

Interim Report 2002



天安中國投資有限公司

TIAN AN CHINA INVESTMENTS COMPANY LIMITED

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

David Hui Yip Wing,
Managing Director
Patrick Lee Seng Wei
Edwin Lo King Yau

Non-Executive Directors

Wu Gan
Zhang Dong

Independent Non-Executive Directors

Moses Cheng Mo Chi
Lisa Yang Lai Sum

AUDIT COMMITTEE

Moses Cheng Mo Chi, *Chairman*
Lisa Yang Lai Sum

REGISTERED OFFICE

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PRINCIPAL BANKERS

In Hong Kong

Bank of China (Hong Kong)
Limited
The Bank of East Asia, Limited
The Hongkong Chinese Bank,
Limited
The Hongkong and Shanghai
Banking Corporation Limited
Standard Chartered Bank

In the PRC

Agricultural Bank of China
Bank of China
Bank of Communications
China Construction Bank
China Merchants Bank
Industrial and Commercial Bank of
China
Shenzhen Development Bank
Co., Ltd.

SOLICITORS

Kwok & Yih
in association with Anderson Legal
P.C. Woo & Co.

AUDITORS

Deloitte Touche Tohmatsu

COMPANY SECRETARY

Ko Sing Ming

REGISTRAR

Secretaries Limited
5/F, Wing On Centre
111 Connaught Road Central
Hong Kong

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2002

		(Unaudited)	
		Six months ended 30 June	
		2002	2001
Notes		<i>HK\$'000</i>	<i>HK\$'000</i>
	(3)	468,231	156,828
Turnover			
Cost of sales		<u>(306,510)</u>	<u>(133,262)</u>
Gross profit		161,721	23,566
Net unrealised gain on trading securities		3,459	6,957
Other operating income	(4)	18,537	5,702
Marketing and distribution costs		(12,813)	(6,108)
Administration expenses		(54,318)	(42,766)
Other operating expenses		(3,048)	(3,277)
Share of results of jointly controlled entities		<u>9,373</u>	<u>89,074</u>
Profit from operations	(5)	122,911	73,148
Net realised gain on disposal of certain interest in a subsidiary		–	16,253
Finance costs	(6)	(39,164)	(18,950)
Share of results of associates		<u>2,450</u>	<u>4,047</u>
Profit before taxation		86,197	74,498
Taxation	(7)	<u>(27,000)</u>	<u>(16,237)</u>
Profit before minority interests		59,197	58,261
Minority interests		<u>(31,122)</u>	<u>(145)</u>
Net profit for the period, retained		<u>28,075</u>	<u>58,116</u>
		<i>HK cents</i>	<i>HK cents</i>
Earnings per share	(8)		
Basic		<u>0.3</u>	<u>0.7</u>
Diluted		<u>N/A</u>	<u>N/A</u>

CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2002

		(Unaudited) 30 June 2002	(Audited) 31 December 2001
	Notes	HK\$'000	HK\$'000
Non-Current Assets			
Property, plant and equipment	(9)	314,114	22,307
Investment properties		170,723	172,119
Properties for development		1,830,362	1,883,925
Interests in associates		820,464	819,121
Interests in jointly controlled entities		749,137	956,568
Investments in securities		8,709	8,673
Loan receivable		–	38,074
Amounts due from minority shareholders		3,389	3,861
Goodwill on consolidation		47,362	55,085
Instalments receivable		120,105	120,092
		4,064,365	4,079,825
Current Assets			
Inventories of properties in the PRC			
– under development		2,114,456	1,944,342
– completed		200,150	172,163
Other inventories		34,986	3,866
Loan receivable		38,631	–
Amount due from a jointly controlled entity		–	30,641
Instalments receivable		11,459	14,949
Trade and other receivables, deposits and prepayments	(10)	586,157	208,426
Investments in securities		37,489	33,784
Pledged deposits		71,563	36,965
Bank balances and cash		514,185	337,027
		3,609,076	2,782,163
Current Liabilities			
Trade and other payables	(11)	603,695	500,407
Forward sales deposits		126,548	125,523
Tax liabilities		28,300	31,080
Interest-bearing borrowings	(12)	1,386,569	1,077,803
Interest-free borrowings	(12)	58,581	16,280
		2,203,693	1,751,093
Net Current Assets		1,405,383	1,031,070
		5,469,748	5,110,895

