



# FAR EAST CONSORTIUM INTERNATIONAL LIMITED

(Incorporated in the Cayman Islands with limited liability)

Website: <http://www.fareastconsortium.com.hk>

## INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2002

### INTERIM RESULTS

The Board of Directors of Far East Consortium International Limited (the “Company”) is pleased to announce the unaudited interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30th September, 2002. The unaudited interim financial results has been reviewed by the Company’s audit committee.

### CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th September, 2002

		Six months ended	
		30/9/2002	30/9/2001
		(unaudited)	(unaudited)
	Notes	HK\$'000	HK\$'000
Turnover	3	384,888	386,041
Cost of sales		(316,976)	(303,531)
Gross profit		67,912	82,510
Other revenue		8,385	10,039
Selling and distribution costs		(1,544)	(2,836)
Administrative expenses		(60,943)	(57,864)
Other operating expenses		(3,133)	(4,858)
Impairment loss recognised in respect of properties held for development	5	(5,000)	–
Unrealised losses on investments in securities		(2,882)	(13,591)
Profit from operations		2,795	13,400
Profit on disposal of subsidiaries		27	35,317
Share of results of jointly controlled entities		45,135	7,207
Written back (loss) on profit guarantee		2,364	(7,405)
Share of results of associates		(21,707)	(2,020)
Finance costs		(20,371)	(25,998)
Profit before taxation		8,243	20,501
Taxation	6	5,801	5,485
Profit before minority interests		2,442	15,016
Minority interests		5,110	(672)
Net profit for the period		7,552	14,344
Dividend	7	Nil	Nil
Earnings per share			
– Basic	8	0.8 cents	1.5 cents

*Notes:*

**1. Basis of presentation**

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with the Statement of Standard Accounting Practice (“SSAP”) 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants (“HKSA”).

**2. Principal accounting policies**

The condensed financial statements have been prepared under the historical cost convention as modified for revaluation of certain properties and investments in securities.

The accounting policies adopted are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31st March, 2002, except as described below.

In the current period, the Group had adopted, for the first time, a number of new and revised SSAPs, which has resulted in the following changes in the Group accounting policies and the presentation of the financial statements.

SSAP 1 (Revised) : Presentation of Financial Statements

SSAP 11 (Revised) : Foreign Currency Translation

SSAP 15 (Revised) : Cash Flow Statements

SSAP 34 : Employee Benefits

This change in accounting policies does not have any material effect on the results for the current or prior accounting period.

**3. Turnover and segment information**

For management purposes, the Group is currently organized into five operating divisions – securities investment, property development and investment, hotel operations, industries, and treasury. These divisions are the basis on which the Group reports its primary segment information.

*Business segments*

	<b>Turnover</b>		<b>Segment results</b>	
	<b>Six months ended</b>		<b>Six months ended</b>	
	<b>30/9/2002</b>	30/9/2001	<b>30/9/2002</b>	30/9/2001
	<b>(unaudited)</b>	(unaudited)	<b>(unaudited)</b>	(unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
By principal activity:				
Property development and investment	<b>317,478</b>	304,592	<b>907</b>	30,020
Hotel operations	<b>22,236</b>	21,958	<b>3,708</b>	1,644
Securities investment	<b>28,194</b>	41,131	<b>(3,067)</b>	(8,955)
Industries	<b>14,976</b>	16,386	<b>429</b>	(1,671)
Treasury	<b>2,004</b>	1,974	<b>3,001</b>	(6,142)
	<b><u>384,888</u></b>	<u>386,041</u>	<b><u>4,978</u></b>	<u>14,896</u>
Unallocated corporate expenses			<b><u>(2,183)</u></b>	<u>(1,496)</u>
Profit from operations			<b><u>2,795</u></b>	<u>13,400</u>

**4. Depreciation**

During the period, depreciation of approximately HK\$3 million (six months ended 30th September, 2001: approximately HK\$3 million) was charged in respect of the Group's property, plant and equipment.

