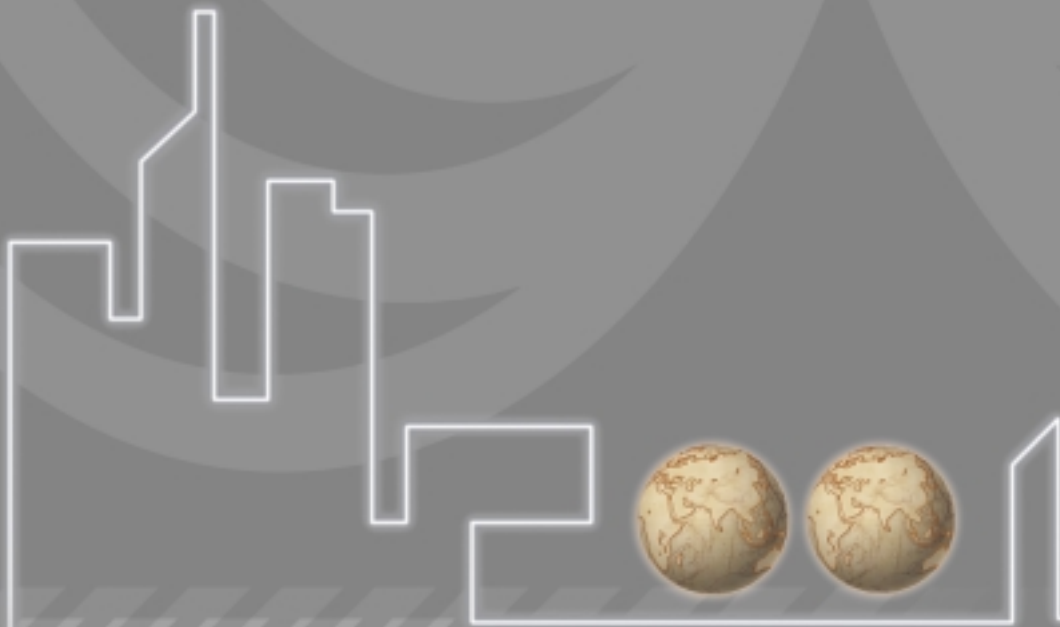




Hong Kong Fortune Limited

(Incorporated in the Cayman Islands with limited liability)



Interim Report

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UNAUDITED FINANCIAL STATEMENTS

The Board of Directors (the "Directors") of Hong Kong Fortune Limited (the "Company") announces the unaudited condensed consolidated profit and loss account, condensed consolidated statement of recognised gains and losses and condensed consolidated cash flow statement of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2001 (the "Period") and the condensed consolidated balance sheet of the Group as at 30 June 2001, and the comparative figures in 2000, as follows:

Condensed Consolidated Profit and Loss Account

	Notes	Six months ended 30 June	
		2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000
TURNOVER	2	4,525	3,287
Other revenue		1,902	120
Administrative expenses		(12,500)	(5,408)
Other operating expenses		(1,811)	(580)
LOSS FROM OPERATING ACTIVITIES		(7,884)	(2,581)
Finance costs		(12,102)	(17,684)
Share of losses of:			
Jointly controlled entities		(12,454)	(20,155)
Associates		(3,955)	(184)
LOSS BEFORE TAX		(36,395)	(40,604)
Taxation	4	(313)	(280)
LOSS BEFORE MINORITY INTERESTS		(36,708)	(40,884)
Minority interests		3,870	4,993
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		(32,838)	(35,891)
Accumulated losses at beginning of the Period		(617,367)	(572,390)
ACCUMULATED LOSSES AT END OF THE PERIOD		(650,205)	(608,281)
LOSS PER SHARE – HK cent:	6		
Basic		(0.55)	(0.60)
Diluted		N/A	N/A

Condensed Consolidated Statement of Recognised Gains and Losses

	Six months ended 30 June	
	2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000
Exchange differences on translation of the financial statements of foreign entities	<u>3,691</u>	<u>855</u>
Net gains not recognised in the profit and loss account	3,691	855
Net loss from ordinary activities attributable to shareholders	<u>(32,838)</u>	<u>(35,891)</u>
Total recognised losses	<u><u>(29,147)</u></u>	<u><u>(35,036)</u></u>