CONDENSED CONSOLIDATED BALANCE SHEET *(continued)*

AS AT 30 JUNE 2002

		(Unaudited) 30 June 2002 HK\$'000	(Audited) 31 December 2001 HK\$'000
Capital and Reserves			
Share capital	(13)	1,698,141	1,698,141
Reserves	(14)	2,420,205	2,378,081
		<u>4,118,346</u>	<u>4,076,222</u>
Minority Interests	(15)	329,298	197,199
Non-Current Liabilities			
Interest-bearing borrowings	(12)	602,044	427,240
Interest-free borrowings	(12)	51,113	72,015
Deferred taxation		368,947	338,219
		<u>1,022,104</u>	<u>837,474</u>
		<u>5,469,748</u>	<u>5,110,895</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2002

	(Unaudited)	
	Six months ended 30 June 2002 HK\$'000	2001 2001 HK\$'000
Total equity at beginning of the period	4,076,222	3,898,803
Exchange differences arising on translation of financial statements of subsidiaries, associates and jointly controlled entities not recognised in the income statement	14,049	226
Net profit for the period	<u>28,075</u>	<u>58,116</u>
Total equity at end of the period	<u>4,118,346</u>	<u>3,957,145</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2002

	(Unaudited)	
	Six months ended 30 June	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash used in operating activities	(125,902)	(181,696)
Net cash from investing activities	47,587	66,766
Net cash from financing activities	242,141	134,853
	<hr/>	<hr/>
Increase in cash and cash equivalents	163,826	19,923
Cash and cash equivalents at beginning of the period	298,841	190,958
Effect of foreign exchange rates changes	13,885	25
	<hr/>	<hr/>
Cash and cash equivalents at end of the period	<u>476,552</u>	<u>210,906</u>
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	514,185	244,905
Bank overdrafts	(31,973)	(33,999)
	<hr/>	<hr/>
	482,212	210,906
Bank deposits with maturity of more than three months	(5,660)	-
	<hr/>	<hr/>
	<u>476,552</u>	<u>210,906</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2002

1. BASIS OF PREPARATION

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 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 the 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 31 December, 2001. In the current period, the Group has adopted the following revised or new SSAPs issued by HKSA which are effective for accounting periods commencing on or after 1 January 2002.

SSAP 1 (Revised)	Presentation of Financial Statements
SSAP 11 (Revised)	Foreign Currency Translation
SSAP 15 (Revised)	Cash Flow Statements
SSAP 34	Employee Benefits

The adoption of SSAP 1 (Revised) results in the presentation of the statement of changes in equity.

In accordance with SSAP 15 (Revised), cash flows are classified according to operating, investing and financing, rather than the previous five headings. Interest and dividends, which were previously presented under a separate heading, are classified as financing and investing cash flows. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities. The condensed consolidated cash flow statement for the six months ended 30 June 2001 has been presented on a consistent basis.

Except for the above, the adoption of the new and revised SSAPs has had no material effect on the results of the Group's condensed financial statements.

3. SEGMENTAL INFORMATION

The Group's turnover for the period was derived mainly from activities carried out in the People's Republic of China (the "PRC") other than Hong Kong. An analysis of the Group's turnover and segment results by business segments is as follows:

Income statement for the six months ended 30 June 2002

	Property development	Property investment	Sale of construction materials	Hotel operation	Hotel & property management agency	Other operations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
REVENUE	366,888	6,357	90,151	-	4,835	-	468,231
RESULTS							
Segment results	113,490	(1,431)	14,387	-	(4,003)	-	122,443
Net unrealised gain on trading securities							3,459
Other operating income	346	-	11,604	-	-	6,587	18,537
Share of results of jointly controlled entities	4,771	2,510	3,483	(2,240)	256	593	9,373
Unallocated corporate expenses							(30,901)
Profit from operations							122,911
Finance costs							(39,164)
Share of results of associates	(1,897)	4,227	-	-	120	-	2,450
Profit before taxation							86,197
Taxation							(27,000)
Profit after taxation							59,197

