



Guoco Group Limited

國浩集團有限公司

(Incorporated in Bermuda with limited liability)

2002/2003 INTERIM ANNOUNCEMENT

RESULTS

The Board of Directors of Guoco Group Limited (“the Company”) is pleased to announce the unaudited consolidated net profit of the Group, after taxation and minority interests, for the six months ended 31 December 2002 together with comparative figures for the corresponding period last year as follows:

Consolidated Income Statement

		Six months ended 31 December 2002 (Unaudited) HK\$'000	Six months ended 31 December 2001 (Unaudited) HK\$'000	Change %
	<i>Note</i>			
Turnover	2	887,586	1,116,017	(20.5%)
Cost of property sales		(425,744)	(638,300)	
Other attributable costs		(72,924)	(102,631)	
		<u>388,918</u>	<u>375,086</u>	
Other revenue		9,787	4,047	
Other net income	3	303,401	162,524	
Administrative and other operating expenses		(123,747)	(132,567)	
Operating profit before finance cost	2	578,359	409,090	
Finance cost		(26,959)	(109,345)	
Operating profit		551,400	299,745	84.0%
Loss on disposal of a subsidiary		(3,260)	–	
Impairment loss on properties		(5,420)	(77,898)	
Deficit on revaluation of investment properties		(134,953)	–	
Net loss on disposal of investment properties		–	(94,288)	
Operating profit on ordinary activities		407,767	127,559	
Share of profits less losses of associates		140,724	238,239	
Share of profits less losses of jointly controlled entities		374	(1,037)	
Profit from ordinary activities before taxation	4	548,865	364,761	
Taxation	5	(83,553)	(121,369)	
Profit after taxation		465,312	243,392	
Minority interests		(24,799)	302,553	
Profit attributable to shareholders		440,513	545,945	(19.3%)
Appropriations:				
Final dividend paid	6	(227,431)	(194,449)	
Retained profit for the period		213,082	351,496	
		<u>HK\$</u>	<u>HK\$</u>	
Earnings per share				
Basic	7	1.36	1.33	2.3%
Diluted	7	1.35	1.27	6.3%
		<u>HK\$'000</u>	<u>HK\$'000</u>	
Proposed interim dividend	6	130,885	129,633	

Consolidated Balance Sheet

	At 31 December 2002 (Unaudited) HK\$'000	At 30 June 2002 (Audited) HK\$'000
NON-CURRENT ASSETS		
Fixed assets	2,017,636	1,995,043
Interest in associates	3,206,260	3,335,011
Interest in jointly controlled entities	(47,072)	(32,409)
Other non-current financial assets	706,934	697,358
Goodwill	(96,132)	(5,702)
	<u>5,787,626</u>	<u>5,989,301</u>
CURRENT ASSETS		
Development properties	4,169,686	4,024,171
Properties held for sale	511,137	517,867
Other assets	237,067	740,437
Other investments in securities	12,879,745	12,428,088
Cash and short term funds	12,748,005	13,364,973
	<u>30,545,640</u>	<u>31,075,536</u>
CURRENT LIABILITIES		
Other payables and provision	905,265	1,107,079
Current portion of bank loans and other borrowings	1,963,296	2,731,751
Insurance funds	29,424	24,242
Taxation	170,740	108,333
	<u>3,068,725</u>	<u>3,971,405</u>
Net current assets	<u>27,476,915</u>	<u>27,104,131</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>33,264,541</u>	<u>33,093,432</u>
NON-CURRENT LIABILITIES		
Non-current portion of bank loans and other borrowings	3,376,938	3,463,499
Deferred taxation	70,670	100,400
	<u>3,447,608</u>	<u>3,563,899</u>
Minority interests	1,598,334	1,623,596
NET ASSETS	<u>28,218,599</u>	<u>27,905,937</u>
CAPITAL AND RESERVES		
Share capital	1,275,881	1,263,904
Reserves	26,942,718	26,642,033
	<u>28,218,599</u>	<u>27,905,937</u>

