



中國海外發展有限公司
CHINA OVERSEAS LAND & INVESTMENT LTD.



Interim Report

2002

Results

The board of directors (the "Board") of China Overseas Land & Investment Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30th June, 2002. The consolidated profit after minority interests and tax amounted to HK\$181,873,000, representing a decrease of 45% over the corresponding period last year. The earnings per share is HK3.33 cents.

Consolidated Results

The unaudited consolidated results of the Group for the six months ended 30th June, 2002 and the comparative figures for the corresponding period in 2001 are as follows:

Consolidated Income Statement

	Notes	Six months ended 30th June	
		2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Turnover		2,062,396	3,383,985
Cost of sales		(1,667,768)	(3,031,801)
Other revenue		55,490	7,954
Distribution expenses		(36,329)	(46,668)
Administrative expenses		(143,258)	(128,924)
Gain on disposal of other investment		—	347,684
Impairment losses recognised		—	(114,000)
Profit from operations	(3)	270,531	418,230
Finance costs		(31,796)	(133,975)
Share of results of associates		2,730	(23,255)
Profit before taxation		241,465	261,000
Taxation	(4)	(53,754)	(12,435)
Profit before minority interests		187,711	248,565
Minority interests		(5,838)	80,439
Profit for the period		181,873	329,004
Dividends	(5)	109,363	109,454
Earnings per share	(6)		
Basic		3.33 cents	6.05 cents
Diluted		3.29 cents	5.94 cents

Consolidated Balance Sheet

	Notes	30th June, 2002 (unaudited) HK\$'000	31st December, 2001 (restated) (audited) <i>HK\$'000</i>
NON-CURRENT ASSETS			
Investment properties		1,791,500	1,791,500
Property, plant & equipment		725,222	687,019
Properties for development		897,896	1,417,312
Interests in associates		1,064,261	1,054,825
Investment in infrastructure and syndicated property projects		1,247,120	1,279,581
Instalments receivable		235,444	241,614
Pledged bank deposits		26,754	34,522
Negative goodwill		(26,400)	(28,955)
		<u>5,961,797</u>	<u>6,477,418</u>
CURRENT ASSETS			
Inventories		2,659	1,097
Properties for sale		5,873,460	4,201,753
Investment in infrastructure and syndicated property projects		18,020	203,070
Investments in securities		20,959	6,069
Trade and other receivables	(7)	1,338,889	1,304,936
Amounts due from customers for contract work		134,531	92,033
Deposits & prepayments		156,433	76,846
Tax prepaid		59,585	25,079
Bank balances and cash		1,876,261	1,665,136
		<u>9,480,797</u>	<u>7,576,019</u>

Consolidated Balance Sheet *(continued)*

	Notes	30th June, 2002 (unaudited) HK\$'000	31st December, 2001 (restated) (audited) <i>HK\$'000</i>
CURRENT LIABILITIES			
Trade and other payables	(8)	1,446,666	1,654,341
Sales and other deposits		1,215,333	241,765
Amounts due to customers for contract work		85,899	48,766
Amounts due to associates		207,476	194,084
Provision for taxation		224,522	186,741
Current portion of long-term borrowings		1,626,052	2,040,372
Bank Loans and overdrafts - unsecured		1,275,777	774,388
		6,081,725	5,140,457
NET CURRENT ASSETS		3,399,072	2,435,562
		9,360,869	8,912,980
CAPITAL AND RESERVES			
Share Capital		546,775	546,402
Reserves		7,555,362	7,464,768
		8,102,137	8,011,170
NON-CURRENT LIABILITIES			
Long-term borrowings		294,981	218,186
Amounts due to minority shareholders		963,252	683,125
Deferred taxation		499	499
		1,258,732	901,810
		9,360,869	8,912,980

Condensed Consolidated Cash Flow Statement

	Six months ended 30th June	
	2002 (unaudited) HK\$'000	2001 (unaudited) HK\$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	457,600	777,697
NET CASH INFLOW FROM INVESTING ACTIVITIES	12,929	25,887
NET CASH OUTFLOW FROM FINANCING	(279,993)	(827,407)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	190,536	(23,823)
	1,535,608	2,047,243
CASH AND CASH EQUIVALENTS AT END OF PERIOD	1,726,144	2,023,420
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	1,876,261	2,041,215
Bank loans and overdrafts	(150,117)	(17,795)
	1,726,144	2,023,420