Condensed Consolidated Balance Sheet

	30 June 2001 (Unaudited) HK\$'000	31 December 2000 (Audited) HK\$'000
NON-CURRENT ASSETS		
Fixed assets	4,145	4,797
Investment properties	80,000	80,000
Properties under development	191,110	191,110
Interests in jointly controlled entities	619,533	681,841
Interests in associates	40,175	31,041
	<u>934,963</u>	<u>988,789</u>
CURRENT ASSETS		
Other debtors, prepayments and deposits	7,817	4,899
Amounts due from related companies	305	294
Cash and cash equivalents	56,828	109,155
	<u>64,950</u>	<u>114,348</u>
CURRENT LIABILITIES		
Tax payable	329	329
Other creditors and accrued expenses	27,204	10,933
Amounts due to related companies	39,500	38,892
Amounts due to the ultimate holding company	362	421
Interest-bearing bank and other borrowings	93,600	93,600
	<u>160,995</u>	<u>144,175</u>
NET CURRENT LIABILITIES	<u>(96,045)</u>	<u>(29,827)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	838,918	958,962

Condensed Consolidated Balance Sheet (Continued)

	30 June 2001 (Unaudited) HK\$'000	31 December 2000 (Audited) HK\$'000
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	(99,319)	(187,986)
Loans from related companies	(16,074)	(15,431)
Deferred income	(55,886)	(55,886)
	<u>(171,279)</u>	<u>(259,303)</u>
Minority interests	<u>(144,375)</u>	<u>(147,248)</u>
	<u>523,264</u>	<u>552,411</u>
CAPITAL AND RESERVES		
Issued capital	119,932	119,932
Reserves	1,053,537	1,049,846
Accumulated losses	(650,205)	(617,367)
	<u>523,264</u>	<u>552,411</u>

Condensed Consolidated Cash Flow Statement

	Six months ended 30 June	
	2001	2000
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	6,331	(4,808)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		
Interest received	1,136	1,451
Interest paid	<u>(13,183)</u>	<u>(1,629)</u>
Net cash outflow from returns on investments and servicing of finance	<u>(12,047)</u>	<u>(178)</u>
TAX		
Overseas tax paid	<u>—</u>	<u>(94)</u>
INVESTING ACTIVITIES		
Purchases of fixed assets	(249)	(8)
Proceeds from disposal of fixed assets	—	84
Repayment from jointly controlled entities	55,844	—
Advances to associates	(15,818)	—
Decrease in time deposits	<u>13,913</u>	<u>—</u>
Net cash inflow from investing activities	<u>53,690</u>	<u>76</u>
NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING ACTIVITIES	47,974	(5,004)

Condensed Consolidated Cash Flow Statement (Continued)

	Six months ended 30 June	
	2001	2000
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
FINANCING ACTIVITIES		
Issue of share capital	—	87,523
Share issue expenses	—	(660)
Repayment of other loans	(86,373)	—
Repayment of interest-bearing bank and other borrowings	—	(7,771)
Repayment of loans from related companies	—	(60,008)
Advances from / (Repayment to) a minority shareholder	(15)	119
	<u>(86,388)</u>	<u>19,203</u>
Net cash inflow/(outflow) from financing activities		
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		
	(38,414)	14,199
Cash and cash equivalents at beginning of the Period	95,242	456
	<u>56,828</u>	<u>14,655</u>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		
	40,208	1,741
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	40,208	1,741
Time deposits with original maturity of less than three months when acquired	16,620	12,914
	<u>56,828</u>	<u>14,655</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Accounting Policies

The condensed consolidated financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties. The condensed consolidated financial statements have also been prepared in accordance with Statement of Standard Accounting Practice (“SSAP”) 25 “Interim Financial Reporting” issued by Hong Kong Society of Accountants and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). The accounting policies adopted are consistent with those followed in the Group’s annual financial statements for the year ended 31 December 2000. The interim financial statements should be read in conjunction with the 2000 annual financial statements.

In addition, the Group has chosen to adopt SSAP 26 “Segment Reporting” for the first time in this interim reporting period. In previous years, segment disclosures have been presented in accordance with the requirements of the Listing Rules.

2. Turnover and Segmental Information

Turnover represents interest income and rental income, net of business and real estate taxes, received and receivable from investment properties situated in the People’s Republic of China (the “PRC”) during the Period.

An analysis of the Group’s turnover and contribution to loss from operating activities by principal activity and geographical area of operations for the period ended 30 June 2001 is as follows:

	Group Turnover		Group Contribution to loss from operating activities	
	Six months ended 30 June		Six months ended 30 June	
	2001	2000	2001	2000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$’000	HK\$’000	HK\$’000	HK\$’000
By activity:				
Investment holding	3,421	2,637	(8,685)	(3,003)
Property investment	1,104	650	801	422
	<u>4,525</u>	<u>3,287</u>	<u>(7,884)</u>	<u>(2,581)</u>
By geographical area:				
Hong Kong	1,148	517	(7,829)	(3,597)
PRC	3,218	2,770	1,630	1,016
Thailand	159	—	(1,685)	—
	<u>4,525</u>	<u>3,287</u>	<u>(7,884)</u>	<u>(2,581)</u>

3. Depreciation and Amortisation

During the Period, depreciation of HK\$901,000 (2000: HK\$26,000) was charged in respect of the Group's property and equipment and amortisation of HK\$1.8 million (2000: Nil) was charged in respect of the Group's intangible assets.