**5. Impairment loss recognised in respect of properties held for development**

The directors have assessed the recoverable amount of the properties under development projects, one of them is not able to generate positive cash flow to the Group in the future. An impairment loss of HK\$5 million has been recognised.

**6. Taxation**

	<b>Six months ended</b>	
	<b>30/9/2002</b>	30/9/2001
	<b>(unaudited)</b>	(unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit tax charge (credit):		
Hong Kong	<b>3</b>	(715)
Other region in the People's Republic of China ("PRC")	<b>1,929</b>	1,852
Other jurisdictions	<b>1,369</b>	3,108
	<b><u>3,301</u></b>	<u>4,245</u>
Deferred taxation		
Other regions in the PRC	<b>1,929</b>	845
Taxation attributable to the Company and its subsidiaries	<b>5,230</b>	5,090
Share of taxation attributable to associates	<b>571</b>	395
	<b><u>5,801</u></b>	<u>5,485</u>

## **7. Dividend**

On 30th September, 2002, an amount of HK2 cents per share (2001: HK2 cents) was paid to shareholders as the final dividend for the financial year ended 31st March, 2002. The Directors do not recommend the payment of interim dividend for the current and prior period.

## **8. Earning per share**

The calculation of earnings per share is based on the profit attributable to shareholders of HK\$7,552,000 (six months ended 30th September, 2001: HK\$14,344,000) and on the weighted average number of 967,844,872 (six months ended 30th September, 2001: 952,702,668) shares in issue during the period.

Diluted earnings per share has not been presented for either period because the Company does not have any dilutive potential ordinary share.

## **9. Pledge of assets**

(a) The Group's properties and bank deposits with an aggregate net book value of approximately HK\$1,667 million (31/3/2002: HK\$1,702 million) together with properties of associates and third parties were mortgaged or pledged to the Group's bankers and loan creditors to secure banking and loan facilities granted to the Group and its associates to the extent of approximately HK\$1,404 million (31/3/2002: HK\$1,390 million) and HK\$5 million (31/3/2002: HK\$5 million) respectively.

(b) The Group's listed investments of approximately HK\$34 million (31/3/2002: 38 million) were pledged to the Group's financial institution to secure margin trading facilities granted to the Group in respect of securities transactions to the extent of approximately HK\$10 million (31/3/2002: 15 million), of which HK\$6 million (31/3/2002: HK\$8 million) were utilised.

(c) The Group has entered into agreements with certain banks in respect of mortgage loans provided to home buyers of property project in the PRC. In accordance with those agreements, the Company deposits either 10% of the consideration of the properties sold and financed under the mortgage loans or between 10% and 20% of the amount of financing provided as a guarantee for settlement of the mortgage installments. Should mortgagors fail to pay mortgage installments, the bank can draw down the deposits up to the amount of mortgage installments not paid during the period from the mortgage drawdown to the date of releasing such guarantees. The guarantees will be released when property title deeds are passed to the banks as security for the respective mortgage loans. At the balance sheet date, deposit of approximately HK\$7 million (31/3/2002: HK\$0.7 million) was placed with banks to guarantee the above agreements.

## **INTERIM DIVIDEND**

The Directors have resolved not to declare an interim dividend in respect of the six months ended 30th September, 2002 (six months ended 30th September, 2001: Nil).

## **REVIEW OF OPERATIONS, OUTLOOK AND STRATEGY**

Turnover for the six months ended 30th September 2002 was HK\$385 million matching the result of HK\$386 million for the corresponding period of the year 2001. Profit attributable to shareholders was HK\$7.6 million as compared to HK\$14.4 million for the corresponding period of the year 2001, representing a decrease of HK\$6.8 million or 47.22%.

### **Business Review**

#### **1. Property Division**

##### *Hong Kong*

*Baker Street, Hung Hom* – a 32-storey commercial-residential development with a total gross floor area of approximately 55,000 sq.ft. comprises of 104 residential units, 26 car-parks and 2 floors of shopping units was completed with the occupancy permit obtained in late November 2002.