Consolidated statement of changes in equity

	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Investment property revaluation reserve HK\$'000	Other property revaluation reserve HK\$'000	Exchange equalisation reserve HK\$'000	Goodwill on con- solidation HK\$'000	Dividend reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st January 2001	543,740	5,173,613	884	373,627	405,681	(43,593)	(310,088)	108,748	1,790,774	8,043,386
Exchange differences on translation of financial statements	—	—	—	—	—	5,282	—	—	—	5,282
Net gain not recognised in the income statement	—	—	—	—	—	5,282	—	—	—	5,282
Issued upon exercise of share options	3,260	—	—	—	—	—	—	—	—	3,260
Premium on issue of share less expenses	—	14,691	—	—	—	—	—	—	—	14,691
Realised when properties were used and depreciated	—	—	—	—	(3,125)	—	—	—	3,125	—
Disposal of other investment	—	—	—	(44,290)	—	(15)	(77,693)	—	—	(121,998)
Profit for the period	—	—	—	—	—	—	—	—	329,004	329,004
Interim dividend for 2001 proposed	—	—	—	—	—	—	—	109,454	(109,454)	—
Final dividend for 2000 paid	—	—	—	—	—	—	—	(108,748)	—	(108,748)
At 30th June 2001	547,000	5,188,304	884	329,337	402,556	(38,326)	(387,781)	109,454	2,013,449	8,164,877

Consolidated statement of changes in equity (continued)

	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Investment property revaluation reserve HK\$'000	Other property revaluation reserve HK\$'000	Exchange equalisation reserve HK\$'000	Goodwill on con- solidation HK\$'000	Dividend reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
Exchange differences on translation of financial statements	—	—	—	—	—	(5,989)	—	—	—	(5,989)
Share of associates' reserve movements	—	—	—	(5,300)	—	999	—	—	—	(4,301)
Decrease on revaluation of properties	—	—	—	(106,475)	—	—	—	—	—	(106,475)
Net losses not recognised in the income statement	—	—	—	(111,775)	—	(4,990)	—	—	—	(116,765)
Issued upon exercise of share options	302	—	—	—	—	—	—	—	—	302
Repurchase of own shares	(900)	—	900	—	—	—	—	—	(6,433)	(6,433)
Premium on issue of share less expenses	—	1,867	—	—	—	—	—	—	—	1,867
Realised on disposal of properties	—	—	—	(231)	(7,047)	—	—	—	7,047	(231)
Realised when properties were used and depreciated	—	—	—	—	301	—	—	—	(301)	—
Disposal of other investment	—	—	—	—	—	15	(5,670)	—	—	(5,655)
Profit for the period	—	—	—	—	—	—	—	—	82,488	82,488
Final dividend for 2001 proposed	—	—	—	—	—	—	—	109,286	(109,286)	—
Interim dividend for 2001 paid	—	—	—	—	—	—	—	(109,454)	174	(109,280)
At 31st December 2001	546,402	5,190,171	1,784	217,331	395,810	(43,301)	(393,451)	109,286	1,987,138	8,011,170
Exchange differences on translation of financial statements	—	—	—	—	—	24,376	—	—	—	24,376
Net gain not recognised in the income statement	—	—	—	—	—	24,376	—	—	—	24,376
Issued upon exercise of share options	373	—	—	—	—	—	—	—	—	373
Premium on issue of share less expenses	—	858	—	—	—	—	—	—	—	858
Realised when properties were used and depreciated	—	—	—	—	(3,775)	—	—	—	3,775	—
Realised profit on disposal of interest in subsidiaries	—	—	—	(292)	(6,935)	—	—	—	—	(7,227)
Profit for the period	—	—	—	—	—	—	—	—	181,873	181,873
Interim dividend for 2002 proposed	—	—	—	—	—	—	—	109,363	(109,363)	—
Final dividend for 2001 paid	—	—	—	—	—	—	—	(109,286)	—	(109,286)
At 30th June 2002	546,775	5,191,029	1,784	217,039	385,100	(18,925)	(393,451)	109,363	2,063,423	8,102,137