1. Accounting policies

The financial statements have been prepared under the historical cost convention as modified for the revaluation of investment properties and land and buildings, and marking to market of certain investments.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 30 June 2002, with the exception of changes in accounting policies to comply with revised Statement of Standard Accounting Practice (“SSAP”) as set out below:

- On adoption of SSAP 11 (revised) “Foreign currency translation”, the results of foreign enterprises are translated at the average exchange rates for the period; balance sheet items are translated at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves. In previous periods, both the results and balance sheet items were translated at exchange rates ruling at the balance sheet date. The comparative figures have not been restated as the effects of such change is not material.
- Certain presentational changes have been made upon the adoption of SSAP 15 (revised) “Cash flows statements” and the comparative figures were restated to conform with current period presentation.

2. Segment information

Business Segments

	Treasury, fund and investment management (Unaudited) HK\$'000	Property development (Unaudited) HK\$'000	Property investment (Unaudited) HK\$'000	Securities, commodities & brokerage (Unaudited) HK\$'000	Insurance (Unaudited) HK\$'000	Inter-segment elimination (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
For the six months ended 31 December 2002							
Turnover	225,821	508,595	76,152	23,396	53,622	–	887,586
Inter-segment turnover	3,736	–	3,696	94	218	(7,744)	–
	<u>229,557</u>	<u>508,595</u>	<u>79,848</u>	<u>23,490</u>	<u>53,840</u>	<u>(7,744)</u>	<u>887,586</u>
Contribution from operations	478,938	85,206	38,439	(17,258)	4,008	–	589,333
Unallocated income							9,459
Unallocated expenses							(20,433)
Operating profit before finance cost							<u>578,359</u>
For the six months ended 31 December 2001							
Turnover	393,987	507,636	89,157	36,220	89,017	–	1,116,017
Inter-segment turnover	50,123	–	2,308	16	1,404	(53,851)	–
	<u>444,110</u>	<u>507,636</u>	<u>91,465</u>	<u>36,236</u>	<u>90,421</u>	<u>(53,851)</u>	<u>1,116,017</u>
Contribution from operations	484,288	(140,527)	66,841	858	624	–	412,084
Unallocated income							2,347
Unallocated expenses							(5,341)
Operating profit before finance cost							<u>409,090</u>
Geographical Segments							
	Turnover			Operating profit / (loss)			
	Six months ended 2002 (Unaudited) HK\$'000	Six months ended 2001 (Unaudited) HK\$'000		Six months ended 2002 (Unaudited) HK\$'000	Six months ended 2001 (Unaudited) HK\$'000		
Hong Kong	295,797	475,581		502,372	754,959		
Singapore	558,957	566,531		77,400	(373,761)		
Asia (excluding Hong Kong and Singapore)	28,332	70,240		9,600	30,925		
Others	4,500	3,665		(39)	(39)		
	<u>887,586</u>	<u>1,116,017</u>		<u>589,333</u>	<u>412,084</u>		
Unallocated income				9,459	2,347		
Unallocated expenses				(20,433)	(5,341)		
Operating profit before finance cost				<u>578,359</u>	<u>409,090</u>		

3. Other net income

	Six months ended 31 December 2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Gain on disposal of fixed assets	47	351
Net realised gains on other investments	426,679	422,120
Net unrealised losses on other investments	(225,158)	(176,209)
Gain on foreign exchange dealing	13,991	11,650
Net exchange gains / (losses)	142,128	(3,969)
Unrealised losses on other dealing activities	(36,630)	(98,000)
Others	(17,656)	6,581
	<u>303,401</u>	<u>162,524</u>

