# NEW ASIA REALTY AND TRUST COMPANY, LIMITED

# 新 亞 置 業 信 託 有 限 公 司

**INTERIM REPORT TO SHAREHOLDERS**

for the half-year period ended 30 September 2003

**致股東中期報告書**

**截至二〇〇三年九月三十日止半年度**

## Group Results

The Group reported an unaudited profit attributable to Shareholders for the six months ended 30 September 2003 of HK$240.1 million, compared to a loss of HK$126.6 million in the same period last year. Earnings per share were 11.6 cents.

## Interim Dividend

The Board has declared an interim dividend of 2.0 cents (2002: 2.0 cents) per share in respect of the half-year period ended 30 September 2003, payable on Tuesday, 30 December 2003 to Shareholders on record as at 24 December 2003.

## Business Review & Prospects

While Hong Kong was still striving to recover from the slump brought by the SARS outbreak about six months ago, the Central Government reacted by adopting several powerful measures, aiming to kick-start Hong Kong's economy within a reasonable time frame. Some of the main features include the CEPA arrangements and the relaxation of travel restrictions on mainland residents. As a result, both consumer sentiment and the local economy turned around drastically during the third quarter. Based on this improving outlook, the HKSAR Government as well as a good number of financial institutions are now revising upwards their GDP growth projections for Hong Kong. Recently, rating agencies have upgraded Hong Kong's credit rating, indicating, among other things, the latest direction of international fund flow.

### Property Activities

*Company's own interests*

Sorrento is an MTRC joint-venture project above the Kowloon Station, equally owned by a five-member consortium comprising New Asia Realty, Wheelock, Realty Development Corporation (now a wholly-owned subsidiary of New Asia Realty), Wharf and Harbour Centre Development. Since the launch date of Phase I in November 2001, cumulative sales and proceeds recorded for Towers 3, 5 and 6 reached 1,121 units and HK$5.2 billion as at the end of September 2003. With respect to Phase II consisting of Towers 1 and 2, which was launched in November 2002, cumulative sales and proceeds also reached 490 units and HK$3.2 billion as at the end of this six-month period under review.

Each of the five stakeholders has contributed financial capital and funding on a *pro rata* basis to the project company which holds Sorrento. The total area of the development is 2.5 million square feet, comprising 2,126 units in two phases. While Phase I consisting of 1,272 units was completed in the fourth quarter of 2002, the completion of Phase II which covers the remaining 854 units is anticipated to take place at early 2004.

Bellagio, in Sham Tseng on the western shore of New Territories overlooking the Tsing Ma Bridge, is a joint-venture development equally owned by New Asia Realty, Wheelock and Wharf. Both Phases I and II were launched in September 2002 for pre-sales. As at the end of September 2003, cumulative sales reached 1,464 units, realising sales proceeds of about HK$3.4 billion.

All three stakeholders contributed financial capital and funding on a *pro rata* basis to the project company which holds Bellagio. With a total area of 3.1 million square feet, once completed it will provide altogether 3,354 units in four phases. Phase I and Phase II, consisting of 1,704 units in total, were completed in the second and third quarter of 2002 respectively. Construction works for Phases III and IV which cover the remaining 1,650 units commenced in March 2003.

Parc Palais is owned by a five-member consortium comprising Realty Development Corporation, New World Development, Sino Land, Chinese Estates and Manhattan Garments. Pre-sales for both Phases I and II, the entire 700 units, commenced recently in August 2003 and since then have attracted good market response. This residential site located in Homantin is being developed into eight towers with a total GFA of 904,200 square feet. Superstructure construction is now in progress.

*Marco Polo Developments group (75% owned)*

Wheelock Place, a commercial building with 464,900 square feet in GFA on Orchard Road in Singapore, is currently 98 per cent leased at satisfactory rental rates.

During the six-month period under review, the group had entered into a Sale and Purchase Agreement to acquire the Sea View Hotel site. A plan to turn the site into a 500-unit condominium development is currently being proposed. The acquisition is expected to complete in early 2004.

Grange Residences is scheduled to be substantially finished in the first quarter of 2004. Since the soft-launch of Grange Residences in September 2002, 14 apartments have been sold on a deferred payment scheme. The official launch of this project is now targeted to take place in the first quarter of 2004, upon receiving the Temporary Occupation Permit.

Ardmore View is currently 90 per cent leased at satisfactory rental rates.

**Outlook**

Being reflected by the influx of mainland tourists and the rising number of new company formation recently, latest moves adopted by the Central Government are producing extremely positive effects on several major business sectors in Hong Kong. Together with the sustainable high growth recorded out of the PRD economic region, acting as the power engine of the local economy, Hong Kong is showing solid signs of recovery for the first time since this Hong Kong China economic integration process began few years ago. Current business outlook is positive.

Property markets in Singapore and Hong Kong are both at a similar stage of the recovery path. Office rentals are likely to remain weak in the near term whereas the retail market is improving. The residential market also appears to be on an improving trend. However, current demand in this segment is still price sensitive.