Notes to the Financial Statements

For the six months ended 30th June, 2002

(1) Principal accounting policies and basis of presentation

The unaudited consolidated condensed accounts have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") No.25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants ("HKSA"). These condensed accounts should be read in conjunction with the 2001 annual financial statements. The accounting policies and methods of computation used in the preparation of these condensed accounts are consistent with those used in the annual accounts for the year ended 31st December, 2001.

The Group has also adopted the following SSAPs issued by the HKSA which are effective for accounting periods commencing on or after 1st January, 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cash flow statements
SSAP 25 (revised)	:	Interim financial reporting
SSAP 34	:	Employee benefits

These newly introduced/revised SSAPs do not have any material impact to the accounting policies and financial results of the Group except that certain comparatives presented have been reclassified to conform to the new disclosure requirements.

(2) Business and geographical segments

Business Segments

The businesses based upon which the Group reports its primary segment information are as follows:

Property development	—	development and sale of properties
Property investment	—	property letting
Construction	—	building and civil construction, foundation engineering and project management
Infrastructure project investment	—	investments in entities undertaking infrastructure projects

(2) Business and geographical segments *(continued)*

Segment information about revenue and contribution to results and the net profit for the period are listed in the following table:

Period Ended 30th June, 2002

	Property development <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Construction <i>HK\$'000</i>	Infrastructure project investment <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE							
External sales	717,044	92,401	1,188,632	29,681	25,631	—	2,053,389
Inter-segment sales	—	4,536	315,046	—	—	(319,582)	—
Total revenue	<u>717,044</u>	<u>96,937</u>	<u>1,503,678</u>	<u>29,681</u>	<u>25,631</u>	<u>(319,582)</u>	<u>2,053,389</u>
RESULT							
Segment result	<u>133,734</u>	<u>71,324</u>	<u>89,487</u>	<u>29,347</u>	<u>12,574</u>	<u>(3,159)</u>	333,307
Interest income and other income							30,817
Unallocated corporate expenses							<u>(93,593)</u>
Profit from operations							270,531
Finance costs							<u>(31,796)</u>
Gain on disposal of other investment							—
Share of results of associates	(1,816)	—	2,483	—	2,063	—	<u>2,730</u>
Profit before taxation							241,465
Taxation							<u>(53,754)</u>
Profit before minority interests							187,711
Minority interests							<u>(5,838)</u>
Net profit for the period							<u>181,873</u>

(2) Business and geographical segments *(continued)***Period Ended 30th June, 2001**

	Property development HK\$'000	Property investment HK\$'000	Construction HK\$'000	Infrastructure project investment HK\$'000	Other operations HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
REVENUE							
External sales	1,969,190	96,893	1,156,458	63,363	63,293	—	3,349,197
Inter-segment sales	—	5,354	78,038	—	—	(83,392)	—
Total revenue	1,969,190	102,247	1,234,496	63,363	63,293	(83,392)	3,349,197
RESULT							
Segment result	(142,113)	76,810	103,662	60,109	9,897	(4,948)	103,417
Interest income and other income							37,580
Unallocated corporate expenses							(70,451)
Profit from operations							70,546
Finance costs							(133,975)
Gain on disposal of other investment							347,684
Share of results of associates	(33,881)	—	11,168	—	(542)	—	(23,255)
Profit before taxation							261,000
Taxation							(12,435)
Profit before minority interests							248,565
Minority interests							80,439
Net profit for the period							329,004

Geographical Segments

The Group's property development, property investment and construction activities are carried out in Hong Kong and other regions in the People's Republic of China (the "PRC"). All the infrastructure project investments are located in the PRC. The following table provides an analysis of the Group's turnover and contribution to profit from operation by geographical market:

	Turnover by geographical market		Contribution to profit from operation	
	Six months ended 30th June 2002 HK\$'000	2001 HK\$'000	Six months ended 30th June 2002 HK\$'000	2001 HK\$'000
Hong Kong	1,218,970	2,801,499	23,230	(42,381)
The PRC	843,426	582,486	247,301	112,927
	2,062,396	3,383,985	270,531	70,546

(3) Profit from operations

	Six months ended 30th June	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Profit from operations has been arrived at after charging (crediting):		
Depreciation	<u>48,357</u>	<u>33,614</u>
Amortisation of negative goodwill	<u>(2,555)</u>	<u>(1,565)</u>
Interest income	<u>(9,008)</u>	<u>(34,788)</u>

(4) Taxation

	Six months ended 30th June	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
The charge/(credit) comprises:		
Company and subsidiaries		
Hong Kong profits tax	<u>2,527</u>	<u>5,346</u>
PRC income tax	<u>50,475</u>	<u>7,955</u>
	<u>53,002</u>	<u>13,301</u>
Associates		
Hong Kong profits tax	<u>914</u>	<u>1,650</u>
PRC income tax		
– current	<u>275</u>	<u>—</u>
– overprovision in prior years	<u>(437)</u>	<u>(2,516)</u>
	<u>752</u>	<u>(866)</u>
	<u>53,754</u>	<u>12,435</u>

Hong Kong profits tax is calculated at 16% (2001: 16%) on the estimated assessable profits for the period.

Income tax of the PRC is calculated at the applicable PRC tax rates on the estimated assessable profits for the period.

(5) Dividends

The Board declared the payment of an interim dividend for 2002 of HK2 cents per share (2001: HK2 cents per share).

(6) Earnings per share

The calculation of the basic earnings per share is based on the profit for the period attributable to shareholders of HK\$181,873,000 (2001: HK\$329,004,000) and on the weighted average number of 5,465,485,101 (2001: 5,441,558,802) ordinary shares in issue during the period.

The calculation of the diluted earnings per share is based on the profit for the period attributable to shareholders of HK\$181,873,000 (2001: HK\$329,004,000) and on the weighted average number of 5,524,492,475 (2001: 5,534,765,251) ordinary shares in issue and issuable after adjusting for the weighted average number of dilutive potential ordinary shares of 59,007,375 (2001: 93,206,449) shares assumed to be issued on the exercise of dilutive share options outstanding during the period.

(7) Trade and other receivables

Except for revenue from property sales and infrastructure project investments which are payable in accordance with the terms of the relevant agreements, generally the Group allows a credit period of not exceeding 60 days to its customers.

The following is an analysis of trade and other receivables at the balance sheet date:

	30th June, 2002 HK\$'000	31st December, 2001 HK\$'000
Receivables, aged		
0-30 days	369,176	440,354
31-90 days	349,467	210,800
Over 90 days	353,128	406,377
Retentions receivable	267,118	247,405
	<u>1,338,889</u>	<u>1,304,936</u>

(8) Trade and other payables

The following is an analysis of trade and other payables at the balance sheet date:

	30th June, 2002 HK\$'000	31st December, 2001 HK\$'000
Payables, aged		
0-30 days	800,094	987,742
31-90 days	161,417	255,695
Over 90 days	253,142	167,633
Retentions payable	232,013	243,271
	<u>1,446,666</u>	<u>1,654,341</u>

(9) Contingent liabilities

At 30th June, 2002, guarantees given and indemnities provided by the Group in respect of credit facilities granted to associates and syndicated property project companies were HK\$990 million (31st December, 2001: HK\$1,024 million) and HK\$2 million (31st December, 2001: HK\$207 million) respectively. Outstanding counter indemnities for surety bonds issued in respect of construction projects amounted to HK\$498 million (31st December, 2001: HK\$310 million). In addition, mortgage bank loans repayment guarantee granted to purchasers of the Group's properties amounted to HK\$1,570 million (31st December, 2001: HK\$1,142 million).

(10) Pledge of assets

At the balance sheet date:

- (a) Banking facilities granted to the Group were secured, inter alia, by the following:
 - (i) pledge of shares in certain subsidiaries and
 - (ii) fixed charges on the Group's development properties with an aggregate carrying value of approximately HK\$784 million (31st December, 2001: HK\$802 million).