3. SEGMENTAL INFORMATION (Continued)

Income statement for the six months ended 30 June 2001

	Property development <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Sale of construction materials <i>HK\$'000</i>	Hotel operation <i>HK\$'000</i>	Hotel & property management & property agency <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE	<u>150,570</u>	<u>-</u>	<u>2,672</u>	<u>-</u>	<u>3,586</u>	<u>-</u>	<u>156,828</u>
RESULTS							
Segment results	3,720	-	(399)	-	(4,657)	-	(1,336)
Net unrealised gain on trading securities							6,957
Other operating income	412	-	-	-	-	5,290	5,702
Share of results of jointly controlled entities	90,211	2,758	6,873	(11,621)	195	658	89,074
Unallocated corporate expenses							<u>(27,249)</u>
Profit from operations							73,148
Net realised gain on disposal of certain interest in a subsidiary							16,253
Finance costs							(18,950)
Share of results of associates	(5)	3,862	-	-	190	-	<u>4,047</u>
Profit before taxation							74,498
Taxation							<u>(16,237)</u>
Profit after taxation							<u>58,261</u>

4. OTHER OPERATING INCOME

	(Unaudited)	
	Six months ended 30 June	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Dividend income from unlisted shares	234	1,009
Interest income on bank deposits and loans receivable	2,813	2,208
Refund of PRC value-added tax	11,112	–
Other income	4,378	2,485
	<u>18,537</u>	<u>5,702</u>

5. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging:

	(Unaudited)	
	Six months ended 30 June	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Depreciation of property, plant and equipment		
Owned assets	6,494	2,675
Assets held under finance leases	4	–
<i>Less: amount capitalised on property under development</i>	<u>(477)</u>	<u>(186)</u>
	6,021	2,489
Amortisation of:		
Goodwill on consolidation	765	802
Goodwill on acquisition of associates and jointly controlled entities	<u>185</u>	<u>366</u>
	<u>6,971</u>	<u>3,657</u>

6. FINANCE COSTS

	(Unaudited)	
	Six months ended 30 June	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on		
Bank loans and overdrafts	35,493	15,130
Convertible loan notes	633	754
Promissory notes	8,347	6,734
Obligations under finance leases	3	–
Other loans wholly repayable within five years	4,697	8,257
	<u>49,173</u>	<u>30,875</u>
<i>Less: amount capitalised on properties under development</i>	<u>(10,009)</u>	<u>(11,925)</u>
	<u><u>39,164</u></u>	<u><u>18,950</u></u>

7. TAXATION

The charge (credit) comprises:

	(Unaudited)	
	Six months ended 30 June	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
PRC income tax		
Company and subsidiaries		
– current year provision	4,498	523
– over-provision in prior years	(8,742)	(3,147)
Share of tax of associates	202	1,023
Share of tax of jointly controlled entities	1,684	14,799
	<u>(2,358)</u>	<u>13,198</u>
Deferred tax	<u>29,358</u>	<u>3,039</u>
	<u><u>27,000</u></u>	<u><u>16,237</u></u>

Hong Kong Profits Tax has not been provided as the Group has no assessable profit subject to Hong Kong Profits Tax for the six months ended 30 June 2002. Certain of the Group's subsidiaries operating in the PRC are eligible for tax exemptions and concessions. PRC income tax is calculated at the applicable rates on assessable profits.

8. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the net profit for the period of HK\$28,075,000 (2001: HK\$58,116,000) and on the weighted average of 8,490,704,365 (2001: 8,490,658,332) ordinary shares in issue during the period.

The computation of diluted earnings per share for both periods does not assume the conversion of the Company's outstanding convertible loan notes since their exercise would result in an increase in earnings per share from continuing ordinary operations.

The computation of diluted earnings per share for both periods does not assume the exercise of the Company's outstanding share options and warrants as the exercise prices are higher than the average market price per share.

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2002, the Group acquired property, plant and equipment with an aggregate net book value of HK\$294,348,000 from the acquisition of subsidiaries and consolidating a subsidiary which was treated as a jointly controlled entity in the previous year, and acquired leasehold improvements, furniture and fixtures and equipment and motor vehicles at a cost of HK\$4,073,000.

10. TRADE RECEIVABLES

The Group allows a credit period of ranging from 30 to 90 days to its trade customers.