## Consolidated Profit and Loss Account

**for the six months ended 30 September 2003**

| | Note | **Unaudited 30/9/2003 HK$ Million** | (Restated) Unaudited 30/9/2002 HK$ Million |
|---|---|---|---|
| Turnover | 3 | **429.1** | 1,317.1 |
| Other net income/(loss) | 4 | **28.4** | (23.0) |
| | | **457.5** | 1,294.1 |
| Direct costs and operating expenses | | **(167.5)** | (807.2) |
| Selling and marketing expenses | | **(9.0)** | (20.6) |
| Administrative and corporate expenses | | **(25.4)** | (41.3) |
| Operating profit | 3 | **255.6** | 425.0 |
| Borrowing costs | 5 | **(31.1)** | (59.3) |
| Net operating profit | | **224.5** | 365.7 |
| Provision for properties | | **(6.1)** | (468.8) |
| Share of profits less losses of associates | 6 | **55.9** | (61.2) |
| Profit/(loss) before taxation | | **274.3** | (164.3) |
| Taxation | 7 | **(21.9)** | 4.9 |
| Profit/(loss) after taxation | | **252.4** | (159.4) |
| Minority interests | | **(12.3)** | 32.8 |
| **Group profit/(loss) attributable to shareholders** | | **240.1** | (126.6) |
| Interim dividend proposed after the balance sheet date | 8 | **41.4** | 41.4 |
| **Earnings/(loss) per share** | 9 | **11.6 cents** | (6.1) cents |

## CONSOLIDATED BALANCE SHEET
**at 30 September 2003**

| | Note | | Unaudited 30/9/2003 HK$ Million | | (Restated) 31/3/2003 HK$ Million |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Fixed assets | | | **3,189.5** | | 3,163.1 |
| Associates | | | **2,601.7** | | 3,443.5 |
| Long-term investments | | | **4,410.1** | | 3,307.0 |
| Deferred debtors | | | **95.2** | | 102.6 |
| | | | **10,296.5** | | 10,016.2 |
| **Current assets** | | | | | |
| Properties under development for sale | | **2,332.8** | | 1,973.0 | |
| Properties held for sale | | **548.2** | | 696.1 | |
| Short-term investments | | **78.8** | | 102.0 | |
| Trade and other receivables | 10 | **113.1** | | 101.3 | |
| Amounts due from fellow subsidiaries | | **–** | | 1.6 | |
| Bank balances and deposits | | **2,442.6** | | 2,795.2 | |
| | | **5,515.5** | | 5,669.2 | |
| **Current liabilities** | | | | | |
| Bank loans and overdrafts | | **171.0** | | 1,470.0 | |
| Trade and other payables | 11 | **555.3** | | 470.5 | |
| Amounts due to fellow subsidiaries | | **11.6** | | – | |
| Taxation | | **127.6** | | 221.1 | |
| | | **865.5** | | 2,161.6 | |
| **Net current assets** | | | **4,650.0** | | 3,507.6 |
| **Total assets less current liabilities** | | | **14,946.5** | | 13,523.8 |
| **Capital and reserves** | | | | | |
| Share capital | | | **413.9** | | 413.9 |
| Reserves | 12 | | **10,468.4** | | 9,259.1 |
| | | | **10,882.3** | | 9,673.0 |
| **Minority interests** | | | **1,261.3** | | 1,238.2 |
| **Non-current liabilities** | | | | | |
| Long-term bank loans | | **2,550.4** | | 2,335.7 | |
| Deferred taxation | | **57.4** | | 54.2 | |
| Deferred item | | **195.1** | **2,802.9** | 222.7 | 2,612.6 |
| **Total equity and non-current liabilities** | | | **14,946.5** | | 13,523.8 |

## Consolidated Statement of Changes in Equity
**for the six months ended 30 September 2003**

| | | **Unaudited 30/9/2003 HK$ Million** | | (Restated) Unaudited 30/9/2002 HK$ Million |
|---|---|---|---|---|
| **Total equity at 1 April** | | | | |
| As previously reported | | **9,716.7** | | 11,483.4 |
| Prior year adjustments in respect of deferred taxation (Note 1) | | **(43.7)** | | (33.3) |
| As restated | | **9,673.0** | | 11,450.1 |
| Surplus/(deficit) on revaluation of: | | | | |
| Non-trading equity securities | **1,060.9** | | (787.0) | |
| Investment properties | **–** | | (197.3) | |
| Exchange difference on translation of accounts of foreign entities | **6.9** | | 132.7 | |
| Net profit/(loss) not recognised in the profit and loss account | | **1,067.8** | | (851.6) |
| Group profit/(loss) attributable to shareholders | | **240.1** | | (126.6) |
| Final dividend approved in respect of the previous year | | **(103.5)** | | (103.5) |
| Reserves transferred to the profit and loss account on disposal of: | | | | |
| Non-trading equity securities | | **4.9** | | 11.9 |
| Properties | | **–** | | (5.4) |
| **Total equity at 30 September** | | **10,882.3** | | 10,374.9 |