4. Profit from ordinary activities before taxation

Profit from ordinary activities before taxation of the Group is arrived at

	Six months ended 31 December 2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
after charging:		
Staff costs (including retirement scheme contributions of HK\$3,946,000 (2001: HK\$2,589,000))	78,305	77,024
Depreciation	11,222	8,390
Operating lease charges		
– properties	5,771	11,696
– others	31	62
Amortisation of positive goodwill included in share of profits less losses of associates	3,330	429
Auditors' remuneration	1,022	827
Donation	55	–
	<u>6,379</u>	<u>320</u>
and crediting:		
Amortisation of negative goodwill	6,379	320
Gross rental income from investment properties	59,822	70,950
Less: direct outgoings	(6,153)	(6,605)
Net rental income	<u>53,669</u>	<u>64,345</u>
Share of profits less losses of associates:		
Listed	120,159	235,510
Unlisted	20,565	2,729
	<u>140,724</u>	<u>238,239</u>

5. Taxation

	Six months ended 31 December 2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Hong Kong Profits Tax	1,162	990
Overseas taxation	16,377	16,180
Deferred taxation	18,061	(29,872)
	<u>35,600</u>	<u>(12,702)</u>
Share of associates' taxation	47,953	134,071
	<u>83,553</u>	<u>121,369</u>

The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16% (2001: 16%) to the profits for the six months ended 31 December 2002. Taxation for overseas subsidiaries is similarly calculated using the estimated annual effective rates of taxation that would be applicable to the relevant countries.

6. Dividends

	Six months ended 31 December	
	2002	2001
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>HKS'000</i>	<i>HKS'000</i>
2002: Final dividend paid of HK\$0.70 per share (2001: HK\$0.60 per share)	<u>227,431</u>	<u>194,449</u>
2003: Proposed interim dividend of HK\$0.40 per share (2002: HK\$0.40 per share)	<u>130,885</u>	<u>129,633</u>

The proposed interim dividend for the year ending 30 June 2003 of HK\$130,885,000 is calculated based on 327,211,373 ordinary shares in issue as at 31 December 2002.

7. Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK\$440,513,000 (2001: HK\$545,945,000) and on the weighted average number of 324,490,014 ordinary shares (2001: 409,424,452 ordinary shares) in issue during the period.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to shareholders of HK\$440,405,000 (2001: HK\$524,370,000) and the weighted average number of 327,041,227 ordinary shares (2001: 414,035,797 ordinary shares) in issue during the period after adjusting for the effect of all dilutive potential ordinary shares.

(c) Reconciliations

	2002	2001
	Number	Number
	of shares	of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	324,490,014	409,424,452
Deemed issue of ordinary shares under share option scheme	<u>2,551,213</u>	<u>4,611,345</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>327,041,227</u>	<u>414,035,797</u>

8. Hong Kong dollar amounts

The financial statements of the Company are maintained in United States dollars. The accounting figures shown above have been translated from United States dollars into Hong Kong dollars equivalent at the rates ruling at the respective financial period ends for presentation purposes only. (2002: US\$1 = HK\$7.79850; 2001: US\$1 = HK\$7.79755)

FINANCIAL RESULTS

The unaudited consolidated profit attributable to shareholders of the Group for the six months ended 31 December 2002 is HK\$441 million, which represents a decrease of approximately 19.3% over the corresponding period last year. However, basic earnings per share increased by approximately 2.3% to HK\$1.36, resulted from the completion of the Company's share repurchase scheme in November 2001. Consolidated shareholders' funds have increased to HK\$28.2 billion, representing an increase of approximately 1.1% over the last financial year end of 30 June 2002.

INTERIM DIVIDEND

The Directors have declared an interim dividend of HK\$0.40 per share amounting to HK\$130,885,000 (2001/2002 interim dividend: HK\$0.40 per share amounting to HK\$129,633,000) for the financial year ending 30 June 2003 which will be payable on 14 April 2003 to the shareholders whose names appear on the Register of Members on 11 April 2003.