The following is an aged analysis of trade receivables, which are included in trade and other receivables, deposits and prepayments, at the reporting date:

	(Unaudited) 30 June 2002 HK\$'000	(Audited) 31 December 2001 HK\$'000
Not yet due	184,724	31,729
Overdue within 3 months	81,904	17,709
Overdue between 4 and 6 months	58,325	1,013
Overdue between 7 and 12 months	20,695	5,226
Overdue over 12 months	48,771	44,211
	<u>394,419</u>	<u>99,888</u>

11. TRADE PAYABLES

The following is an aged analysis of trade payable, which is included in trade and other payables, at the reporting date:

	(Unaudited) 30 June 2002 HK\$'000	(Audited) 31 December 2001 HK\$'000
Not yet due	168,026	157,005
Overdue within 3 months	25,715	18,221
Overdue between 4 and 6 months	2,653	3,241
Overdue between 7 and 12 months	7,027	2,222
Overdue over 12 months	117,439	129,223
	<u>320,860</u>	<u>309,912</u>

12. BORROWINGS

During the six months ended 30 June 2002, in addition to the increase in borrowings resulting from consolidation of a former jointly controlled entity and acquisition of subsidiaries totaling HK\$194,379,000, the net increase in borrowings amounted to HK\$283,210,000. The loans are repayable within 5 years and the majority of which bear interest at market rates. The proceeds were used to finance the payment of land use rights, progress payments of properties under development and the acquisition of new projects in the PRC.

13. SHARE CAPITAL

	(Unaudited) 30 June 2002 HK\$'000	(Audited) 31 December 2001 HK\$'000
<i>Authorised:</i>		
20,000,000,000 shares of HK\$0.20 each	<u>4,000,000</u>	<u>4,000,000</u>
	Number of ordinary shares of HK\$0.20 each	Nominal value HK\$'000
<i>Issued and fully paid:</i>		
At 1 January 2002	8,490,704,332	1,698,141
Issue of shares on exercise of warrants	<u>250</u>	<u>—</u>
At 30 June 2002	<u>8,490,704,582</u>	<u>1,698,141</u>

14. RESERVES

	Investment revaluation reserve HK\$'000	Share premium account HK\$'000	Special capital reserve HK\$'000	Exchange equalisation reserve HK\$'000	Investment property revaluation reserve HK\$'000	Other reserves HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
At 1 January 2001	(17,986)	198,839	1,544,171	(51,686)	64,270	-	463,063	2,200,671
Translation of financial statements of overseas operations	-	-	-	226	-	-	-	226
Profit for the period	-	-	-	-	-	-	58,116	58,116
At 30 June 2001	(17,986)	198,839	1,544,171	(51,460)	64,270	-	521,179	2,259,013
Surplus (deficit) on revaluation	(425)	-	-	-	67,951	-	-	67,526
Released as a result of liquidation of a jointly controlled entity	-	-	-	5,999	-	-	-	5,999
Translation of financial statements of overseas operations	-	-	-	877	-	-	-	877
Profit for the period	-	-	-	-	-	-	44,666	44,666
Transfer to other reserves	-	-	-	-	-	4,402	(4,402)	-
At 31 December 2001 and 1 January 2002	(18,411)	198,839	1,544,171	(44,584)	132,221	4,402	561,443	2,378,081
Translation of financial statements of overseas operations	-	-	-	14,049	-	-	-	14,049
Profit for the period	-	-	-	-	-	-	28,075	28,075
At 30 June 2002	(18,411)	198,839	1,544,171	(30,535)	132,221	4,402	589,518	2,420,205

15. MINORITY INTERESTS

During the six months ended 30 June 2002, the increase in minority interests is mainly attributable to the consolidation of Shanghai Allied Cement Co., Ltd. ("Shanghai SAC") as explained in note 19.

16. CAPITAL COMMITMENTS

At 30 June 2002, the Group had the following capital commitments :

	(Unaudited) 30 June 2002 HK\$'000	(Audited) 31 December 2001 HK\$'000
Capital expenditure in respect of contracted commitments for:		
acquisition of land use rights in the PRC	1,149,850	1,428,144
loans to associates	5,390	5,390
loans to a third party	1,149	1,706
loans to a minority shareholder	-	5,196
capital contribution to an associate	<u>7,547</u>	<u>-</u>

In addition to the above, the Group's attributable share of the contracted commitments in respect of the acquisition of land use rights of a jointly controlled entity is HK\$14,383,000 (2001: HK\$14,249,000).