## Condensed Consolidated Cash Flow Statement
**for the six months ended 30 September 2003**

| | **Unaudited 30/9/2003 HK$ Million** | Unaudited 30/9/2002 HK$ Million |
|---|---|---|
| Net cash (outflow)/inflow relating to operating activities | **(59.4)** | 358.9 |
| Net cash inflow from investing activities | **880.7** | 66.1 |
| Net cash outflow relating to financing activities | **(1,216.3)** | (43.4) |
| Net (decrease)/increase in cash and cash equivalents | **(395.0)** | 381.6 |
| **Cash and cash equivalents at 1 April** | **2,795.2** | 2,980.3 |
| Effect of foreign exchange rate changes | **42.4** | 105.9 |
| **Cash and cash equivalents at 30 September** | **2,442.6** | 3,467.8 |
| **Analysis of the balance of cash and cash equivalents** | | |
| Bank balances and deposits | **2,442.6** | 3,467.8 |

## NOTES TO INTERIM ACCOUNTS

### (1) Basis of preparation of the accounts

The unaudited consolidated interim accounts have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" and Appendix 16 of Listing Rules of The Stock Exchange of Hong Kong Limited. The accounting policies and methods of computation used in the preparation of the interim accounts are consistent with those used in the annual accounts for the year ended 31 March 2003 except for the change in accounting policy as described below.

**SSAP 12 (Revised) "Income taxes"**
In prior years, deferred tax liabilities were provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which were expected with reasonable probability to crystallise in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt.

With effect from 1 April 2003, with the introduction of the revised SSAP 12 "Income taxes" issued by the Hong Kong Society of Accountants, the Group adopted a new policy for deferred tax. A balance sheet method was used to recognise deferred tax in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. The accounting policy has been adopted retrospectively. In adjusting prior years' figures, revenue reserves as at 1 April 2003 were restated and decreased by HK$44.4 million (1 April 2002: HK$33.3 million) whilst investment revaluation reserves at 1 April 2003 were increased by HK$0.7 million (1 April 2002: Nil). The adjustments represented the deferred tax liability recognised in respect of temporary difference relating to fixed assets and unremitted profits of certain overseas subsidiaries net of deferred tax assets in respect of tax losses recognised to the extent that it is probable that future taxable profits will be available against which the assets can be utilised. In addition, Group's profit attributable to shareholders for the six months ended 30 September 2003 has decreased by HK$2.8 million (2002: HK$4.3 million).

**(2) Segment information**

| | Segment Revenue | | Segment Results | |
|---|---|---|---|---|
| | **30/9/2003** | 30/9/2002 | **30/9/2003** | 30/9/2002 |
| | **HK$ Million** | HK$ Million | **HK$ Million** | HK$ Million |
| **(a) Business segments** | | | | |
| Property development | **151.8** | 1,019.0 | **8.3** | 203.3 |
| Property investment | **129.9** | 137.1 | **93.5** | 103.1 |
| Investment and others | **147.4** | 161.0 | **158.0** | 127.3 |
| | **429.1** | 1,317.1 | **259.8** | 433.7 |
| Unallocated expenses | | | **(4.2)** | (8.7) |
| Operating profit | | | **255.6** | 425.0 |
| Borrowing costs | | | **(31.1)** | (59.3) |
| Provision for properties | | | | |
| Property development | | | **(6.1)** | (434.5) |
| Property investment | | | **–** | (34.3) |
| Associates | | | | |
| Property development | | | **60.0** | 5.2 |
| Investment and others | | | **3.9** | 16.9 |
| Provision for properties | | | **(8.0)** | (83.3) |
| Profit/(loss) before taxation | | | **274.3** | (164.3) |
| **(b) Geographical segments** | | | | |
| Hong Kong | **337.5** | 599.2 | **176.2** | 172.6 |
| Singapore | **91.6** | 717.9 | **79.4** | 252.4 |
| | **429.1** | 1,317.1 | **255.6** | 425.0 |

**(3) Turnover and operating profit**

**(a) Turnover**

The principal activities of the Group are property development, property investment, treasury management and investment holding. An analysis of the Group's turnover is as follows:

| | **30/9/2003** | 30/9/2002 |
|---|---|---|
| | **HK$ Million** | HK$ Million |
| Property development | **151.8** | 1,019.0 |
| Property investment | **129.9** | 137.1 |
| Investment and others | **147.4** | 161.0 |
| | **429.1** | 1,317.1 |

**(b) Operating profit**

| | **30/9/2003 HK$ Million** | 30/9/2002 HK$ Million |
|---|---|---|
| Operating profit is arrived at after charging: | | |
| Staff costs | **5.8** | 10.4 |
| - included contributions to defined contribution retirement schemes of HK$0.6 million (2002: HK$0.6 million) | | |
| Cost of properties sold | **126.2** | 778.3 |
| Depreciation | **0.5** | 0.4 |
| after crediting: | | |
| Dividend income from listed securities | **115.6** | 105.7 |
| Negative goodwill realised | **27.6** | — |

In addition, staff costs of HK$5.0 million (2002: HK$4.4 million) were capitalised as part of the costs of properties under development for sale.