DISPOSAL OF INTEREST IN DBS DIAMOND HOLDINGS LIMITED

On 2 January 2003, Development Bank of Singapore Ltd exercised the call option to purchase the Company's remaining 20% interest in DBS Diamond Holdings Limited, the immediate holding company of Dao Heng Bank Group Limited. The total proceeds of approximately HK\$10,782 million was received on 10 January 2003.

REVIEW OF OPERATIONS

Treasury, Fund and Investment Management

During the period under review, the Treasury, Fund and Investment Management segment generated a profit before interest, taxation and minority interests of about HK\$479 million, representing a slight decrease of about 1% comparing to the corresponding period last year.

In view of the uncertain economic and political environment, we have adopted a conservative cash management process to invest mainly in diversified liquid assets so as to preserve funds until the appropriate investment opportunities arise.

The Group practices prudent financial management. There are established policies and procedures for the identification, measurement, control and monitoring of credit, liquidity, foreign exchange, interest rate and market risks as well as investment policies and parameters covering core investments, time deposits, money market instruments, fixed income, equities and financial instruments. Also, appropriate financial instruments are utilized to manage its interest rate and foreign currency exposures including standard interest rate and currency swaps.

Property Division

Restructuring of the Group's Property Business

A series of restructuring transactions were launched to transform First Capital Corporation Ltd ("FCC") into the Group's core property unit. These transactions included (a) consolidating the Company's 55% interest in Guoco Properties Limited ("GPL", the vehicle for property activities in the PRC) with FCC's 45% stake to make it a wholly owned subsidiary under FCC; (b) transfer of the Company's 30% interest in Guoman Hotel & Resort Holdings Sdn Bhd ("GHRH") a property investment company with prime commercial and residential properties in Malaysia) to FCC; and (c) acquisition from FCC of approximately 9.6% interest in Overseas Union Enterprise Limited. The restructuring proposal was approved by the relevant regulatory bodies and shareholders of FCC and was completed in December 2002 as per schedule.

Change of Name of FCC

To clearly convey its role as the Group's property arm, FCC has changed its name to "GuocoLand Limited" in December 2002. This allows GuocoLand Limited to leverage on the goodwill of the "Guoco" trademark for business development.

GuocoLand Limited ("GLL") – 61.3% owned by the Group

For the financial period under review, GLL reported a net profit of S\$10.7 million compared to a net loss of S\$183.3 million in the previous corresponding period. Residential development projects in Singapore have turned around with a positive contribution of S\$15 million compared to realised losses and provisions aggregating S\$110 million in the previous corresponding period. GLL's associated companies contributed a profit of S\$8.1 million, a decrease of 74% over the previous corresponding period.

GLL's turnover decreased by 5% to S\$127.1 million for the 6-month period ended 31 December 2002 compared to the previous corresponding period primarily due to sale of its insurance subsidiary in September 2002. Turnover was mainly attributable to the units sold in Sanctuary Green and The Gardens at Bishan.

GLL has completed in November 2002 a rights issue ("Rights Issue") of one ordinary share and one 4.5% non-redeemable convertible cumulative preference share 2005 ("NCCPS 2005") at an issue price of S\$1.00 each for every 4 ordinary shares held in GLL. A total of 101,671,676 ordinary shares and 101,671,676 NCCPS 2005 were allotted pursuant to the Rights Issue.

GLL had been actively divesting most of its non-core assets. Cash proceeds from such asset sales have been deployed towards reducing debt. As a result, GLL's borrowings decreased by S\$211.6 million during the six months to 31 December 2002. The reduction in the Group's borrowings, coupled with the lower interest environment, has led to a decrease of 70% in the Group's interest costs to S\$6.1 million.

In line with its programme for the divestment of non-core assets, GLL entered into a sale and purchase agreement to divest its interest in Century Square Holding Pte Ltd ("CSH") which holds securitised bond asset of S\$30 million in principal in respect of a retail mall known as Century Square Shopping Centre. The sale is expected to recognise a net profit of approximately S\$24 million upon completion in the second half of the financial year.