17. CONTINGENT LIABILITIES

At 30 June 2002, the Group had the following contingent liabilities:

	(Unaudited) 30 June 2002 HK\$'000	(Audited) 31 December 2001 HK\$'000
Guarantees given to banks in respect of banking facilities utilised by jointly controlled entities	108,982	152,783
Guarantees given to banks in respect of mortgage loans granted to property purchasers	264,806	308,548
Guarantees given to banks in respect of banking facilities granted to third parties	92,830	46,262
Guarantee given to a bank in respect of a banking facility granted to a vendor of land use rights to a property development subsidiary	28,302	28,037
Commercial bills discounted with recourse	<u>9,675</u>	<u>-</u>

18. PLEDGE OF ASSETS

At 30 June 2002,

- (a) The Group's 50% interest in Shanghai Allied Cement Limited ("SAC") with a carrying value of HK\$129,533,000 (2001: HK\$115,601,000), was pledged against a loan facility granted to the Group.
- (b) The Group's 100% interest in Tian An Development (Dalian) Company Limited with a carrying value of HK\$34,893,000 (2001: HK\$35,114,000) was pledged against a loan granted to the Group.
- (c) Bank deposits, properties for development, properties under development, properties for sales and investment properties of certain subsidiaries with an aggregate carrying value of approximately of HK\$71,563,000 (2001: HK\$36,965,000), HK\$nil (2001: HK\$133,917,000), HK\$726,043,000 (2001: HK\$668,063,000), HK\$75,746,000 (2001: HK\$45,153,000) and HK\$60,223,000 (2001: HK\$47,333,000) respectively were pledged to banks for banking facilities granted to the Group.
- (d) Investment properties with an aggregate carrying value of approximately HK\$62,000,000 (2001: HK\$62,000,000) were pledged to a bank for a banking facility granted to a jointly controlled entity.

At 31 December 2001, the Group's interest in Jack Rock Development Limited with a carrying value of HK\$500,568,000 was pledged against a bank overdraft facility granted to the Company.

19. CONSOLIDATION OF A FORMER JOINTLY CONTROLLED ENTITY

During the six months ended 30 June 2002, the joint venture contract and joint venture articles of Shanghai SAC, a jointly controlled entity in the PRC, were amended so that Shanghai SAC became a subsidiary of the Group.

The effect of consolidation of the assets and liabilities of Shanghai SAC is summarised as follows:

	(Unaudited) Six months ended 30 June 2002 <i>HK\$'000</i>
Property, plant and equipment	215,290
Other assets	204,530
Liabilities	<u>(202,935)</u>
	216,885
<i>Less: Amount attributable to minority interests</i>	<u>(86,754)</u>
Net assets acquired	130,131
Goodwill on acquisition	<u>8,450</u>
Amount attributable to the Group and previously classified as interest in a jointly controlled entity	<u><u>138,581</u></u>
Net cash inflow arising from consolidation of Shanghai SAC	
Bank balances and cash consolidated	<u><u>8,863</u></u>

20. ACQUISITION OF SUBSIDIARIES

During the six months ended 30 June 2002,

- (a) The Group acquired a 60% interest in Chang Zhou Tian An Landmark Co., Ltd. ("CZTA") (formerly as Changzhou International Commercial Plaza Co., Ltd.) for a cash consideration of HK\$7,321,000 after which CZTA became a wholly owned subsidiary of the Group.

20. ACQUISITION OF SUBSIDIARIES (Continued)

- (b) The Group acquired a 100% interest in Sino Dynamic Limited which has the right to acquire certain land use rights for development purposes in the PRC for a consideration which was satisfied by the disposal of the Group's entire 86% interest in Tian Liang Limited which, through a wholly owned subsidiary, has an interest in certain vacant land sites in the PRC.