**(4) Other net income/(loss)**

| | **30/9/2003 HK$ Million** | 30/9/2002 HK$ Million |
|---|---|---|
| Net profit/(loss) on disposal of non-trading equity securities | **11.5** | (2.1) |
| Negative goodwill realised | **27.6** | — |
| Provision for an associate | **—** | (23.2) |
| Others | **(10.7)** | 2.3 |
| | **28.4** | (23.0) |

**(5) Borrowing costs**

| | **30/9/2003 HK$ Million** | 30/9/2002 HK$ Million |
|---|---|---|
| Interest payable on bank loans and overdrafts | **25.9** | 48.5 |
| Other borrowing costs | **5.2** | 11.9 |
| | **31.1** | 60.4 |
| Less: Amount capitalised | **—** | (1.1) |
| | **31.1** | 59.3 |

The Group's average borrowing interest rate for the six months period was 1.7% (2002: 2.5%) per annum.

**(6) Share of profits less losses of associates**

Share of profits less losses of associates for the six-month period ended 30 September 2003 amounted to HK$55.9 million. The loss of HK$61.2 million in the corresponding period last year principally comprised the attributable loss in respect of provision for the impairment in value of the Bellagio development.

**(7) Taxation**

The provision for Hong Kong profits tax is based on the profit for the period as adjusted for tax purposes at the rate of 17.5% (2002: 16%). Overseas taxation is calculated at rates of tax applicable in countries in which the Group is assessed for tax. The taxation charge is made up as follows:

| | | (Restated) |
|---|---|---|
| | **30/9/2003** | 30/9/2002 |
| | **HK$ Million** | HK$ Million |
| **Company and subsidiaries** | | |
| *Current tax* | | |
| Hong Kong profits tax for the period | **3.6** | 5.7 |
| Overseas taxation for the period | **16.4** | 113.6 |
| Overprovision in respect of prior years | **–** | (94.3) |
| | **20.0** | 25.0 |
| *Deferred taxation* | | |
| Origination and reversal of temporary differences | **(3.6)** | (37.6) |
| | **16.4** | (12.6) |
| **Associates** | | |
| Hong Kong profits tax for the period | **2.6** | 1.2 |
| Overseas taxation for the period | **2.9** | 6.5 |
| | **5.5** | 7.7 |
| Tax charge/(credit) | **21.9** | (4.9) |

The overprovision for the period ended 30 September 2002 represented the write-back of a tax provision resulting from a reduction of Singapore income tax rate from 24.5% to 22.0%.

## (8) Dividends

### (a) Dividends attributable to the period

| | **30/9/2003 HK$ Million** | 30/9/2002 HK$ Million |
|---|---|---|
| Interim dividend proposed after the balance sheet date of 2.0 cents (2002: 2.0 cents) per share | **41.4** | 41.4 |

The interim dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

### (b) Dividends attributable to the previous financial year, approved and paid during the period

| | **30/9/2003 HK$ Million** | 30/9/2002 HK$ Million |
|---|---|---|
| Final dividend in respect of the previous financial year, approved and paid during the period, of 5.0 cents (2002: 5.0 cents) per share | **103.5** | 103.5 |

## (9) Earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on profit for the period of HK$240.1 million (2002: loss of HK$126.6 million) and 2,069.6 million ordinary shares in issue throughout the financial period ended 30 September 2003 and the previous year's corresponding period.

## (10) Trade and other receivables

The Group maintains defined credit policies for its businesses and trade debtors are closely monitored in order to control the credit risk associated with trade debtors.

Included in trade and other receivables are trade debtors with an ageing analysis as at 30 September 2003 as follows:

| | **30/9/2003 HK$ Million** | 31/3/2003 HK$ Million |
|---|---|---|
| Current | **27.6** | 15.1 |
| 31 - 60 days | **34.1** | 4.6 |
| 61 - 90 days | **3.8** | 0.2 |
| Over 90 days | **0.3** | 0.8 |
| | **65.8** | 20.7 |

### (11) Trade and other payables

Included in trade and other payables are trade creditors with an ageing analysis as at 30 September 2003 as follows:

| | **30/9/2003 HK$ Million** | 31/3/2003 HK$ Million |
|---|---|---|
| Amounts payable in the next: | | |
| 0 - 30 days | **168.9** | 180.8 |
| 31 - 60 days | **0.6** | 1.1 |
| 61 - 90 days | **39.9** | 52.0 |
| Over 90 days | **86.5** | 95.9 |
| | **295.9** | 329.8 |

