NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

1. Basis of preparation

This interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports", issued by the Hong Kong Society of Accountants ("HKSA"), except that they have not reviewed the comparative information relating to the six months ended 30th June, 2000. KPMG's independent review report to the board of directors is included on page 16.

The interim financial report has been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Ltd, including compliance with Statement of Standard Accounting Practice 25 "Interim financial reporting" issued by the HKSA except that comparative figures for the cash flow statement have not been prepared as the Group has taken advantage of the transitional provisions set out in the Main Board Listing Rules.

The financial information relating to the financial year ended 31st December, 2000 included in the interim financial report does not constitute the Group's statutory accounts for that financial year but is derived from those accounts. Statutory accounts for the year ended 31st December, 2000 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those accounts in their report dated 25th May, 2001.

The same accounting policies adopted in the 2000 annual accounts have been applied to the interim financial report, except that the Group has adopted the following new Statements of Standard Accounting Practice ("SSAPs") which became effective for the current accounting period.

(a) SSAP 26 "Segment reporting"

In note 3 to this interim financial report, the Group has disclosed segment revenue and results as defined under SSAP 26. The Group has determined that geographical segments will be presented as the primary reporting format and by business segments as the secondary reporting format. Comparative information has been given.

Segment revenue, expense and results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment and are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process.

(b) *SSAP 30 "Business combinations"*

Previously goodwill arising on the acquisition of subsidiaries and associates was directly written off to retained profits/accumulated losses in the year of acquisition. In accordance with SSAP 30, goodwill arising from acquisitions is capitalised and is amortised to the profit and loss account on a straight-line basis over its estimated useful life not exceeding 20 years. Any impairment of the goodwill will be recognised as an expense in the profit and loss account immediately.

The Group has taken advantage of the transitional provisions of SSAP 30 by not restating goodwill/capital reserve previously included in reserves. The Directors consider that goodwill previously charged to retained profits had been fully impaired prior to 1st January, 2000. Accordingly, this change in accounting policy does not have any impact on the Group's loss for the current or prior period and net assets at the current or prior period end.

2. Going concern basis

On 1st December, 2000, the Company requested its bankers for an informal standstill arrangement on the payment of all Hong Kong bank loan principal and interest totalling approximately $1.9 billion, pending the approval by the Group's bankers of a formal debt restructuring plan. The Company has also requested a similar standstill arrangement with the holders of the floating rate notes ("the FRNs") with outstanding principal balance of US$37 million issued by Hong Kong Construction (Capital) Ltd, a wholly-owned subsidiary of the Company. The FRNs were due for repayment on 11th December, 2000. In accordance with the terms of the issue of the FRNs and the bank facility agreements, the Group was in default of the notes and all its bank borrowings.

On 11th June, 2001, the Group entered into a standstill letter with its bank creditors to formalise the informal standstill arrangement which represents the initial phase of the restructuring proposal for the Group. Subject to the conditions set out in the standstill letter having been satisfied or otherwise complied with by the Group, the terms of the standstill letter will become effective. The conditions required to be satisfied by the Group include the execution and delivery of a debenture granting fixed and floating charges over its assets. The formal standstill arrangement, once effective, will remain in place until 15th January, 2002 and thereafter automatically renewed on a monthly basis subject to the agreement by all the bank creditors. The holders of the FRNs had agreed to standstill the payment obligations of the Group according to the terms of the standstill letter.

On 13th June, 2001, the Company entered into:

(a) a share subscription agreement with Shanghai Construction (Group) General Co ("SCG") under which SCG has conditionally agreed to subscribe for 35,000,000 new ordinary shares of the Company at the price of $1.12 per share; and

(b) a share placing and underwriting agreement with BNP Paribas Peregrine Securities Ltd ("BNP") under which BNP has conditionally agreed to place 65,000,000 new ordinary shares of the Company with independent placees at the price of $1.12 per share on a fully underwritten basis.

The 100,000,000 new ordinary shares were allotted in July 2001 which resulted in additional net proceeds of approximately $108 million available to the Group.

Furthermore, agreement has been finalised to dispose of the Yangpu power plant for a consideration of $1,000 million and deposits totalling approximately $555 million have been received in respect of the disposal of the Yangpu power plant. The Directors are confident that the balance of the sale proceeds of approximately $445 million will be received in due course resulting in substantial external funding to the Group.