*Pak Shek Wo, Sai Kung* – a 15 detached house development with a total gross floor area of approximately 18,000 sq.ft. built on a 30,000 sq.ft. site. Construction has commenced and the pre-sale launch is scheduled for first quarter of 2003.

*Chuk Kok, Sai Kung* – a 10 detached house development with a total gross floor area of approximately 12,000 sq.ft. built on a 30,000 sq.ft. site. Site formation is currently in progress while the pre-sale launch is expected in the second quarter of 2003.

*Tan Kwai Tsuen, Yuen Long* – this project is a 4-storey apartment development with 62 units with a total gross floor area of approximately 52,000 sq.ft. The company is in the process of applying land exchange and access road formation.

*Sheung Yeung, Sai Kung* – a proposed development of 24 village houses with a total gross floor area of approximately 50,000 sq.ft. Building work on phase 1 with 4 houses has commenced in July, 2002. Development for other phases will depend on government approval schedule.

*Hung Shui Kiu, Yuen Long* – a 7-storey residential development project with a total gross floor area of approximately 38,000 sq.ft. The company is currently in the process of applying for land exchange.

*Fung Lok Wai, Yuen Long* – raw land for residential estate development with a total area of approximately 8,610,000 sq.ft. No definite plan for this development at present. The Group holds 21.66% beneficial interest in this project.

##### *China*

*California Garden, Shanghai* – a residential development with a land area of approximately 14.5 million sq.ft. with an approved built-up area of approximately 12.4 million sq.ft. A total of 2,388 units of residential and commercial development have been built with over 90% sold to date since its first phase development in 1997. Upon completion of the development, California Garden will boost a total of more than 8,500 units with a mixture of residential and commercial properties. This project is expected to contribute significantly to the profitability of the company in the future.

*New Time Plaza, Guangzhou* – the Group owns 45% of this development comprises of an auxiliary building completed with 8,000 sq.m. and a proposed 29-storey residential tower with a gross floor area of approximately 27,000 sq.m. Construction work is in progress.

#### *Malaysia*

With continuing revival of the Malaysian economy, the housing sales have contributed positively to the Group's operation. The Group is still confident that the Malaysian property market remains stable and the demand for medium cost housing will continue to rise.

*Karunmas Ehsan* – this project consists of a total of 812 units of terrace house, condominium, low cost flats and shop offices. Occupancy Permits for Phase 1 and 2 totaling 426 units of terrace houses have been obtained. Phase 3, comprising 240 units of condominiums, 41 units of shop houses and 105 units of low cost apartment is in the process of completion.

*Taman Teluk Gedong Ludah* – this project consists of 628 units of terrace houses and 200 units of low cost flats. The project has been substantially completed and is in the process of obtaining occupancy permits.

#### *Australia*

*Flinder Wharf, Melbourne* – the Group owns 50% of this high-class residential development with 301 units located on the Yarra River in the city of Melbourne next to the Melbourne Exhibition and Convention Centre and The Crown Casino. The project has achieved over 90% sold to date. Construction commenced in February 2002 and is scheduled for completion by the 4th quarter of the year 2003.

## **2. Hotel Division**

*Proposed New Addition to the Group* – The Group has acquired the 'old' New China News Agency Building at Causeway Bay during this reviewing period and has obtained from the Building Department in early December 2002 the preliminary approval for a hotel plan submission with over 450 rooms. The Group has commenced the refurbishment work to date to expedite the completion of this 4-star hotel program and be ready for operation by the third quarter in 2003.

*Dorsett Garden Hotel and Dorsett Seaview Hotel* – the Group operates two 3-stars hotels in Hong Kong with a total of 368 rooms. The two hotels maintain an average occupancy rate of well over 90% for the period under review and provide a steady income to the Group.

*Dorsett Regency Hotel, Kuala Lumpur* – this 320 rooms hotel is located right at the Central Business District of the busy Kuala Lumpur. The hotel continues to perform well with an annual average occupancy rate of 82% for the period under review, maintaining its status as one of the top performing 4-star hotel in Kuala Lumpur.