### (12) Reserves

| | **Capital redemption reserve HK$ Million** | **Investment revaluation reserves HK$ Million** | **Other capital reserves HK$ Million** | **Revenue reserves HK$ Million** | **Total HK$ Million** |
|---|---|---|---|---|---|
| **Company and subsidiaries** | | | | | |
| Balance at 1 April 2003 | | | | | |
| As previously reported | 4.9 | (888.9) | 54.5 | 11,102.6 | 10,273.1 |
| Prior year adjustments in respect of deferred taxation (Note 1) | — | 0.7 | — | (44.4) | (43.7) |
| As restated | 4.9 | (888.2) | 54.5 | 11,058.2 | 10,229.4 |
| Final dividend approved in respect of the previous year (Note 8b) | — | — | — | (103.5) | (103.5) |
| Revaluation surplus | — | 1,059.7 | — | — | 1,059.7 |
| Realised on disposal | — | 5.1 | — | — | 5.1 |
| Exchange difference | — | — | 5.8 | — | 5.8 |
| Profit for the period retained | — | — | — | 192.6 | 192.6 |
| Balance at 30 September 2003 | 4.9 | 176.6 | 60.3 | 11,147.3 | 11,389.1 |
| **Associates** | | | | | |
| Balance at 1 April 2003 | — | 0.2 | 3.3 | (973.8) | (970.3) |
| Revaluation surplus | — | 1.2 | — | — | 1.2 |
| Realised on disposal | — | (0.2) | — | — | (0.2) |
| Exchange difference | — | — | 1.1 | — | 1.1 |
| Profit for the period retained | — | — | — | 47.5 | 47.5 |
| Balance at 30 September 2003 | — | 1.2 | 4.4 | (926.3) | (920.7) |
| **Total reserves at 30 September 2003** | **4.9** | **177.8** | **64.7** | **10,221.0** | **10,468.4** |
| **Total reserves at 31 March 2003** | **4.9** | **(888.0)** | **57.8** | **10,084.4** | **9,259.1** |

**(13) Contingent liabilities**

**(a)** Guarantees given by the Group in respect of banking facilities available to associates amounted to HK$559.7 million (31/3/2003: HK$697.6 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, a wholly-owned subsidiary and the ultimate holding company together with its two associates have jointly and severally guaranteed the performance and observance of the terms under an agreement to develop the Sorrento project.

**(14) Commitments**

| | **30/9/2003 HK$ Million** | 31/3/2003 HK$ Million |
|---|---|---|
| **(a)** Acquisition of and future development expenditure relating to properties: | | |
| Contracted but not provided for | **1,152.8** | 306.6 |
| Authorised but not contracted for | **–** | 31.1 |

**(b)** At 30 September 2003, forward exchange contracts amounting to HK$4,583.4 million (31/3/2003: HK$4,868.7 million) were outstanding.

**(15) Related party transactions**

Except for the transactions noted below, the Group has not been a party to any material related party transaction during the six months period ended 30 September 2003.

**(a) Sorrento**

(i) Included in interest in associates is a loan of HK$1,273.5 million (31/3/2003: HK$1,617.0 million) made by the Group to an associate involved in the Sorrento project. The loan bears interest at rates as determined by shareholders of the associate with reference to prevailing market rates which were between 1.7% and 2.1% (2002: 3.0% to 3.5%) per annum for the period. Interest income in respect of loan to the associate for the period ended 30 September 2003 amounted to HK$16.3 million (2002: HK$31.2 million). The loan is unsecured and has no fixed terms of repayment.

(ii) The Company, a wholly-owned subsidiary and the ultimate holding company together with its two associates have jointly and severally guaranteed the performance and observance of the terms under an agreement to develop the Sorrento project.

The above are considered to be related party transactions and also constitute connected transactions as defined under the Listing Rules. A waiver from complying with the relevant connected transaction requirements was granted by the Stock Exchange in 1997.

**(b) Bellagio**

Included in interest in associates is an advance of HK$1,934.2 million (31/3/2003: HK$2,447.9 million) made by the Group to an associate involved in the Bellagio project. The loan bears interest at such rates as may from time to time be agreed by the shareholders of the associate. For the current financial period, the advance is interest free, unsecured and has no fixed terms of repayment.

The above is considered to be a related party transaction and also constitutes a connected transaction as defined under the Listing Rules. A waiver from complying with the relevant connected transaction requirements was granted by the Stock Exchange in 1994.

**(c) Parc Palais**

(i) Included in interest in associates is an advance of HK$301.9 million (31/3/2003: HK$296.1 million) made by the Group to an associate involved in the Parc Palais project. The loan bears interest at such rates as may from time to time be agreed by the shareholders of the associate. For the current financial period, the advance is interest free, unsecured and has no fixed terms of repayment.

(ii) The Group together with other shareholders have severally guaranteed bank loans facilities granted to an associate, Grace Sign Limited, to finance the Parc Palais project. The amount of guarantee given attributable to the Group was HK$500.8 million (31/3/2003: HK$500.8 million).

