lower profit margins. The pre-sale profit recognised from Sorrento is insignificant due to its low profit margin and the project being still at its development stage.

Operating profit of Property Investment segment slightly increased by HK\$13.5 million to HK\$128.9 million. Investment and Others segment recorded a total loss of HK\$122.9 million against a profit of HK\$66.2 million for the corresponding period last year. The loss for the period mainly arose from a loss of HK\$94.9 million on disposal of non-trading securities and a provision of HK\$96.2 million for impairment of non-trading securities.

Despite operating under an ongoing and increasing harsh and competitive environment, the Group managed to reduce its net retail operating loss by HK\$41.9 million to HK\$10.7 million from HK\$52.6 million for last year's corresponding period. For the period under review, Joyce reported an operating loss of HK\$11.2 million while Lane Crawford achieved a small profit.

Property provision

In view of the depressed property market and following an internal review, the Group has made a total provision of HK\$756.1 million for the impairment in value of certain Group's properties and the Group's land bank reserved for development in Hong Kong. Included in the provision are mainly HK\$434.5 million made by RDC, HK\$250.0 million made for the Bellagio project plus some provisions for the Group's investment properties.

The provision of HK\$273.8 million for the corresponding period last year was made for certain Singapore properties held by MPDL.

Borrowing costs and other items

Borrowing costs charged to the profit and loss account for the period under review were HK\$148.9 million, a substantial decrease from HK\$319.0 million incurred in the corresponding period last year. This was as a result of interest rate cuts and reduction in the Group's net debt, which in turn improved due to the Group deriving strong cash inflows from sale of properties and investments. For the period under review, the Group's average borrowing cost was approximately 2.4% per annum, reduced from 4.6% per annum for the same period last year.

Share of profit of associates was HK\$841.3 million, mainly contributed by the Wharf group, against HK\$659.4 million for the same period last year. Wharf, the Group's major listed associate and profit contributor, reported a profit attributable to shareholders of HK\$1,202 million for its interim results up to 30 June 2002, an increase of 5.0% as compared to HK\$1,145 million for the first half of 2001.

A taxation charge of HK\$109.3 million was reported for the period under review against HK\$256.4 million in last year's corresponding period. This lower charge principally arose from a write-back of tax provision for the Ardmore Park project of HK\$94.3 million subsequent to a reduction of Singapore income tax rate from 24.5% to 22.0% for the year of assessment 2003.

The net loss shared by minority interests was HK\$104.5 million which was mainly attributed to the loss incurred by RDC for the period under review.

Further information on segmental details is provided in note 2 to the accounts.

(II) Liquidity and Financial Resources

- (a) At 30 September 2002, the Group's shareholders' funds totalled HK\$26,508.9 million or HK\$13.05 per share, compared to HK\$26,485.1 million at 31 March 2002.
- (b) At 30 September 2002, the Group's net debt significantly reduced to HK\$10,028.8 million, comprising total debts of HK\$14,049.0 million less deposits and cash of HK\$4,020.2 million, as compared with HK\$13,175.0 million at 31 March 2002. The decrease in the Group's net debt by HK\$3,146.2 million was mainly due to net cash generated from sales of properties, including Ardmore Park and Sorrento Phase I, disposals of certain securities as well as other operating and investment activities during the period under review. The Group's net debt represented 20.7% of its total assets at 30 September 2002, compared to 25.7% at 31 March 2002.

At 30 September 2002, included in the Group's receivables are stakeholders' deposits of HK\$885.8 million (31/3/2002: HK\$1,153.1 million), representing mainly the pre-sale proceeds deposited with banks in respect of Sorrento Phase I. Should these bank deposits be included as the Group's cash, the Group's net debt would further reduce to HK\$9,143.0 million or 19.2% (31/3/2002: HK\$12,021.9 million or 24.0%) of its total assets.