4. Taxation

	Group	
	Six months ended 30 June	
	2001 (Unaudited) <i>HK\$'000</i>	2000 (Unaudited) <i>HK\$'000</i>
Group:		
Provision for the Period:		
Elsewhere	—	93
Share of associates' tax:		
Provision for the Period	<u>313</u>	<u>187</u>
Tax charge for the Period	<u><u>313</u></u>	<u><u>280</u></u>

No provision for Hong Kong profits tax has been made as the Group has no assessable profit which was earned in or derived from Hong Kong during the Period. Taxes on the profits assessable elsewhere have been calculated at the rates of tax prevailing in the areas in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

5. Dividend

The Directors do not recommend the payment of an interim dividend in respect of the Period (2000: Nil).

6. Loss per Share

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the Period of HK\$32,838,000 (2000: HK\$35,891,000) and the weighted average of 5,996,614,408 (2000: 5,996,614,408, after adjusting for the subdivision of one ordinary share of HK\$0.10 each into five ordinary shares of HK\$0.02 each in year 2000) shares of the Company in issue during the Period.

The diluted loss per share for the periods ended 30 June 2001 and 2000 have not been shown as the warrants and share options outstanding, respectively, had an anti-dilutive effect on the basic loss per share.

7. Transfer To/From the Reserve

There was no transfer to/from reserve of the Company in either the current or the prior interim reporting period.

8. Trade Debtors and Creditors

No credit period was given to trade debtors. As at 30 June 2001 and 2000, the Group had no outstanding balances with trade debtors and creditors.

9. Commitments

(a) Capital Commitment

At the balance sheet date, the Group's share of capital commitments of the jointly controlled entities was as follows:

	Group	
	30 June 2001 (Unaudited) HK\$'000	31 December 2000 (Audited) HK\$'000
Authorised and contracted for:		
Acquisition of land use rights	33,446	33,002
Preliminary development costs	11,400	11,248
	<u>44,846</u>	<u>44,250</u>

At the balance sheet date, the Company did not have any material capital commitments.

(b) Commitments under operating leases

At the balance sheet date, the Group and the Company had commitments under non-cancellable operating leases payable in the following years as follows:

	Group and Company	
	30 June 2001 (Unaudited) HK\$'000	31 December 2000 (Audited) HK\$'000
Land and buildings expiring:		
Within one year	33	112
In the second to fifth years, inclusive	2,264	2,264
	<u>2,297</u>	<u>2,376</u>

BUSINESS REVIEW

The 2001 unaudited interim net loss of the Group amounted to HK\$32.84 million, representing a 8.5% decrease compared with that of 2000. The reason for the reduction of the net loss was mainly due to improved performance by the jointly controlled entities.

Shanghai Fortune World Development Co. Ltd.

Shanghai Fortune World (35% attributable interest)

As at 30 June 2001, a total of gross floor area ("g.f.a.") of approximately 630,000 square metre ("sq. m.") of the Shanghai Fortune World project has been sold. A total g.f.a. of approximately 300,000 sq. m. still remains within Shanghai Fortune World project. The Group is currently studying a number of plans to develop the land within the Shanghai Fortune World project. Negotiation with several potential developers was also in progress.

Shanghai Fortune Garden (35% attributable interest)

As at 30 June 2001, a total of 430 units in the complex were sold and a total of 80 units had been leased. The Group is focusing on selling the remaining 166 units that are currently vacant, as well as the 80 units that are currently leased.

Shenzhen SDG Golf Club Company Limited (24.5% attributable interest)

During the Period, 12 memberships were sold internally, bringing the Club's total membership to 1,668 members. Phase 14 membership sales is planned to open up for public enrollment in the second half of the year.

A large scale of Club House and Guest Room renovation is planned. The renovation is expected to commence during the second half of the year in order to provide better facilities and services to the members.

Freewill Solutions Co., Ltd. (formerly known as "Kernel Computers and Communications Co., Ltd.") (49% attributable interest)

Subsequent to the interim reporting date, Chia Tai Freewill Investment Company Limited, a wholly-owned subsidiary of the Company entered into a Shareholders' Agreement on 9 July 2001 with Asia Freewill Company Limited and the Principal Vendors pursuant to which the three parties have conditionally agreed to increase the share capital of Freewill Solutions Co., Ltd. ("Freewill"), an associate of the Company, to subscribe for Freewill's new ordinary shares in proportion to their respective shareholding in Freewill. The transaction has been approved by the independent shareholders at the Extraordinary General Meeting of the Company held on 20 August 2001 .