These transactions do not constitute connected transactions as defined under the Listing Rules.

**(d)** The Group paid a General Managers' Commission to a related party of HK$9.4 million (2002: HK$3.9 million) for the provision of management services to the Group during the period. The payment of such an amount to the General Managers was in accordance with an agreement dated 31 March 1992, which constitutes a connected transaction as defined under the Listing Rules, but is exempted from the requirements of the Listing Rules under paragraph 14.24(2) thereof relating to connected transactions.

**(e)** The Group received dividend income in the amount of HK$104.8 million during the period ended 30 September 2003 (2002: HK$86.0 million) in respect of investments in a related company.

**(16) Comparative figures**

Certain comparative figures have been adjusted as a result of the change in accounting policy for income taxes, in order to comply with SSAP 12 (revised), details of which are set out in note (1).

**(17) Review of unaudited interim accounts**

The unaudited interim accounts for the six months ended 30 September 2003 have been reviewed by the audit committee of the Company.

## Commentary on Interim Accounts

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

***Profit/loss attributable to shareholders***

The Group 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. Earnings per share were 11.6 cents (2002: loss per share 6.1 cents).

Marco Polo Developments group ("MPDL") contributed a much smaller property development profit of HK$17.2 million this period than HK$202.1 million in the first six months of 2002/03, following the complete recognition of Ardmore Park's profit in previous financial years.

The loss for last year's interim results was primarily due to the inclusion of attributable impairment provisions totalling HK$432.3 million for properties, including the Bellagio development project held through associate. A property provision of HK$14.1 million was made in the period under review. Excluding the above-mentioned provisions in both periods, the Group's net profit would be HK$254.2 million in the current financial period, a decrease of 16.8% compared to HK$305.7 million for the same period in 2002/03.

***Group turnover***

The Group's turnover for the period was HK$429.1 million against HK$1,317.1 million recorded in the same period of 2002/03, a decrease of HK$888.0 million or 67.4%. The reduction was mainly attributable to no property revenue being recognised by MPDL in the period from sale of Ardmore Park, Singapore.

Property sale for the period under review was HK$151.8 million (2002: HK$1,019.0 million), largely derived from the sale of residential units at Palm Cove, The Astrid, The Regalia and Forest Hill and industrial units at Metro Loft. Sale of Metro Loft units was launched in August 2003 with a result of 43 units (out of the total 255 units) having been sold as at 30 September 2003.

Despite a steady recovery in the business environment in Hong Kong subsequent to the outbreak of SARS about six months ago, the office leasing market remains very competitive. Chiefly as a result of the fall in the rental level in the light of new supply, the Property Investment segment reported a decrease of HK$7.2 million or 5.3% in revenue from HK$137.1 million achieved in the same period last year. Wheelock House was approximately 90% occupied while Fitfort, a retail mall, was virtually fully let during the period under review. Wheelock Place in Singapore is currently 98% leased at satisfactory rental rates.

***Group operating profit***

Group's operating profit before borrowing costs and property provisions was HK$255.6 million, a decrease of HK$169.4 million or 39.9% from that reported in the corresponding period of 2002/03.

In view of the continuously depressed property sales market and lack of major property sales undertaken by the Group, the Property Development segment reported a small profit of HK$8.3 million, a decrease of HK$195.0 million as compared to HK$203.3 million achieved in the same period last year. This was largely attributable to decrease in MPDL's contribution by HK$184.9 million for the period under review.

The operating profit of the Property Investment segment for the period decreased by HK$9.6 million to HK$93.5 million.

Investment income for the period under review amounted to HK$158.0 million, comprising mainly recurring dividend income generated from the Group's long-term investment portfolio and interest earned. Interim dividend from the Group's stake in The Wharf (Holdings) Limited was collected in this period whereas in previous year such receipt was reported in the second half of the financial year. Included in the Investment and Others segment results are profit of HK$11.5 million on disposal of certain non-trading securities and profit of HK$27.6 million on realisation of a portion of negative goodwill arising from the privatisation of Realty Development group ("RDC") in accordance with the Group's accounting policies.

***Borrowing costs***

Borrowing costs charged to the profit and loss account were HK$31.1 million, representing a substantial decline of 47.6% from HK$59.3 million in previous year's corresponding period. This was mainly due to a low interest rate environment and reduction in the Group's net debt, resulting from cash inflow from sale of Sorrento and Bellagio units 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 2.5% of the same period last year.

***Property provision***

Following an internal review, the Group has made a provision of HK$6.1 million mainly for impairment in value of certain unsold car park units of the Group. The provision of HK$468.8 million made for the last corresponding period was principally for impairment in value of the Group's properties under development for sale.

***Share of profits less losses of associates***

The share of profit of associates was HK$55.9 million as compared to a loss of HK$61.2 million for the corresponding period last year. The profit for the period under review comprised mainly the share of attributable profit from sale of Sorrento units. Included in the loss for the same period last year is the attributable charge from the impairment in value of the Bellagio project.

