Management Discussion and Analysis

(A) REVIEW OF 2002/03 RESULTS AND SEGMENTAL PERFORMANCE

(I) Profit Attributable to Shareholders

The Group reported a profit attributable to Shareholders of HK$64.0 million for the year ended 31 March 2003 as opposed to HK$546.6 million for the previous year. The reduction in profit is primarily due to the inclusion in the results of attributable impairment provisions aggregating HK$1,565.7 million (2002 : HK$905.1 million) for properties. Earnings per share were 3.1 cents (2002 : 26.9 cents).

Excluding the above-mentioned provisions in both years, the Group's net profit would be HK$1,629.7 million in 2002/03, an increase of 12.3% from HK$1,451.7 million in 2001/02.

(II) Group Turnover

The Group's turnover for the year was HK$9,868.0 million, a significant increase of HK$2,703.3 million or 37.7% from the level achieved in the previous year. The improvement was principally due to increase in property sales from HK$4,486.2 million to HK$7,441.9 million, which was substantially derived from the sales of residential units at Sorrento and Bellagio.

Property development
Pre-sales of the Sorrento and Bellagio projects were launched with good progress in 2002/03. At 31 March 2003, accumulated sales of Sorrento exceeded 82% of the 1,272 Phase I units and 37% of the Phase II units. The sale of Bellagio was first launched in September 2002 with tremendous success. 75% of the 1,704 Phase I and II units were sold up to 31 March 2003. Other property sales during the year came from the residential development at Palm Cove in Tuen Mun, of which 210 units out of the total 260 units were sold, and the attributable sales revenue of Ardmore Park recognised by the Marco Polo Developments group ("MPDL").

Property investment
Notwithstanding the lackluster market conditions, the Property Investment segment managed to report a slight increase of 3.7% in revenue from the previous year to HK$350.2 million. This was mainly attributable to an overall improvement in occupancy rate. Wheelock House and Fitfort were virtually fully-let during the year under review. Wheelock Place in Singapore was 94% leased at satisfactory rental rates.

Others
In February 2003, the Group disposed of its entire retail businesses portfolio. For the current financial year, retail sales recognised up to the respective dates of disposals in February and March 2003 of the retail businesses amounted to HK$1,912.2 million (2002 : HK$2,056.9 million).

(III) Group Operating Profit

The Group's operating profit before borrowing costs and property provisions was HK$821.0 million, a decrease of HK$571.9 million or 41.1% from that reported in 2001/02.

Property development
Comparing to the previous year, the profit contribution from the Property Development segment for the year decreased by HK$483.3 million to HK$562.8 million. MPDL reported a lower property sales contribution of 7% (2002 : 33%) from its sales of Ardmore Park units in Singapore.

Property investment
The operating profit of the Property Investment segment increased by HK$11.2 million to HK$253.1 million because of an overall improvement in occupancies of the Group's properties in the year under review.

Others
As a result of harsh and competitive operating environments, the Group recorded in the year an aggregate retail loss of HK$49.8 million (2002 : loss of HK$80.3 million). The profit contribution from the Investment and Others segment decreased by HK$173.5 million to HK$38.0 million which included principally a loss of HK$192.6 million on disposal of certain non-trading securities, the proceeds of which had been utilised to pay down the Group's debts.

Performance of the listed subsidiaries (already consolidated into the Group's results)
New Asia Realty group ("NART") reported a loss attributable to its shareholders of HK$781.8 million for 2002/03 as opposed to a profit of HK$86.3 million for the preceding financial year. The reported loss for the year 2002/03 is chiefly due to the inclusion of attributable impairment provisions totalling HK$1,377.4 million for properties, including its attributable interest in the Sorrento and Bellagio development projects, as well as lower profit contribution from MPDL.

MPDL reported a profit attributable to shareholders of S$45.6 million, compared to S$173.3 million achieved in 2001/02. MPDL's profit was largely derived from recognition of profit from the sales of Ardmore Park in Singapore. All Ardmore Park units have been sold with the remaining 7% profit recognised during the year against 33% in 2001/02 according to the Group's accounting policies. Pre-sales of Grange Residences also commenced with 9 units sold as at 31 March 2003 on a deferred payment scheme and thus a proportionate small profit had been recognised by MPDL.