The effect of the above acquisitions is summarised as follows:

	(Unaudited)	
	Six months ended 30 June	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Property, plant and equipment	79,058	–
Interest in a jointly controlled entity	–	124,384
Other assets	118,108	71,048
Liabilities	(146,019)	(99,150)
Minority interests	–	(24,883)
	<u>51,147</u>	<u>71,399</u>
Less: Interest acquired in previous years as interest in a jointly controlled entity	(4,868)	–
Amount attributable to minority interests	–	(3,663)
Net assets acquired	46,279	67,736
Goodwill on acquisition	–	152,648
	<u>46,279</u>	<u>220,384</u>
Satisfied by:		
Interest in a jointly controlled entity	–	124,384
Cash consideration	–	96,000
Outstanding cash consideration	7,321	–
Property for development	38,958	–
	<u>46,279</u>	<u>220,384</u>
Net cash inflow (outflow) arising on acquisition		
Bank balances and cash acquired	641	44,918
Cash consideration	–	(96,000)
	<u>641</u>	<u>(51,082)</u>

21. RELATED PARTY TRANSACTIONS AND BALANCES

During the six months ended 30 June 2002, a promissory note with a principal amount of HK\$40,419,000, carrying interest at 7% per annum and are repayable on 2 June 2003, was issued by the Company to Sun Hung Kai & Co. Limited ("SHK"), a substantial shareholder of the Company. This promissory note was to repay the principal and interest on the outstanding convertible loan notes due to SHK. Also, the Group had the following material transactions and balances with related parties:

	(Unaudited)	
	Six months ended 30 June	
	2002	2001
	HK\$'000	HK\$'000
(a) SHK		
– Rent, property management and air-conditioning fees paid	622	132
– Interest on convertible loan notes	633	754
– Interest on promissory notes	5,258	5,034
(b) Allied Properties (H.K.) Limited ("APL"), a substantial shareholder of SHK (which has a common director with the Company)		
– Rent, property management and air-conditioning fees paid	254	499
– Rent, property management and air-conditioning fees paid to a jointly controlled entity of APL	492	1,885
– Interest on promissory notes	1,700	1,700
– Purchase of a property from a subsidiary of APL with a cash consideration of RMB5,000,000	–	4,673
(c) Associates and jointly controlled entities of the Group		
– Interest income	1,698	1,986
– Sale of construction materials	<u>4,646</u>	<u>–</u>

21. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

	(Unaudited) 30 June 2002 HK\$'000	(Audited) 31 December 2001 HK\$'000
(d) SHK		
– Outstanding convertible loan notes payable	–	38,015
– Outstanding promissory notes payable	185,419	145,000
– Amounts payable	22,842	19,286
(e) APL		
– Outstanding promissory notes payable	72,187	72,187
– Amounts payable	11,159	9,462
(f) Associates and jointly controlled entities of the Group		
– Guarantees provided by jointly controlled entities to banks for banking facilities granted to the Group	150,000	143,925
– Pledge of investment properties by a jointly controlled entity to banks for banking facilities amounting to HK\$50 million (2001: HK\$51.4 million)	92,494	92,494
– Pledge of investment properties of the Group to a bank for a banking facility granted to a jointly controlled entity	62,000	62,000
– Trade and other receivables	–	2,085
– Trade and other payables	–	4,790

INTERIM DIVIDEND

The Directors consider that it is prudent to retain an appropriate level of funds to take advantage of business opportunities as and when they arise, and therefore do not intend to declare an interim dividend (2001: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

INTERIM BUSINESS REVIEW

Published data indicate that the PRC recorded a GDP growth of 7.8% during the first six months. With this strong economic growth, the property market in the PRC continued its momentum. Statistics indicate that investment in property development in the PRC amounted to RMB282.1 billion in the first half year, an increase of 32.9% year-on-year. Land prices rose by 5.4% on average over the second quarter of last year.

After the amendment of its joint venture contract and articles on 14 March 2002, Shanghai Allied Cement Co., Ltd. ("Shanghai SAC") has become a subsidiary of Shanghai Allied Cement Limited ("SAC"), a listed company in which the Company indirectly holds approximately 54.77% interest. The consolidation of the accounts of Shanghai SAC resulted in an increase in turnover, gross profit, administration expenses and part of the minority interests. The Group's net profit attributable to shareholders for the period under review was HK\$28,075,000 (2001: HK\$58,116,000), representing a 52% decrease over the previous period. The main reason for the decrease in net profit was that certain projects (including those held by subsidiaries and jointly controlled entities) are scheduled to be completed in the second half conjoined with the reduced equity interest in SAC. Earnings per share was HK0.3 cents (2001: HK0.7 cents), representing a decrease of 57% compared to the corresponding period of last year. The Group's net assets per share was HK\$0.485 (31 December 2001: HK\$0.480).