***Other items***

A taxation charge of HK$21.9 million was reported this period as opposed to a taxation credit of HK$4.9 million for last year's corresponding period, which included a write-back of the 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%.

For the period under review, MPDL's profit shared by minority interests amounted to HK$12.3 million. This compared to a net loss shared by minority interests in the same period last year of HK$32.8 million, which was mainly attributable to the loss incurred by RDC.

***Results of listed subsidiary (Already consolidated in the above results)***
MPDL reported a profit attributable to shareholders of S$11.1 million for the six-month 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 mainly derived from recurring rental income from 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. Sales of Grange Residences up to 30 September 2003 reached 14 units, all being on a deferred payment scheme, and a proportionate small profit therefrom was recognised by MPDL during the period under review.

**(II) Liquidity and Financial Resources**

***Shareholders' funds***
At 30 September 2003, the Group's shareholders' funds totalled HK$10,882.3 million or HK$5.26 per share, against HK$9,673.0 million or HK$4.67 per share at 31 March 2003. The improvement was partly due to the accounting of an attributable surplus aggregating HK$1,060.9 million in the investment revaluation reserves as explained below.

***Net debt and gearing***
At 30 September 2003, the ratio of the Group's net debt to shareholders' equity was 2.6% (31/3/2003: 10.4%), while the ratio of net debt to total assets was 2.1% (31/3/2003: 7.8%).

At 30 September 2003, the Group's net debt amounted to HK$278.8 million, comprising total debts of HK$2,721.4 million less deposits and cash of HK$2,442.6 million, as compared with a net debt of HK$1,010.5 million at 31 March 2003. Excluding the net cash of HK$1,546.7 million held by MPDL, the Company plus its subsidiaries had a net debt of HK$1,825.5 million. The reduction in the Group's net debt was mainly due to 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)** Excluding the project loans undertaken by associates, the Group's committed and uncommitted loan facilities amounted to HK$4.0 billion and HK$0.5 billion respectively. At 30 September 2003, the debt maturity profile of the Group is analysed as follows:

| | **30/9/2003 HK$ Million** | 31/3/2003 HK$ Million |
|---|---|---|
| Repayable within 1 year | **171.0** | 1,470.0 |
| Repayable after 1 year, but within 2 years | **500.0** | 700.0 |
| Repayable after 2 years, but within 5 years | **2,050.4** | 1,635.7 |
| | **2,721.4** | 3,805.7 |
| Undrawn facilities | **1,800.0** | 1,800.0 |

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

| | **30/9/2003** | 31/3/2003 |
|---|---|---|
| | **HK$ Million** | HK$ Million |
| Investment properties | **2,431.4** | 2,407.4 |
| Long-term investments | **2,467.4** | 1,901.0 |
| Properties under development for sale | **1,740.6** | 1,499.9 |
| | **6,639.4** | 5,808.3 |

The above long-term investments of HK$2,467.4 million were pledged for security against a bank loan facility of HK$500.0 million. The subject security was discharged and released upon cancellation of the facility subsequent to 30 September 2003.

**(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 fluctuation except for its net investments in Singapore subsidiaries. Forward exchange contracts are entered into by the Group for hedging such investments.

***Long-term investments***

At 30 September 2003, the Group maintained a portfolio of long-term investments with market value of HK$4,410.1 million (31/3/2003: HK$3,307.0 million) which primarily comprised blue chip securities.

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 30 September 2003, there was attributable surplus of HK$177.8 million compared to a deficit of HK$888.0 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 Projects Undertaken by Associates**

**(a)** Sorrento and Bellagio

Sorrento and Bellagio projects undertaken by associates, 40%-owned and 1/3-owned by the Group, respectively, reported good sales progress. For the period under review, 261 units at the Sorrento and 171 units at the Bellagio were sold. At 30 September 2003, accumulated 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 Phases III and IV are underway in accordance with schedule.

At 30 September 2003, the cash deposits in stakeholders' account of Sorrento amounted to HK$0.5 billion, which would be sufficient to fully cover its outstanding construction cost for completion of the whole project. Following the completion of the Phase I and II units, the cash deposits of HK$1.2 billion kept in stakeholders' account of Bellagio at 31 March 2003 were distributed in April 2003 to the shareholders of the project company, namely, the Group, Wheelock and Wharf, in proportion to their equity interests in the project. The two project companies did not have any bank borrowings at 30 September 2003.

**(b)** Parc Palais
Pre-sale of the Parc Palais, 20%-owned by the Group, 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.

**(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$697.6 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, a wholly-owned subsidiary and the ultimate holding company together with its two associates have jointly and severally guaranteed the performance and observance of the terms 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, which is for a proposed residential condominium development of approximately 500 apartments, at a purchase price of S$255.0 million. 10% of the purchase price or S$25.5 million was paid. The acquisition is expected to complete by early 2004.

**(VI) Employees**

The Group has 56 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$10.8 million.

