# Management Discussion and Analysis

## (I) REVIEW OF 2001/02 INTERIM RESULTS

Group profit attributable to Shareholders for the six months ended 30 September 2001 amounted HK$460.8 million, compared to HK$460.5 million for the last corresponding period. Earnings per share were 22.7 cents.

The Group's turnover for the period under review was HK$3,316.9 million, an increase of HK$1,884.0 million or 131.5% as compared to HK$1,432.9 million in last corresponding period, which was principally due to higher property sales revenue recognised by Marco Polo Developments group ("MPDL") in respect of its sales of Ardmore Park units in Singapore. Revenue from the retailing segment also increased by 23.5% to HK$929.3 million as a result of the inclusion of the turnover of Joyce Boutique Holdings Limited ("Joyce"), which was acquired by the Group in mid-August 2000.

The Group's operating profit before borrowing costs increased by 7.4% to HK$559.1 million from HK$520.6 million as a result of higher contribution being derived from MPDL for the period under review. MPDL's profit was mainly derived from recognition of a proportion of pre-sale profit from Ardmore Park of which 25% was recognised in the period against 4.4% for the previous corresponding period. The Temporary Occupation Permit for the whole development of Ardmore Park was obtained in May 2001 and stage billings accumulating to 85% of the total sales price of total units sold have been received by end of the period under review. The Certificate of Statutory Completion was obtained on 18 October 2001 and further stage billings representing 13% of the total sales price were then billed according to the sale and purchase agreements.

The results for the period were adversely impacted by losses incurred by the retailing and trading segment and provision for properties. For the period under review, the retail market in Hong Kong and Taiwan remained sluggish and low buying sentiment impacted the fashion retail sector very much, which contributed to a total retail operating loss for the Group of HK$52.6 million mainly incurred by Lane Crawford and Joyce. Included in the operating profit is impairment provision of HK$273.8 million for certain Singapore properties against that made in the last corresponding period of HK$48.7 million mainly for an industrial/office development project in Hong Kong.

For the period under review, other net income was HK$54.3 million, decreased by HK$166.7 million from HK$221.0 million, which was due to the absence of profit from disposal of securities whereas there was profit of HK$182.2 million in the last corresponding period.

Borrowing costs charged to profit and loss account for the period were HK$319.0 million, reduced substantially from HK$467.7 million incurred in the last corresponding period as a result of the interest rate cuts.

The share of profits of associates was HK$659.4 million, mainly contributed by the Wharf group, increased slightly by HK$32.0 million from HK$627.4 million for the last corresponding period. Wharf reported a profit attributable to shareholders of HK$1,145.0 million for its six-month period ended 30 June 2001, compared to HK$1,128.0 million achieved in the last corresponding period.

Taxation charge for the period under review was HK$256.4 million against HK$103.4 million in the last corresponding period. Higher taxation charge was recorded mainly due to the increase in profit recognised by MPDL in Singapore.

The profits shared by minority interests for the period under review was HK$182.3 million, an increase of 56.6% from the HK$116.4 million in the previous corresponding period. The increase was mainly due to an improved profit reported by MPDL.

The consolidated net asset value of the Group at 30 September 2001 was HK$28,362.0 million or HK$13.96 per share compared to HK$13.99 per share at 31 March 2001.

Further information on the segmental details is provided in Note 2 to the Accounts on page 13.

## (II) LIQUIDITY AND FINANCIAL RESOURCES

(a) At 30 September 2001, the ratio of the Group's net debt to total assets was 28.4%, compared to 27.4% at 31 March 2001. The Group's net debt amounted to HK$14,753.9 million, made up of HK$17,731.7 million in debts and HK$2,977.8 million in deposits and cash, a decrease of 5.8% as compared with HK$15,664.5 million at 31 March 2001. The decrease in the Group's net debts resulted from the substantial cash inflows from property sales, particularly, from sales of Ardmore Park units by MPDL.

The debt maturity profile of the Group at 30 September 2001 is analysed as follows :

| | **30/9/2001** | 31/3/2001 |
|---|---|---|
| | **HK$ Million** | HK$ Million |
| Repayable within 1 year | **5,956.9** | 4,564.7 |
| Repayable after 1 year, but within 2 years | **4,348.8** | 7,580.9 |
| Repayable after 2 years, but within 5 years | **7,426.0** | 4,818.0 |
| | **17,731.7** | 16,963.6 |

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

| | 30/9/2001 HK$ Million | 31/3/2001 HK$ Million |
|---|---|---|
| Investment properties | **3,021.4** | 3,859.6 |
| Long-term investments | **827.7** | 363.2 |
| Properties under development | **6,934.3** | 6,009.7 |
| | **10,783.4** | 10,232.5 |

(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 significant exposure to foreign exchange fluctuations.

(d) At 30 September 2001, the Group maintained a portfolio of long-term listed investments with market value of HK$3,531.3 million (31/3/2001 – HK$3,324.0 million) which primarily comprises blue chip securities.

(e) During the period under review, high liquidity was sustained in the banking market. The Group arranged a total of approximately HK$7.0 billion loan facilities, to refinance its loan facilities with substantial reduction in interest costs and on more favourable terms such as longer maturities, more lenient covenants and inclusion of revolving condition. Subsequent to 30 September 2001, Salisburgh Company Limited, a non wholly-owned subsidiary, also completed a project finance facility of HK$3.8 billion for the development of Bellagio at Sham Tseng.

## (III) EMPLOYEES

The Group had approximately 2,300 employees as at 30 September 2001. Employees are remunerated according to nature of the job and market trend, with 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 months ended 30 September 2001 was HK$231.4 million.