Attributable profit for the year to the Group from NART, before property provisions and dividend income from NART's 7% holdings in Wharf, was HK$347.6 million (2002 : HK$449.9 million). During the year, the Group received a cash dividend totalling HK$107.5 million (2002 : HK$107.5 million).

(IV) *Borrowing Costs*

Borrowing costs charged to the consolidated profit and loss account for the year were HK$254.8 million, a significant decrease from HK$554.2 million incurred in the previous year. This was as a positive result of interest rate cuts and reduction in the Group's net debt, which in turn substantially improved for the strong cash inflows deriving from sale of properties and investments. For the year under review, the Group's average borrowing cost was approximately 2.3% per annum, against 3.8% per annum for the preceding year.

(V) *Property Provisions*

Following a review based on the property market conditions prevailing at 31 March 2003, the Group had made an aggregate property provision of HK$2,428.5 million, including provisions of HK$1,765.7 million (2002 : HK$1,065.5 million) for impairment in value of the Group's properties under development for sale and HK$662.8 million (2002 : HK$185.0 million) in respect of the attributable deficits for the Group's investment properties. The aggregate provision mainly comprised HK$706.2 million for Sorrento, HK$540.1 million for Bellagio, HK$354.6 million for Wheelock Place made by MPDL and HK$627.1 million for properties held by the Realty Development group ("RDC") made by NART.

(VI) *Share of Profits Less Losses of Associates*

The share of profit of associates before taxation was HK$1,671.0 million, substantially contributed by the Wharf group, against HK$1,404.1 million for the previous year. Wharf, the Group's major listed associate and profit contributor to the Group, reported a profit attributable to shareholders of HK$2,303 million for its financial year ended 31 December 2002, compared to HK$2,519 million achieved in 2001. Wharf's net profit contribution to the Group, before its share of provisions for the Sorrento and Bellagio development projects, was HK$1,361.8 million. Dividend received from Wharf by the Group during the year totalled HK$968.3 million (2002 : HK$968.3 million).

(VII) *Other Items*

A taxation charge of HK$314.0 million was reported for the year against HK$399.6 million in 2001/02. Included in the current year taxation is a write-back of a tax provision for the Ardmore Park project of HK$102.7 million subsequent to a reduction of the Singapore income tax rate from 24.5% to 22.0%.

The net loss shared by minority interests was HK$569.3 million which was mainly attributable to the loss incurred by NART, Sorrento and Bellagio projects.

(B) LIQUIDITY AND FINANCIAL RESOURCES

(I) Shareholders' Funds

At 31 March 2003, the Group's shareholders' funds totalled HK$23,293.9 million or HK$11.46 per share, against HK$26,485.1 million or HK$13.04 per share at 31 March 2002. The change largely reflects the downward revaluation of properties of the Group and its major associate, namely, Wharf.

(II) Net Debt and Gearing

At 31 March 2003, the ratio of the Group's net debt to total assets was 22.4% (2002 : 25.7%), while the ratio of net debt to shareholders' equity was 37.8% (2002 : 49.7%).

At 31 March 2003, the Group's net debt significantly reduced by HK$4,377.0 million or 33.2% to HK$8,798.0 million, from HK$13,175.0 million at 31 March 2002. The net debt comprised total debts of HK$11,980.7 million less deposits and cash of HK$3,182.7 million. The decrease in the Group's net debt was mainly due to net cash generated from the Group's operating activities amounting to HK$3,413.4 million, which included net inflows from sale of the Sorrento and Bellagio units. In addition, there was cash inflow of HK$2,822.1 million from disposal of certain non-trading securities. On completion of the RDC privatisation scheme undertaken by NART in March 2003, a net consideration of HK$951.9 million was paid.