**Freewill Solutions Co., Ltd. (formerly known as “Kernel Computers and Communications Co., Ltd.”)
(49% attributable interest) (Continued)**

During the Period, E-Procurement Alliance Company Limited (“E-Procurement”) has been formed. E-Procurement offers e-commerce enabling platforms in Business Commerce Suite (B2B) and its new name, Pantavanij Company Limited (“Pantavanij”) was bestowed by His Majesty King of Thailand Phumibol Adulyadej in April 2001 and officially changed on 11 May 2001. Pantavanij has grown steadily to incorporate more members and expects to sign on more buyers from Thailand’s top 100 to 400 ranked corporations. Pantavanij has commenced its e-procurement business to its members since 18 June 2001 and is targeting to adopt over 400 suppliers by the end of year 2001.

The Directors are not aware of any other material changes from the information published in the report and accounts for the year ended 31 December 2000.

LIQUIDITY AND FINANCIAL RESOURCES

The Group’s financial conditions remain healthy. During the Period, the long-term loans of the Group decreased by approximately HK\$88.02 million to HK\$115.39 million as at 30 June 2001, which were settled by the Group’s cash and cash equivalents. Hence, as of 30 June 2001, its cash and cash equivalents amounted to approximately HK\$56.83 million, representing a 47.94% decrease compared with the balance as at 31 December 2000.

As a result, the gearing ratio of the Group had fallen from 0.57 to 0.43 (gearing ratio was calculated by dividing interest-bearing bank loans and other borrowings by shareholders’ equity) and the current ratio of the Group had dropped from 0.79 to 0.40 respectively.

CAPITAL STRUCTURE

There had been no material change in capital structure of the Group from the information disclosed in the most recent published annual report except for the repayment of long term debts by the Company.

As at 30 June 2001, the Group had bank and other borrowings denominated in US dollars amounting to US\$29.13 million. Of this, approximately US\$17.13 million are fixed-interest loans from a third party and related companies and of a US\$12 million are interest-bearing bank loans.

FOREIGN CURRENCY EXPOSURE

As at 30 June 2001, the Group had approximately RMB42.13 million (HK\$39.60 million) and US\$2.18 million (HK\$16.97 million) in cash. The Group also had US dollar denominated receivables amounting to US\$22.92 million (HK\$178.78 million) due from its jointly controlled entities, related companies, associates and a debtor, and US dollar denominated loans of US\$20.05 million (HK\$156.39 million). It also had Thai Baht denominated loan receivables amounting to Thai Baht 1 million (HK\$178,350) due from an associate company.

The fluctuation in the exchange rates between Hong Kong dollars and RMB, and Hong Kong dollars and US dollars, respectively, has in recent years been relatively small. The Group believes it faces minimal foreign currency risk and thus has not undertaken any hedging activities.

EMPLOYEES AND REMUNERATION POLICY

Including the Directors, the Group had 23 employees as at 30 June 2001. The Group remunerates its employees based on their performance, experience and prevailing market rate. Other employee benefits include insurance and medical cover, subsidized educational and training programmes as well as a share option scheme.

STRATEGIC OUTLOOK

Property investment and development will continue to be the core businesses of the Group. The Group will continue to focus on growing its existing businesses. The Directors are currently examining a number of options for developing the Group's prime real estate in Shanghai.

At the same time, the Directors are currently exploring a number of unprecedented opportunities in potentially lucrative retail, wholesale and logistics industries in China. It will place the Group in a strong position to capitalize on the robust economic growth in China, particularly after its accession to the World Trade Organization.

Through focusing on its business strategies, the Directors are optimistic about the Group's performance in coming future.

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

At no time during the Period was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the Directors of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2001, the register of substantial shareholders maintained by the Company pursuant to Section 16(l) of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") disclosed the following company as having an interest of 10% or more of the issued share capital of the Company:

Name	Number of ordinary shares held
Ramon Limited	3,648,831,237

Mr. Dhanin Chearavanont has a 50.86% interest in Ramon Limited. Save as disclosed above, no person had registered an interest in the shares of the Company that was required to be recorded under Section 16 (1) of the SDI Ordinance.

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

During the six months ended 30 June 2001, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The Audit Committee comprises of two Independent Non-Executive Directors of the Company. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the unaudited interim financial statements.

CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the Period.

By Order of the Board
Tse Ping
Vice Chairman

Hong Kong, 24 September 2001