- (b) Banking facilities granted to certain associates and syndicated property project companies were secured by pledge of shares in and subordination of advances to these companies with respective carrying values of approximately HK\$446 million (31st December, 2001: HK\$446 million) and HK\$870 million (31st December, 2001: HK\$864 million).

- (c) Mortgage bank loans granted to purchasers of the Group's properties were secured by the Group's bank deposits amounting to approximately HK\$27 million (31st December, 2001: HK\$35 million).

Interim Dividend

The Board declares the payment of an interim dividend of HK2 cents per share (2001: HK2 cents per share) to shareholders whose names appear in the register of members of the Company on 10th October, 2002. The interim dividend will be payable on 8th November, 2002.

Closure of Register of Members

The register of members of the Company will be closed from Friday, 4th October, 2002 to Thursday, 10th October, 2002, both days inclusive, during which period no transfer of shares will be registered.

In order to be qualified for the interim dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's Registrars, Standard Registrars Limited at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong, no later than 4:00 p.m. on Thursday, 3rd October, 2002.

Review of Operations

In the first half of 2002, the sluggish pace of recovery of the U.S. economy, the deteriorating investment environment and the crisis bearing down on corporate integrity had adversely affected the confidence of investors globally. The Hong Kong economy, and its stock and property market remain weak, while the unemployment rate is still on the rise. On the other hand, the economy of the PRC maintains a strong upward trend. The total investment in the PRC property market is surging up sharply and there is worry of over-heated situation. Due to the sustainable increase in demand and the better regulated market environment in the PRC, the prospect of the PRC property market remains optimistic.

Despite the highly competitive market conditions, the operating results of the principal businesses of the Group were satisfactory. The total area of the land bank available for property development in the PRC continued to rise, while sales result of properties in the various cities which we are operating maintained to be robust. As to the construction and contracting business, the Group has managed to keep the amount of new contracts and business turnover at a sustained high level. To achieve better results, the Group is also actively implementing measures to improve cost control and work efficiency.

Property Development

Property sales

For the six months ended 30th June, 2002, properties sold by the Group amounted to HK\$717,044,000, representing a decrease of 64% as compared to the corresponding period in 2001. The main reason of the decrease was that sales of properties in Hong Kong in the first half of the year were very limited. The Group's sales of properties in the PRC amounted to HK\$666,558,000, representing an increase of 57% as compared to the corresponding period last year. In the first half of the year, attributable properties sold by the Group amounted to 4.05 million sq. ft. gross floor area, representing a growth of 120% over the corresponding period last year.

The major portion of the sales came from the stock sales in Beijing and Guangzhou, as well as the sales of Phase III of Zhong Hai Xin Yuan in Shanghai and some units of Phase I of Grandeur Vista in Chengdu which were completed in the period.

Land acquired during the period

In the first half of 2002, the Group acquired four sites in major cities in the PRC, thereby increasing the gross floor area available for development by 6,020,000 sq. ft., representing an increase of 82% over the same period last year. As at 30th June, 2002, the Group had a gross floor area of 32,750,000 sq. ft. in aggregate available for development and under development.

District	Name and address of the project	Intended use	Percentage of interest attributable to the Group	Gross floor area (10,000 sq. ft.)
Shenzhen	(a) Heng Gang land parcel	Residential	100%	318
Shanghai	(b) Qing Pu Zhao Xiang Zheng land parcel	Residential	100%	84
Beijing	(c) Hai Yang Park land parcel	Residential	72%	81
Beijing	(d) Chao Yang District Commercial land parcel	Commercial	75%	119
Total				602

The Group has been active in acquiring high quality land bank for short, medium and long-term development. The Group has currently signed letters of intent for several sites, pending formal contract execution. Negotiations for a number of other sites are also in progress.