Committed and uncommitted facilities

(a) The Group's committed and uncommitted loan facilities amounted to HK$15.6 billion and HK$1.6 billion respectively. The debt maturity profile of the Group is analysed as follows:

	2003 HK$ Million	2002 HK$ Million
Repayable within 1 year	**1,945.0**	7,310.2
Repayable after 1 year, but within 2 years	**5,200.0**	4,940.0
Repayable after 2 years, but within 5 years	**4,835.7**	3,422.9
Repayable after 5 years	**–**	953.0
	11,980.7	16,626.1
Undrawn facilities	**5,200.0**	14,700.0

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

	2003 HK$ Million	2002 HK$ Million
Investment properties	2,407.4	2,857.5
Long-term investments	–	785.2
Properties under development/for sale	5,349.3	15,144.4
	7,756.7	18,787.1

Included in the above properties under development/for sale is HK$3,849.4 million pertaining to the Bellagio project pledged for securing a bank loan facility of HK$3,800.0 million. The subject security was discharged and released upon cancellation of the facility subsequent to 31 March 2003.

(c) To minimise exposure to 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. Forward exchange contracts are entered into by the Group for hedging such investments.

(III) Long-term Investments

For the year under review, the Group liquidated part of its investment portfolio to improve its net debt position. At 31 March 2003, the Group maintained a portfolio of long-term investments of HK$753.2 million, which primarily comprised blue chip securities with market value of HK$746.3 million (2002 : HK$3,655.3 million).

In accordance with the Group's accounting policies, 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 31 March 2003, there was an attributable investment revaluation deficit of HK$316.8 million compared to 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.

(C) MAJOR PROPERTY DEVELOPMENT PROJECTS

As mentioned above, pre-sales of the Sorrento and Bellagio projects were launched with good progress in 2002/03. Pre-sale proceeds received by the two project companies have been utilised for settlement of construction costs incurred, and for partial repayment of the advances from its shareholders and full repayment of bank loans with the remaining proceeds retained in stakeholders' accounts for future payment of the outstanding construction costs. At 31 March 2003, the cash deposits in Sorrento's stakeholders' account amounted to HK$0.9 billion, which are estimated to be sufficient to fully cover the outstanding construction costs for completion of the whole project. The cash deposits in Bellagio's stakeholders' account at 31 March 2003 amounted to HK$1.2 billion, which was subsequently 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 upon completion of Phase I and II units. The remaining Phases III and IV of the Bellagio project commenced construction in March 2003. The two project companies did not have any bank borrowings at 31 March 2003.

(D) CONTINGENT LIABILITIES

(I) Guarantees given by the Group in respect of banking facilities available to associates amounted to HK$560.9 million (2002 : HK$601.4 million) of which HK$349.9 million (2002 : HK$320.2 million) has been drawn at the balance sheet date.

(II) 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.

(E) ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATES

(I) Privatisation of RDC

On 13 December 2002, NART proposed to privatise RDC at HK$3.2 per share by way of a Scheme of Arrangement under Section 166 of the Hong Kong Companies Ordinance. The amount of cash paid by NART for the privatisation is approximately HK$1,016.1 million of which HK$64.2 million was paid to Wheelock for its 1.75% direct holding in RDC. The Scheme became effective on 19 March 2003.

(II) Sale of Wheelock's Retail Businesses Portfolio

On 14 February 2003, the Group entered into agreements with connected parties to dispose of its retail businesses portfolio, comprising 100% interest in the Lane Crawford group, 52% interest in the Joyce group and 39% interest in City'Super. The total consideration of the above sales was approximately HK$589.8 million and a net gain of HK$31.5 million was recognised. Details of the sales are summarised below:

(a) Sale of Lane Crawford group ("LCI Sale")
The consideration for the LCI Sale was HK$422.8 million which was calculated based on the consolidated net assets of Lane Crawford group at 14 February 2003. The LCI Sale was completed on 14 February 2003.

(b) Sale of interest in Joyce group ("Joyce Sale")
The consideration for the Joyce Sale was HK$156.2 million which represented a small discount to the Group's 52% attributable interest in the unaudited consolidated net assets of Joyce group at 30 September 2002. The Joyce Sale was completed on 14 March 2003.

(c) Sale of interest in City'Super
The Group also completed on 14 February 2003 its divestment of its interest in City'Super to Wharf for a total consideration of HK$10.77 million.

(F) EMPLOYEES

Subsequent to the disposal of the Group's retail businesses portfolio in February 2003, the Group had approximately 830 employees as at 31 March 2003. 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 year ended 31 March 2003 amounted to HK$364.4 million.