The Directors continue to be in active negotiations with the Group's bank creditors to agree the terms of the financial restructuring and a plan to gradually dispose of certain of its property interests. The Directors believe that the ongoing support from its bankers will continue and the balance of the proceeds in respect of the disposal of Yangpu power plant will be received in full. The Directors are confident that the funds generated from the disposal of Yangpu power plant together with the other measures to be taken under the debt restructuring plan will enable the Group to continue in operational existence for the foreseeable future.

Accordingly, the Directors are satisfied that it is appropriate to prepare the interim financial report on a going concern basis, notwithstanding the Group's financial position as at 30th June, 2001. Should the Group be unable to continue in business as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effect of these adjustments have not been reflected in the interim financial report.

3. Segmental reporting

An analysis of the Group's revenue and results for the period by the location of customers is as follows:

	Hong Kong *$ Million*	**The People's Republic of China** *$ Million*	**Consolidated** *$ Million*
Six months ended 30th June, 2001 –			
Revenue from external customers	**770.6**	**46.2**	**816.8**
Other revenue	**8.4**	**4.7**	**13.1**
Total revenue	**779.0**	**50.9**	**829.9**
Segment loss	**(117.8)**	**(8.7)**	**(126.5)**

	Hong Kong	The People's Republic of China	Consolidated
	$ Million	*$ Million*	*$ Million*
Six months ended 30th June, 2000 –			
Revenue from external customers	901.6	141.2	1,042.8
Other revenue	5.2	100.4	105.6
Total revenue	906.8	241.6	1,148.4
Segment profit	20.7	119.1	139.8

An analysis of the Group's revenue for the period by business segments is as follows:

	Construction	**Property leasing**	**Property sales**	**Unallocated**	**Consolidated**
	$ Million	*$ Million*	*$ Million*	*$ Million*	*$ Million*
Six months ended 30th June, 2001 –					
Revenue from external customers	**807.7**	**9.1**	**–**	**–**	**816.8**
Other revenue	**–**	**1.6**	**–**	**11.5**	**13.1**
Total revenue	**807.7**	**10.7**	**–**	**11.5**	**829.9**
Segment profit/(loss)	**(93.3)**	**8.3**	**–**	**(41.5)**	**(126.5)**

	Construction	Property leasing	Property sales	Unallocated	Consolidated
	$ Million	*$ Million*	*$ Million*	*$ Million*	*$ Million*
Six months ended 30th June, 2000 –					
Revenue from external customers	1,031.0	9.6	2.2	–	1,042.8
Other revenue	–	7.9	–	97.7	105.6
Total revenue	1,031.0	17.5	2.2	97.7	1,148.4
Segment profit	61.4	15.3	0.1	63.0	139.8

4. Other revenue

	Six months ended 30th June, 2001 $ Million	2000 $ Million
Dividend income from unlisted securities	**–**	0.1
Interest income	**7.5**	96.3
Property fee income	**1.6**	7.9
Other income	**4.0**	1.3
	13.1	105.6

5. Loss from ordinary activities before taxation

Loss from ordinary activities before taxation is arrived at after charging/(crediting):

	Six months ended 30th June, 2001 $ Million	2000 $ Million
(a) Other net (income)/loss		
Net realised and unrealised gains on trading securities carried at fair value	**(0.1)**	(0.5)
Exchange gain	**(30.5)**	(6.5)
Loss on disposal of a subsidiary	**16.6**	–
Others	**(0.5)**	–
	(14.5)	(7.0)

	Six months ended 30th June, 2001 $ Million	2000 $ Million
(b) Finance cost		
Interest on bank advance and other borrowings repayable within five years	**108.4**	141.0
Amortisation of floating rate notes expenses	**–**	0.7
	108.4	141.7

	Six months ended 30th June, 2001 $ Million	2000 $ Million
(c) Other items		
Depreciation	**1.2**	1.5

6. Taxation

	Six months ended 30th June, 2001	2000
	$ Million	$ Million
PRC taxation	**0.1**	6.3
Share of associates' taxation	**1.1**	0.1
	1.2	6.4

No provision has been made for Hong Kong profits tax as the Company and its subsidiaries in Hong Kong sustained losses for taxation purposes during the period. PRC taxation is calculated at rates of tax applicable in cities in which the Group is assessed for tax.