The debt maturity profile of the Group at 30 September 2002 is analysed as follows:

	30/9/2002 HK\$ Million	31/3/2002 HK\$ Million
Repayable within 1 year	4,873.0	7,310.2
Repayable after 1 year, but within 2 years	2,850.0	4,940.0
Repayable after 2 years, but within 5 years	6,326.0	3,422.9
Repayable after 5 years	–	953.0
	14,049.0	16,626.1

- (c) Excluding the project loans undertaken by associates, the Group's committed and uncommitted loan facilities amounted to HK\$21.3 billion and HK\$1.7 billion respectively. The following assets of the Group have been pledged for securing bank loan facilities:

	30/9/2002 HK\$ Million	31/3/2002 HK\$ Million
Investment properties	2,856.4	2,857.5
Long-term investments	351.8	785.2
Properties under development/for sale	15,801.2	15,144.4
	19,009.4	18,787.1

- (d) 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 significant exposure to foreign exchange fluctuation except for the Group's net investments in Singapore subsidiaries and the forward exchange contracts entered into by the Group for hedging such investments.

- (e) In the period under review, the Group liquidated part of its investment portfolio to improve its net debt position. At 30 September 2002, the Group maintained a portfolio of long-term investments of HK\$1,256.0 million, which primarily comprises blue chip securities with market value of HK\$1,246.0 million (31/3/2002: HK\$3,655.3 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 2002, there was attributable investment revaluation deficit of HK\$241.9 million compared to a deficit of HK\$264.0 million at 31 March 2002. The performance of the investment portfolio is basically in line with the general market trend of the stock markets.

(III) Employees

The Company and its subsidiaries (not including associates) have approximately 2,200 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. External training programmes that are complementary to certain job functions are also sponsored by the Group. Total staff costs for the period ended 30 September 2002 amounted to HK\$200.9 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 2002.

DIRECTORS' INTERESTS IN SHARES

At 30 September 2002, Directors of the Company held the following interests in the share capital 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		
Sir S. Y. Chung	348,238	Personal Interest in 189,427 shares and Corporate Interest in 158,811 shares
Mr. G. W. J. Li	686,549	Personal Interest
Mr. S. T. H. Ng	650,057	Personal Interest
New Asia		
Sir S. Y. Chung	94,710	Family Interest
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 of the Securities (Disclosure of interests) Ordinance (the “SDI Ordinance”) 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 entitled to either exercise (or taken under the SDI Ordinance 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 under the section headed “Substantial Shareholders’ Interests”.*
- (4) *The 995,221,678 shares of the Company as referred to under Note (1) above represented the same block of shares as that of 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 29 of the SDI Ordinance in respect of information required to be notified to the Company and the Stock Exchange pursuant to that Ordinance or the Model Code for Securities Transactions by Directors of Listed Companies:

- (i) there were no interests held as at 30 September 2002 by any Directors and Chief Executive of the Company in securities of the Company and its associated corporations (within the meaning of the SDI Ordinance), and
- (ii) there existed during the financial period no rights to subscribe for equity or debt securities of the Company which were held by any 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 Directors or Chief Executive of the Company which were, directly or indirectly, interested in 10 per cent 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 2002 as recorded in the register kept by the Company under section 16(1) of the SDI Ordinance:

Names	No. of Ordinary Shares
(i) Mrs. Bessie P. Y. Woo	209,712,652
(ii) Bermuda Trust (Guernsey) Limited	995,221,678

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”.

SHARE OPTIONS

At the beginning of the period under review, there were outstanding certain share options previously granted on 14 April 1992 under the Company's Executive Share Incentive Scheme to one employee (not being a Director or Chief Executive of the Company and not being a participant with options granted in excess of the individual limit) working under an employment contract which is regarded as a "continuous contract" for the purposes of the Employment Ordinance. Such options were exercisable during the period 13 April 1995 to 12 April 2002, and on full exercise would require the Company to allot 92,000 new shares to the grantee at an exercise price of HK\$5.50 per share. The options were exercised in full by that employee on a day falling in the period under review and as a result, 92,000 new shares of the Company were accordingly allotted and issued to that employee. The closing price of the shares of the Company immediately before the date of such option exercise was HK\$6.25 per share.

Except as disclosed above, no share option of the Company was issued, exercised, cancelled, lapsed or outstanding throughout the period under review.

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 Tuesday, 7 January 2003 to Friday, 10 January 2003, 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 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong, not later than 4:00 p.m. on Monday, 6 January 2003.

By Order of the Board

Wilson W. S. Chan

Secretary

Hong Kong, 2 December 2002