During the period, total sales attributable to the Group of 68,140m² Gross Floor Area ("GFA") from residential/commercial properties was recorded (2001: 41,310m²). During the same period, 40,470m² GFA were completed (2001: 84,760m²) whereas 629,840m² GFA were under construction (2001: 254,000m²).

FINANCIAL POSITION

Liquidity and Financing

In June 2002, the Group maintained its liquidity at a healthy level with a well-balanced portfolio of financial resources. The bank balances and cash reserves of the Group were maintained at HK\$585 million, providing sufficient working capital for the daily operations of the Group.

As at 30 June, 2002, the total borrowings of the Group amounted to approximately HK\$2,098 million (31 December 2001: HK\$1,593 million), including current liabilities and non-current liabilities of HK\$1,445 million (31 December 2001: HK\$1,094 million) and HK\$653 million (31 December 2001: HK\$499 million), respectively. The gearing ratio (net debt over shareholder's equity) of the Group was 37% (31 December 2001: 30%). The increase in borrowings was used to finance the payment of landbank and costs for properties under construction, resulting in an increase in finance costs.

Approximately 86% outstanding debts will expire within 2 years. As the investments of the Group are located in the PRC, most of the bank borrowings are obtained from PRC banks in Renminbi which will be repaid in the same currency, hence minimizing the risk of exchange rate fluctuation. Around 96% of the Group's bank borrowings bear interest at fixed rates while the remaining is at floating rates.

Charges on Assets

As at 30 June 2002, bank deposits of HK\$71,563,000, aggregate carrying values of development properties and investment properties of approximately HK\$801,789,000 and HK\$122,223,000 respectively, the Group's interest in certain subsidiaries with aggregate carrying values of approximately HK\$164,426,000 were pledged to banks for banking facilities granted to those subsidiaries and a jointly controlled entity.

Contingent Liabilities

As at 30 June 2002, guarantees given to banks by the Group in respect of banking facilities granted to jointly controlled entities, third parties and a vendor of land use rights to a property development subsidiary were approximately HK\$108,982,000, HK\$92,830,000 and HK\$28,302,000 respectively. Guarantees given to banks in respect of mortgage loans granted to property purchasers amounted to approximately HK\$264,806,000, and commercial bills discounted with recourse amounted to approximately HK\$9,675,000. All the guarantees provided by the Group were requested by banks and are on normal commercial terms.

Employees

As at 30 June 2002, the Group, including its subsidiaries but excluding associates and jointly controlled entities, employed approximately 1,570 persons. Total staff costs for the period under review amounted to approximately HK\$26,393,000. The Group ensures that the remuneration packages for employees are competitive and employees are rewarded on performance related basis including salary and bonus.

OUTLOOK

Slowdown in PRC economic growth is forecast in the second half of the year due to various factors including uncertainty in the global economic climate, slackening in export revenues and reduced direct investment. Annual economic growth is predicted to reach 7.5%. It is believed that the central government will continue to implement a proactive fiscal policy and sound monetary policy intended to maintain sustainable long term economic growth.

An influx of foreign enterprises following the PRC's accession to the WTO has driven demand in the grade-A office and luxury residential property market. The surge is reflected in a reduced vacancy rate and increasing rents. Rents for grade-A office space in major cities have recorded a 5 to 10% increment through the first six months. A similar growth rate is expected for the second half. The rise in demand for top-grade office space is likely to continue over the medium to long term.

With the continuous economic growth and support from government incentive policies, popular demand for new homes and for improvement in the living standard is spreading from major cities to second and third line cities. These factors should benefit the residential property market in the PRC. The buoyant market in the major cities has attracted world-wide experienced property developers which should result in significant competition. Home prices in major cities, particularly in Beijing, Shanghai and Shenzhen, may plateau in the coming months. Sales price in the second or third line cities should continue their upward momentum, and provide more development opportunities. Tightening land supply and conservative bank financing policy for property developers and home buyers should maintain long-term healthy development of the residential property market. As at 30 June 2002, the total landbank in terms of GFA attributable to the Group amounted to approximately 3,117,000m². We believe the Group is well positioned to meet such challenges so as to capture maximum benefit.