## Disclosure under Practice Note 19

In relation to the provision of financial assistance by the Company and/or its subsidiaries to certain associates of the Company, namely, Diamond Hill Development Holdings Limited ("DHDHL"), Hopfield Holdings Limited ("Hopfield") and Grace Sign Limited ("Grace Sign") and/or their respective wholly-owned subsidiaries (together, the "Borrowers"), all of which were as previously disclosed in the Company's annual report for the year ended 31 March 2003, obligations in relation to the aforesaid financial assistance by the Group continued to exist as at 30 September 2003.

Set out below is a proforma combined balance sheet of the Borrowers as at 31 October 2003 (being the latest practicable date for determining the relevant figures) required to be disclosed under Practice Note 19 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"):

**Proforma Combined Balance Sheet of Borrowers**
at 31 October 2003

| | HK$ Million |
|---|---|
| Deferred debtors | 285.0 |
| Properties under development/for sale | 8,116.6 |
| Stakeholders' deposits | 813.8 |
| Other net current assets | 226.2 |
| Long-term bank loans | (1,696.0) |
| | 7,745.6 |
| Shareholders' loans | (10,182.7) |
| Shareholders' deficit | (2,437.1) |

Financial assistance given by the Group is made up as follows:

| | | Guaranteed bank facilities | | |
|---|---|---|---|---|
| | Loan advances HK$ Million | Amount drawn HK$ Million | Not yet drawn HK$ Million | Total HK$ Million |
| DHDHL | 1,905.2 | – | – | 1,905.2 |
| Hopfield | 1,179.8 | – | – | 1,179.8 |
| Grace Sign | 303.5 | 339.2 | 161.6 | 804.3 |
| | 3,388.5 | 339.2 | 161.6 | 3,889.3 |

*Note: The Group's attributable interests in DHDHL, Hopfield and Grace Sign were 33-1/3%, 40% and 20% respectively as at 31 October 2003.*

**Terms of the financial assistance:**

***Funding for DHDHL***
A loan in the amount of HK$1,905.2 million made to DHDHL bears interest at such rates as may from time to time be agreed among all DHDHL's shareholders. At present, that loan is interest-free (also applicable to all the loans made to DHDHL by all other DHDHL's shareholders). It is repayable on demand and is provided without any security.

***Funding for Hopfield***
A loan in the amount of HK$1,179.8 million made to Hopfield bears interest at such rates as may from time to time be agreed among all Hopfield's shareholders, with reference to interest rates prevailing in the lending market, currently being fixed at 1.1% per annum (also applicable to all the loans made to Hopfield by all other Hopfield's shareholders). The loan is repayable on demand, and is provided without any security.

***Funding for Grace Sign***
A loan in the amount of HK$303.5 million made to Grace Sign bears interest at such rates as may from time to time be agreed among all Grace Sign's shareholders. At present, the interest rate of the loan have yet to be agreed by the shareholders of Grace Sign. Repayment of the loan will be subject to, *inter alia*, all borrowings under the abovementioned guaranteed bank facilities having been fully repaid, except under certain circumstances as permitted under the relevant agreement for those bank facilities. No security is provided to the Group for the loan.

The Group's *pro rata* share of its financial obligation in respect of the bank facilities available to Grace Sign amounted to HK$500.8 million of which HK$339.2 million had been drawn. Such bank facilities were obtained on normal commercial terms and at interest rates prevailing in the lending market. No security is provided to the Group by Grace Sign against the issue of the relevant guarantee by the Group.

## 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 Listing Rules, 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 personal beneficial interests, all being long positions, in the share capitals of the Company, the Company's parent company, namely, Wheelock and Company Limited ("Wheelock"), and an associate of Wheelock, namely, The Wharf (Holdings) Limited ("Wharf"):

| | No. of Ordinary Shares |
|---|---|
| **The Company** | |
| Mr. G. W. J. Li | 2,900 |
| **Wheelock** | |
| Mr. G. W. J. Li | 1,486,491 |
| Mr. T. Y. Ng | 70,000 |
| **Wharf** | |
| Mr. G. W. J. Li | 686,549 |
| Mr. T. Y. Ng | 178,016 |

Except as disclosed above, as recorded in the register kept by the Company under section 352 of the Securities and Futures Ordinance (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 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 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) | Myers Investments Limited | 1,536,058,277 |
| (ii) | Wheelock Properties Limited | 1,536,058,277 |
| (iii) | Wheelock and Company Limited | 1,536,058,277 |
| (iv) | Bermuda Trust (Guernsey) Limited | 1,536,058,277 |

*Note: For the avoidance of doubt and double counting, it should be noted that duplication occurs in respect of all of the above-stated shareholdings to the extent that the shareholdings stated against parties (i) to (iv) above represent the same block of 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 Friday, 19 December 2003 to Wednesday, 24 December 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 Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not later than 4:30 p.m. on Thursday, 18 December 2003.

By Order of the Board
**Wilson W. S. Chan**
Secretary

Hong Kong, 11 November 2003