*Kau U Fong, Central* – a hotel development site for approximately 167 rooms in a 34-storey building with a total gross floor area of approximately 63,000 sq.ft. Building plans have been submitted for government approval. Completion date for this hotel is scheduled for late 2004.

*Anchor Street, Tai Kok Tsui* – a 21-storey hotel development with approximately 137 rooms with a gross floor area of 46,000 sq.ft. With the town planning application approved, construction has commenced in November 2002.



*Dallas Grand Hotel, Dallas, USA* – after the 911 event in the USA, the Group has decided to tie up this hotel with an international ‘Brand’ and is currently reviewing the franchise arrangement with the prospective Brand. The refurbishment and upgrading program of this hotel will commence when the franchise agreement is finalised.

### **3. *Industrial Infrastructure Division***

The boiler factory in Guangzhou had a moderate performance. The Board believes that the operation of the boiler factory will gradually improve.

The Company has completed construction of a 68% interest in the 44km of the National Highway 311 in Henan Province which has been fully operational since January 2001 with two-ways toll road collections. This investment yields a good return for the Group for the period under review.

### **4. *Recurrent Income***

The Group’s rental income comes mainly from four commercial/office buildings in Hong Kong.

The occupancy rate of leased tenants maintains at an average of approximately 90% during this review period.

### **5. *Corporate Overview***

Continuing confidence in Hong Kong residential property market reinforced by recent Government’s “nine stimulus” measures to stabilize this sector.

Undivided optimism in China property market with continuing economic growth, China’s entry into WTO, year 2008 Olympics in Beijing and year 2010 World Expo in Shanghai.

## **FINANCIAL RESOURCES AND LIQUIDITY**

### **Borrowings and charge on Group assets**

The business activities of the Group are funded by bank borrowing, unsecured loans and cash generated from operating activities. The Group’s total bank and other borrowings amount to approximately HK\$1,341 million as at 30th September, 2002 (31/3/2002: HK\$1,209 million), in which HK\$407 million was payable within one year and HK\$934 million was payable after one year. HK\$1,231 million of the borrowings was secured while the remaining HK\$110 million was unsecured. The Group’s borrowings are primarily denominated in Hong Kong dollars.

In May 2002, the Group entered into a syndicated loan agreement with four banks in the amount of US\$20,000,000 for a term of five years for general working capital purpose.

During this period under review, a total amount of HK\$12 million was paid to a third party for its partial redemption of transferable promissory notes with total amount in aggregate of HK\$108 million issued on 28th February, 2002 by Far East Consortium International Limited for settlement of an acquisition of an interest in a parcel of land at Fung Lok Wai in Yuen Long, New Territories under the Mutual Luck Agreement as approved by the independent shareholders at an extraordinary general meeting of shareholders on 26th April, 2001. The transferable promissory notes carry interest at 5% per annum of which HK\$48,000,000 be repayable on 27th February, 2005 and HK\$60,000,000 be repayable on 30th May, 2005.

Save as aforesaid, interest rates were in line with the best lending rates either at prime or based on Hong Kong Inter-bank Offer Rate.

## Contingencies and commitments

### Contingencies

At the reporting date, contingent liabilities of the Groups were as follows:

	<b>30/9/2002</b> <b>(unaudited)</b> <b>HK\$'000</b>	31/3/2002 (audited) HK\$'000
(a) Guarantee issued to secured banking and other facilities made available to		
– third parties	–	11,000
– an investee company	<b>44,793</b>	<b>44,793</b>
(b) The Group has given guarantee in respect of mortgage loans provided to the home buyers of a property project in PRC. At 30th September, 2002, the total amount of mortgages outstanding which are subject to these guarantees was HK\$5 million (31/3/2002: HK\$27 million).		
(c) The Group has given rental guarantee to a third party for the properties situated in Australia. At 30th September, 2002, the total amount of these guarantees was HK\$10.3 million (31/3/2002: HK\$10.6 million).		
(d) The Inland Revenue Department has raised additional estimated assessments against the Group for the year of assessment 1995/96, requesting total tax payment of HK\$2.8 million (31/3/2002: HK\$2.8 million). Regarding this tax dispute, the potential tax liability to the Group is amounting to HK\$11 million of 1995/96 to 2000/2001. The Group intends to contest the case vigorously. While the outcome of this dispute cannot at present be estimated with certainty, the directors are of the opinion that the outcome of this case would not have a material impact on the financial position of the Group at 30th September, 2002.		
(e) During the period, the Company's subsidiary was sued by a contractor working for it to develop Phase III of Chingchu California Gardens. The contractor alleges that the Company's subsidiary owes it approximately HK\$14 million for work performed. Of this amount, approximately HK\$3.8 million related to work encompassed by the construction contract which has not been paid by the Company's subsidiary, which has been recorded as a liability in the accompanying financial statements as of 30th September, 2002. The remaining HK\$10 million relates to additional construction work performed has not been provided in the financial statement. However, the Company's subsidiary filed a counter-claim seeking approximately HK\$10 million (31/3/2002: HK\$10 million) from the contractor, asserting that it failed to comply with certain specifications of the construction contract and sought damages for the contractor's delay in completing the project. Both the contractor's claim and the Company's subsidiary counter-claim are pending in a PRC court, which is expected to be heard by the end of the calendar year 2002. In the meantime, the PRC court has ordered that certain assets amounted to HK\$1.7 million of the Company's subsidiary be frozen. The ultimate outcome of these matters is uncertain.		

### Commitments

At the balance sheet date:

- (a) the Group had capital expenditure contracted for but not provided in the financial statements on property development expenditure of approximately HK\$304 million (31/3/2002: HK\$260 million); and



- (b) the Group had capital expenditure authorised but not yet contracted for additional expenditure on a property development project in Shanghai of approximately HK\$173 million (31/3/2002: HK\$217 million).

### **Gearing ratio**

The gearing ratio (total bank and other borrowings to shareholders' equity) was increased to 54% (30/9/2002) from 50% (31/3/2002).

### **Current ratio**

The current ratio as at 30th September 2002 was 1 (31/3/2002: 1). The Group has maintained sufficient liquid assets to finance its operation.

### **Exchange rate**

The Group was not exposed to material exchange rates fluctuations during the period.

### **Pledge of assets**

At the reporting date, the Group's properties and bank deposits with an aggregate net book value of approximately HK\$1,667 million (31/3/2002: HK\$1,707 million) together with the properties of associates and third parties were mortgaged or pledged to the Group's bankers and loan creditors to secure banking and loan facilities to the Group and its associates to the extent of approximately HK\$1,404 million and HK\$5 million (31/3/2002: HK\$1,390 million and HK\$5 million) respectively.

### **Material acquisitions and disposals of subsidiaries and associated companies**

During the interim period, there was no material acquisition and disposal of subsidiaries and associated companies by the Group.

## **EMPLOYEE AND REMUNERATION POLICIES**

The number of employees of the Group as at 30th September, 2002 was approximately 1,500.

Employees remunerated according to nature of the job and market conditions. The Group has not adopted any training scheme for the employees during the interim period.

The Company had adopted a new share option scheme on 28th August, 2002 in line with the amended Chapter 17 (Share Option Scheme) of the Listing Rules of 1st September, 2001 of The Stock Exchange of Hong Kong Limited ("the Stock Exchange").

## **PURCHASE, SALE OR REDEMPTION OF LISTING SECURITIES**

During the period under review, the Company and its subsidiaries have not purchased, sold or redeemed any of the Company's securities.

## **CODE OF BEST PRACTICE**

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months period ended 30th September, 2002, 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.

**PUBLICATION OF DETAILED INTERIM RESULTS ON THE STOCK EXCHANGE'S WEBSITE**

All the information of the interim results of the Group for the six months ended 30th September, 2002 required by paragraph 46(1) to 46(6) of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange will be published on the website of the Stock Exchange in due course.

On behalf of the Board

**DAVID CHIU**

*Deputy Chairman*

Hong Kong, 20th December, 2002