7. Loss per share

(a) *Basic loss per share*

The calculation of basic loss per share is based on loss attributable to shareholders of $290.4 million (2000: $72.9 million) and on 507.9 million (2000: 507.9 million) ordinary shares in issue during the period.

(b) *Diluted loss per share*

There were no dilutive potential ordinary shares in existence during the six months ended 30th June, 2001 and 2000.

8. Fixed assets

Investment properties were not revalued at 30th June, 2001 as the Directors considered that the value of investment properties did not differ significantly between 31st December, 2000 and 30th June, 2001.

9. Interest in associates

	At 30th June, 2001	At 31st December, 2000
	$ Million	$ Million
Share of net assets	**205.9**	82.0
Amounts due from associates, less provision	**1,958.3**	2,267.8
Loans to associates	**528.0**	530.3
	2,692.2	2,880.1
Amounts due to associates	**(81.3)**	(37.9)
	2,610.9	2,842.2

The balances with associates are unsecured and not expected to be settled within one year.

The balances of amounts due from associates include $48.3 million (at 31st December, 2000: $486.1 million) which are interest-bearing.

10. Interest in jointly controlled entities

	At 30th June, 2001 *$ Million*	At 31st December, 2000 *$ Million*
Share of net assets/(deficits)	**0.3**	(9.2)
Amounts due from jointly controlled entities	**295.9**	277.0
	296.2	267.8
Amounts due to jointly controlled entities	**(56.8)**	(92.9)
	239.4	174.9

The balances with jointly controlled entities are unsecured and not expected to be settled within one year.

The balances of amounts due from jointly controlled entities include $159.6 million (at 31st December, 2000: $162.5 million) which are interest-bearing.

11. Trade and other receivables

	At 30th June, 2001 *$ Million*	At 31st December, 2000 *$ Million*
Gross amount due from customers for contract work	**177.8**	139.8
Amounts due from associates	**95.0**	671.6
Debtors, deposits and prepayments	**1,107.2**	955.4
	1,380.0	1,766.8

Included in trade and other receivables are trade debtors (net of specific provisions for bad and doubtful debts) with the following ageing analysis:

	At 30th June, 2001 *$ Million*	At 31st December, 2000 *$ Million*
0-2 months	**229.0**	180.0
2-6 months	**5.8**	51.7
6-12 months	**56.9**	109.6
More than 12 months	**134.7**	134.9
	426.4	476.2
Retention monies receivable due within one year	**88.5**	132.3
	514.9	608.5

The Group's credit terms for contracting business are negotiated with and entered into under normal commercial terms with its trade customers. Interim application for progress payments in construction contracts are normally on a monthly basis and settled within one month with retention monies withheld but released on the issuance of relevant certificates.

12. Trade and other payables

	At 30th June, 2001 *$ Million*	At 31st December, 2000 *$ Million*
Amount due to a jointly controlled entity	**165.4**	54.8
Creditors and accrued expenses	**999.4**	1,129.4
Gross amount due to customers for contract work	**139.6**	150.4
Other loans *(note 15)*	**41.5**	151.6
	1,345.9	1,486.2

Included in trade and other payables are trade creditors with the following ageing analysis:

	At 30th June, 2001 *$ Million*	At 31st December, 2000 *$ Million*
0-2 months	**199.3**	242.0
2-6 months	**45.5**	98.3
6-12 months	**24.2**	11.9
More than 12 months	**11.5**	10.9
	280.5	363.1
Retention monies payable due within one year	**92.2**	165.8
	372.7	528.9

13. Share capital

	No. of share	***$Million***
Issued and fully paid:		
At 1st January and 30th June, 2001	507,853,996	507.9

Pursuant to the share option scheme, the Directors may, at their discretion, invite employees of the Group, including Directors of any members of the Group, to take up options at a consideration of $1 for the grant to subscribe for shares at a price of not less than 80 percent of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of grant or the nominal value of a share, whichever is higher.