GLL currently has seven launched developments in the market: Sanctuary Green, The Gardens at Bishan, Bishan Point, Le Crescendo, Leonie Studio, The Ladyhill (in which GLL has a 40% interest) and The Boulevard Residence (in which GLL has a 40% interest). D'Elías, a 17-unit cluster housing in Pasir Ris, was sold out on the first day of launch in October 2002. The Ladyhill obtained Temporary Occupation Permit on 12 December 2002.

GPL's interest in a development site at Suzhou has been sold at RMB400 million (S\$84 million). GLL expects to recognise a net profit of approximately S\$25 million upon completion, which is expected in the second half of this financial year.

Financial Industry Group

Hong Leong Credit Berhad ("HLC") – 23.5% owned by the Group

For the six months ended 31 December 2002, HLC Group recorded a profit before tax of RM379.2 million compared to RM377.5 million in the last corresponding period.

As the major contributor to the HLC Group's earnings, the banking and finance division registered a higher profit before tax at RM394.4 million for the six months ended 31 December 2002 compared to RM383.8 million in the corresponding

financial period. The improved performance of RM10.6 million amounting to an increase of 2.8% is due to the lower loan loss provisions made by the banking and finance division for the current financial period.

The insurance division recorded a lower profit before tax at RM24.0 million for the six months ended 31 December 2002 compared to RM38.9 million in the corresponding financial period. The reduction in the profit before tax was a result of the significant reduction in net investment income from adverse investment performance due to weak market sentiment in the Kuala Lumpur Stock Exchange. Apart from that, the higher commission expenses as a result of hardened treaty commission terms also contributed to the reduction in net profit before tax.

Likewise, the stock broking division registered a lowered performance with a loss before tax at RM22.5 million for the six months ended 31 December 2002 compared to a loss before tax at RM4.4 million in the corresponding financial period. The adverse performance for the financial period under review is due to the fixed assets written off along with the provision made on debts in the financial period under review.

For the six months ended 31 December 2002, HLC's share of profit before tax in the property division amounted to RM3.5 million compared to a loss before tax of RM1.4 million in the corresponding financial period due to the improved performance of the property division.

Hong Kong Financial Services Subsidiaries

In the wake of the deteriorating Hong Kong economic environment, diminishing market turnover coupled with keen competition, our Hong Kong financial services subsidiaries comprising Dao Heng Securities, Dao Heng Fund Management and Dao Heng Insurance continued to face difficult and challenging conditions during the period. Such adverse change in market environment and the anticipated deregulation of the minimum commission regime in April this year prompted our financial services companies to make an exigent rationalisation of their operations.

Major initiatives encompassing overall restructuring of the operation of wealth management division, cost control exercise and operation streamlining together with bold rightsizing measures were carried out to re-position their business dynamics to cope with the structural change of the Hong Kong economy with enhanced productivity and competitiveness.

FINANCIAL COMMENTARY

Turnover

Overall turnover decreased by HK\$228 million or 20.5% mainly attributable to decrease in turnover of treasury, fund and investment management activities of HK\$168 million, arising primarily from a decrease of interest income of HK\$152 million and dividend income of HK\$43 million.

Borrowings

As at 31 December 2002, the Group had reduced its total borrowings by 14% to HK\$5,340 million from HK\$6,195 million as at 30 June 2002. Unsecured borrowings comprises 42% of total borrowings. All the borrowings are by GLL and primarily represent GLL's property loan.