In the second half of the year, two office projects including Cyber Times Building in Shenzhen and Tian An Tower in Dalian will be offered for sale. Pre-sales on seven residential projects, California Court in Shanghai, Jun An Garden in Shenzhen, Tian An Seaview Garden in Dalian, Tian An International Tower in Nanjing, Tian An City One in Changchun, New City Garden in Changzhou and Redhill Peninsula in Wuxi are to be launched. These projects are expected to add significant turnover and profit to the Group upon completion.

DIRECTORS' INTERESTS IN SECURITIES

Save as disclosed in the section headed "Share Options", as at 30 June 2002, none of the Directors or their associates had interests in the equity or debt securities of the Company or any of its associated corporations according to the register required to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance").

SHARE OPTIONS

(a) The Company

The Company's share option scheme was adopted pursuant to a resolution passed on 27 January 1999. No options were granted or lapsed nor were there any options being exercised during the first six months of 2002.

The following table shows details of the Company's share options during the first half of 2002 :

	Date of Grant	Number of share options		Exercise Price per share HK\$	Exercisable Period
		As at 1 January 2002	As at 30 June 2002		
Directors					
David Hui Yip Wing	1 March 2000	20,000,000	20,000,000	0.51	1 September 2000 to 31 August 2002
Patrick Lee Seng Wei	1 March 2000	6,000,000	6,000,000	0.51	1 September 2000 to 31 August 2002
Edwin Lo King Yau	1 March 2000	14,000,000	14,000,000	0.51	1 September 2000 to 31 August 2002
Employees	1 March 2000	21,000,000	21,000,000	0.51	1 September 2000 to 31 August 2002
Total		<u>61,000,000</u>	<u>61,000,000</u>		

A maximum of 50% of the options may be exercised during the first to sixth month of the 2-year exercisable period and the remaining 50% are exercisable during the thirteenth to twenty-fourth month of the 2-year period. If no options or less than 50% of the options are exercised during the first to sixth month, these unexercised options can be carried forward to the thirteenth to twenty-fourth month.

Save as disclosed above, no rights to subscribe for equity or debt securities of the Company had been granted to or exercised by any Directors or their spouses or children under the age of 18 at any time during the period.

(b) Subsidiary - Shanghai Allied Cement Limited (“SAC”)

The 2002 Share Option Scheme of SAC (“SAC Scheme”) was adopted on 23 May 2002 for the participants (including directors and consultants) of SAC and any of its subsidiaries.

No options were granted under the SAC Scheme during the six months ended 30 June 2002 nor were there any options outstanding as at 1 January 2002 and 30 June 2002.

SUBSTANTIAL SHAREHOLDERS’ INTERESTS

As at 30 June 2002, those parties having an interest in 10% or more of the issued share capital of the Company as recorded in the register required to be kept under Section 16(1) of the SDI Ordinance were as follows:

Name	Number of Shares	Notes
Sun Hung Kai & Co. Limited (“SHK”)	3,674,079,379	
AP Emerald Limited (“APE”)	3,674,079,379	1, 2
Grace Crown Limited (“GCL”)	3,674,079,379	1, 3
Allied Properties (H.K.) Limited (“APL”)	3,674,079,379	1, 4
Allied Group Limited (“AGL”)	3,674,079,379	1, 5

Notes:

1. The figure refers to the same holding of 3,674,079,379 shares held by SHK.
2. APE was entitled to exercise or control the exercise of more than one-third of the voting power at general meetings of SHK and was therefore deemed to have interest in the shares.
3. GCL owned 100% interest in the issued share capital of APE and was therefore deemed to have interest in the shares.

4. APL owned 100% interest in the issued share capital of GCL and was therefore deemed to have interest in the shares.
5. AGL was the holding company of APL and was therefore deemed to have interest in the shares.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2002.

CODE OF BEST PRACTICE

None of the Directors is aware of any information that would reasonably indicate that the Company was not for any part of the six months ended 30 June 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.

AUDIT COMMITTEE

At the request of the Directors, the Group's external auditors have carried out a review of the unaudited interim financial report for the six months ended 30 June 2002 in accordance with the Statement of Auditing Standards 700 issued by the Hong Kong Society of Accountants. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a general review of the unaudited interim financial report. In carrying out this review, the Audit Committee has relied on the review of the Group's external auditors as well as obtaining reports from management. The Audit Committee has not undertaken detailed independent audit checks.

By Order of the Board
David Hui Yip Wing
Managing Director

Hong Kong, 4 September 2002