At 30th June, 2001, the outstanding options were:

Date option granted	Period during which options exercisable	Exercise price	Number of options outstanding at the period end
20th May, 1998	20th November, 1998 to 19th May, 2005	$3.48	20,520,000
18th June, 1998	18th December, 1998 to 18th June, 2005	$2.29	4,950,000
28th September, 1998	28th March, 1999 to 28th September, 2005	$1.48	6,000,000

14. Reserves

					Revaluation reserves			
	Share premium	Capital redemption reserve	Capital reserve	Exchange reserve	Investment properties	Investment in non-trading securities	Accumulated losses	Total
	$Million	*$Million*	*$Million*	*$Million*	*$Million*	*$Million*	*$Million*	*$Million*
At 1st January, 2001	1,361.4	14.6	475.7	(13.0)	11.9	(16.6)	(247.0)	1,587.0
Revaluation deficit for the period	–	–	–	–	–	(0.8)	–	(0.8)
Realisation on disposal of a subsidiary	–	–	–	(2.4)	19.1	–	–	16.7
Loss for the period	–	–	–	–	–	–	(290.4)	(290.4)
At 30th June, 2001	1,361.4	14.6	475.7	(15.4)	31.0	(17.4)	(537.4)	1,312.5

15. Interest-bearing borrowings

At 30th June, 2001, the interest-bearing borrowings were secured as follows:

	At 30th June, 2001 *$ Million*	At 31st December, 2000 *$ Million*
Unsecured bank overdraft	**26.2**	23.6
Bank loans		
– secured	**540.8**	1,091.2
– unsecured	**1,479.2**	1,137.8
	2,046.2	2,252.6
Other loans *(note 12)*		
– secured	**–**	84.9
– unsecured	**41.5**	66.7
	41.5	151.6
Floating rate notes *(note 16)*		
– unsecured	**288.6**	288.6

Included in the balance of other loans is a loan from a related party, China Everbright Holdings Co Ltd, amounting to $6.4 million (at 31st December, 2000: $30.0 million). The loan is unsecured, interest bearing at Hong Kong Interbank Offer Rate plus 2% per annum and repayable on demand.

16. Floating rate notes

On 11th December, 1997, a wholly-owned subsidiary issued floating rate notes which are denominated in United States dollars and guaranteed by the Company, with principal amount of US$65 million. Floating rate notes totalling US$28 million were redeemed at par by the Group in 1998. The notes bear interest at the rate of 0.875% per annum above the London Interbank Offered Rate for six month US dollars deposits payable semi-annually and should have been redeemed at par on 11th December, 2000.

17. Contingent liabilities

(a) Contingent liabilities at the period end date in respect of guarantees given to banks and other lenders to secure loans and advances to the indicated parties are as follows:

	At 30th June, 2001 *$ Million*	At 31st December, 2000 *$ Million*
Associates	**118.9**	140.0
Others	**50.0**	50.0
	168.9	190.0

(b) The Group has contingent liabilities in respect of performance bonds and guarantees under contracts and other agreements entered into in the normal course of business.

(c) The Group has contingent liabilities in respect of banking facilities granted to certain buyers of properties of the Group and its associates.

18. Material related party transactions

(a) During the period, the Group has several construction contracts with companies related to the China Everbright International Group, for the provision of consulting and engineering services on a combination of cost plus basis and fixed price basis. Progress payments received and receivable from these related companies amounted to $9.9 million during the period ended 30th June, 2001 (6 months to 30th June, 2000: $132.8 million).

The amount due from these related companies at the period end amounted to $284.4 million (at 31st December, 2000: $198.2 million).

(b) At 30th June, 2001, included in other loans under trade and other payables is an amount advanced from a related party, China Everbright Holdings Co Ltd, amounting to $6.4 million (at 31st December, 2000: $30 million) *(see note 15)*.

(c) In addition, the Group has balances with its associates and jointly controlled entities as disclosed under notes 9 and 10.

19. Post balance sheet event

Subsequent to the period end, the Company's single largest shareholder has been changed from China Everbright International Ltd to Shanghai Construction (Group) General Co, a company established in the People's Republic of China. In addition, in July 2001, the Company issued 100,000,000 ordinary shares of $1 each at an issued price of $1.12 per share *(note 2)*.

20. Approval of interim financial report

The interim financial report was approved by the board on 24th September, 2001.