The Group's bank loans and other borrowings were repayable as follows:

	Bank loans	Other borrowings	Total
	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>
On demand or within 1 year	1,404,027	559,269	1,963,296
After 1 year but within 2 years	2,623,174	402,871	3,026,045
After 2 years but within 5 years	226,616	124,277	350,893
	<u>2,849,790</u>	<u>527,148</u>	<u>3,376,938</u>
	<u>4,253,817</u>	<u>1,086,417</u>	<u>5,340,234</u>

The loans are secured by the following:

- legal mortgages on investment properties with a book value of HK\$649 million;
- legal mortgages on development properties with a book value of HK\$3,830 million; and
- certain equity investments with total carrying value of HK\$601 million.

As at 31 December 2002, the Group has net cash balance of HK\$7,408 million after netting off the total borrowings of HK\$5,340 million.

Contingent Liabilities

As at 31 December 2002, there were contingent liabilities in respect of guarantees given to bankers by the Group and the Company to secure banking facilities to the extent of HK\$328 million (30 June 2002: HK\$324 million) and HK\$165 million (30 June 2002: HK\$165 million) respectively granted to group companies and certain investee companies of the Group.

Capital and Finance

The Group's consolidated shareholders' funds as at 31 December 2002, after reflecting the current period retained profits and adjusting for the major items set out below, amounted to HK\$28,219 million.

The major adjustments are as follows:

- issue of new shares under the Share Option Scheme of HK\$64 million; and
- exchange adjustments of HK\$41 million.

HUMAN RESOURCES AND TRAINING

The Group, including its subsidiaries in Hong Kong and overseas, employed approximately 410 employees as at 31 December 2002. The Group continued to follow a measured approach towards achieving an optimal and efficient size of its workforce and is committed to provide its staff with ongoing development programmes.

The remuneration policy for the Group's employees is reviewed by management on a regular basis. Remuneration packages are structured to take into account the level and composition of pay and general market conditions in the respective countries and businesses in which the Group operates. Bonus and other merit payments are linked to the financial performance of the Group and individual performance as incentives to optimise performance. Share options may also be granted in accordance with the approved share option scheme adopted by the Company to eligible employees to reward their contribution and foster loyalty towards the Group.

The Company has obtained the shareholders' approval on 16 December 2002 for the adoption of a Share Option Plan. As distinguished from the Share Option Scheme adopted by the Company on 29 November 2001, this Share Option Plan only allows the grant of options over existing issued shares thus eliminating the dilution effect on the shareholders' interests and the Company's capital base and future returns as well as the uncertainty of the timing of dilution.

OUTLOOK

The uncertainties clouding the global economies, exacerbated by the Middle East and other geo-political tensions, make forecasting particularly difficult. Confronted with the challenging economic conditions worldwide, our prudent business approach will enable the Company to take advantage of investment opportunities as and when they arise.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

During the period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares.

COMPLIANCE WITH CODE OF BEST PRACTICE

None of the Directors of the Company is aware of information which would reasonably indicate that the Company was not in compliance with the Code of Best Practice, as adopted by the Company, at any time during the six months ended 31 December 2002. The provisions in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited are in principle incorporated in the Code of Best Practice adopted by the Company, except that the independent non-executive directors are not appointed for a specific term but their terms of office are subject to retirement by rotation and re-election at the annual general meetings in accordance with the Company's Bye-laws.

STATUTORY ACCOUNTS

The information in this interim results is unaudited and does not constitute statutory accounts.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 8 April 2003 to 11 April 2003, both days inclusive, during which period no transfer of shares can be effected.

In order to qualify for the above dividend, all share transfers accompanied by the requisite share certificates must be lodged with the Company's Branch Share Registrars in Hong Kong, Computershare Investor Services Hong Kong Limited, at 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:00 p.m. on 7 April 2003.

PUBLICATION OF DETAILED INTERIM RESULTS ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

All the financial and other related information for the Company required by paragraph 46(1) to 46(6) of Appendix 16 of the Listing Rules will be published on the Stock Exchange's website in due course. This announcement can also be accessed on the Company's website: <http://www.guoco.com>.

By order of the Board
Stella Lo Sze Man
Company Secretary

Hong Kong, 21 March 2003