

Financial Review

REVIEW OF RESULTS

For the six-month period up to 31st December, 2002, turnover of the Group amounted to approximately HK\$122 million as compared to HK\$332 million recorded in the corresponding period in the previous financial year. The Group's turnover during the interim period under review was mainly attributed to sale of the remaining stock of residential units at the Heng Bao Garden project. Loss attributable to shareholders amounted to approximately HK\$98 million as compared to the profit attributable to shareholders of HK\$89 million posted in the corresponding period of the previous financial year. Overall performance of the Group during this period was adversely affected by the provisions made on property projects and write-off of bad debts relating to property rental for an aggregate amount of HK\$135 million.

Loss generated from property sales, which amounted to approximately HK\$1.5 million based on turnover of approximately HK\$53.7 million recorded in the interim period under review, resulted from sale of completed residential units of the Group.

Gross rental income of the Group was recorded at approximately HK\$28.3 million during the six-month period under review and this compared with HK\$24.7 million registered in the corresponding period in the previous financial year. However, the Group's rental properties recorded a reduced profit of approximately HK\$0.4 million as compared to an amount of HK\$19.3 million recorded in the corresponding period of the previous financial year due to increase in expenses incurred in the period under review.

Profit from the finance segment of the Group, which were mainly attributed to interest income from advances made to the Group's project companies as well as from property mortgage loans extended to purchasers of the Group's property units, amounted to approximately HK\$29.5 million in the interim period under review being at a similar level as that recorded in the corresponding period in the previous financial year.

Profit from management and sales commissions of the Group was mainly related to the project management and property management services provided by the Group to joint venture projects and this amounted to approximately HK\$2.0 million which was recorded in the six-month period under review as compared to HK\$10 million that was recorded in the corresponding period of the previous financial year. The decrease in profit from this source was mainly due to the incurrence of expenses during the period under review.

FINANCIAL RESOURCES AND LIQUIDITY

As at 31st December, 2002, shareholders' funds of the Group amounted to approximately HK\$7,531 million as compared to HK\$7,660 million that was registered as at 30th June, 2002. The Group is in a strong financial position and possesses a large capital base whereas net debt position remains low. The Group's total net bank borrowings, after deducting cash holdings of approximately HK\$314 million, amounted to approximately HK\$464 million as at 31st December, 2002 as compared to the net bank borrowings recorded at HK\$1,430 million as at 30th June, 2002. This substantial decrease was mainly due to the replacement of a portion of bank loans by inter-company loans. All of the Group's borrowings were unsecured and were mainly obtained on a committed term basis. With adequate committed banking facilities in place and cash inflow generating from its business operations, the Group has sufficient financial sources to fund its ongoing operations as well as future expansion.

The Group did not undertake any significant acquisition or disposal of assets outside its core business during the interim period under review.

LOAN MATURITY PROFILE

The maturity profile of the Group's bank loans and borrowings outstanding as at 31st December, 2002 and 30th June, 2002 respectively are shown as follows:

	As at 31st December, 2002 HK\$'000	As at 30th June, 2002 HK\$'000
Bank Loans and Borrowings Repayable:		
Within 1 year	99,145	467,744
After 1 year but within 2 years	398,414	597,143
After 2 years but within 5 years	<u>281,100</u>	<u>759,316</u>
Total Bank Loans and Borrowings	778,659	1,824,203
Less: Cash at bank and in hand	<u>(314,373)</u>	<u>(394,664)</u>
Total Net Bank Borrowings	<u><u>464,286</u></u>	<u><u>1,429,539</u></u>

GEARING RATIO

As at the end of the interim period under review, the gearing ratio of the Group which was calculated on the basis of the total net bank borrowings as a ratio of the Group's shareholders' funds amounted to approximately 6%. Interest expenses of the Group before interest capitalisation amounted to approximately HK\$35 million for the six-month period under review.

INTEREST RATE EXPOSURE AND EXCHANGE RATE EXPOSURE

The Group's financing and treasury activities are managed centrally at the corporate level. Bank loans of the Group were obtained in Hong Kong Dollars as well as in Renminbi. For bank loans which were obtained by the Group in the Hong Kong currency, loan interests were chargeable mainly based on certain agreed interest margins over the Hong Kong Interbank Offer Rate and such banking facilities were therefore of floating rate in nature. As for the bank borrowings which were denominated in Renminbi, these are charged at the standard interest rates applicable for commercial loans as announced by The People's Bank of China from time to time.

As at 31st December, 2002, borrowings of the Group that was denominated in Hong Kong Dollars were slightly in excess of loans outstanding denominated in Renminbi. The Group did not enter into any interest rate or currency hedging agreements in the interim period under review.

CAPITAL COMMITMENTS

As at 31st December, 2002, capital commitments of the Group amounted to HK\$3,397 million as compared with HK\$3,725 million recorded as at 30th June, 2002. Out of these commitments, HK\$2,746 million were mainly related to contracted obligations of the Group for future development costs and expenditures to be incurred on various projects of the Group in the short to medium term with the remaining amount of HK\$651 million being related to the Group's commitments in respect of future development costs and expenditures of the development projects of the Group which was authorized but not yet contracted for as at the end of the interim period under review.

CONTINGENT LIABILITIES

Contingent liabilities of the Group as at 31st December, 2002 amounted to approximately HK\$261 million as compared with HK\$269 million recorded as at 30th June, 2002. These mainly relate to guarantees given by the Group to financial institutions in respect of mortgage financing provided to purchasers of property units developed by the Group.

USE OF CAPITAL AND FUNDING

Capital of the Company and retained profits of the Group will continue to be put to good use to develop the Group's business. The Group has adequate capital resources and abundant unutilised banking facilities for funding its ongoing operations and further expansion.

EMPLOYEES

As at 31st December, 2002, the number of employees of the Group was about 1,000, of which about 90 were employed in Hong Kong and the others were employed in Mainland China. The remuneration of employees was in line with the market trend and commensurable to the level of pay in the industry. Discretionary year-end bonus was paid to employees based on individual performance. Employees of the Group may be granted share options. Other benefits to employees include medical insurance, retirement schemes, training programmes and educational subsidies.

Total employees' costs amounted to HK\$29 million for the six months ended 31st December, 2002 and HK\$27 million for the corresponding period of last year.