Construction and Contracting Business

In the first half of 2002, the Group has been awarded 13 new projects with contract sum totalled HK\$4.5 billion, of which 11 contracts with contract sum of HK\$4.0 billion were management contracts for China State Construction Engineering Corporation. The Company has been awarded 2 new projects with an additional contract value of HK\$0.5 billion. During the period, in addition to the various Hong Kong Housing Authority projects, such as the West Kowloon Area 10 Phase 1, as well as some private projects such as the STTL superstructure at Ma On Shan, the Group also won several large-scale government civil engineering projects, including Phase 3 of the Disneyland project and Phase 3 of the Castle Peak Road improvement project.

As at end of June, the Group had 74 projects under construction with an aggregate contract value of HK\$25.9 billion (outstanding work HK\$16.5 billion), among which, 23 projects with contract value of HK\$5.4 billion (outstanding work HK\$3.3 billion) were operated by the Group and 51 projects with contract value of HK\$20.4 billion (outstanding work HK\$13.1 billion) were management projects.

All the projects undertaken by the Group were progressing smoothly.

Infrastructure Investments

During the period, as a result of early retrieval of investment cost, the income from infrastructure projects in the PRC was lower than the corresponding period last year.

Property Rentals

As at 30th June, 2002, the Group had a gross floor area of 2,060,000 sq. ft. of investment properties, among which 240,000 sq. ft. have been leased out in Hong Kong and 1,460,000 sq. ft. in the PRC.

During the period, rental in the leased property market in Hong Kong showed a slightly downward adjustment. The occupancy rate of China Overseas Building and Horae Place Shopping Mall of the Group in Hong Kong remained high. The occupancy rate of properties in the PRC such as China Overseas Building and Shanghai Plaza in Shanghai and Tongshan Plaza in Guangzhou was satisfactory.

As it is envisaged that the commercial property market in the PRC will remain active, the Group plans to develop a top-notch office project on the parcel of land acquired in the Central Business District in Beijing (for the time being named as Guo Yun Building). Upon completion, this project will generate steady return to the Group. Furthermore, provided that the prices and conditions are reasonable, the Group would not rule out the possibility of disposing certain non-core investment properties.

Other Investments

The related operations of Hong Kong Concrete Company Limited, Shenzhen Hailong Cement Company Limited and a building material related company in which the Group has invested have brought in profits to the Group.

During the period, the Group invested HK\$23,600,000 in Zhejiang Kingland Pipeline and Technologies Co., Ltd. 浙江金洲管道科技股份有限公司 representing 20% equity interest in that company.

Prospects

The Group will continue to concentrate its capital and management resources to strengthen its property business in the PRC and to broaden the Group's profit base. Substantial effort will be spent on acquiring land and on improving planning, design and sales of property project. Through coordination of its internal and external resources, the Group will seek ways to enhance value of its assets and to expand its capital base.

In the second half of the year, five property projects in the PRC are expected to be ready for occupation (including the remaining units of Phase 1 of Grandeur Vista). The total area available for sales will be approximately 5,000,000 sq. ft., of which, about 2,000,000 sq. ft. has been pre-sold. It is envisaged that the aggregate new land reserve in the year will exceed 10,000,000 sq. ft. and the Group strives to achieve an annual sales of 10,000,000 sq. ft. gross floor area after two years.

In order to continuously expedite the residential property development in the PRC, China Overseas Property Group Co., Ltd. 中海地產股份有限公司 (“COP”) (formerly known as China Overseas Building Development (Shenzhen) Limited 中海實業有限公司 and 中國海外建築(深圳)有限公司) is converted to a joint stock limited company in August, 2002 for the purpose of providing a board for investing in and raising fund for property development in the PRC. The Group has planned to apply for the listing of COP's shares on the Shanghai Stock Exchange A share market of the PRC (the “Spin-off Plan”). According to the procedure for the listing of securities in the PRC, COP has entered the guidance period on 28th August, 2002, prior to the listing of its shares. Those factors such as when a formal application for the listing of A share market will be made, the nature of business and the size of fund raising will be considered under the circumstances of COP's future business development and the capital market in the PRC. The restructuring of the Group shall bring prosperity for future development.

In the event that an application for the listing of COP's shares is made, the Group will comply with the requirements of the Listing Rules relating to the Spin-off Plan. Further announcement will also be made to advise the shareholders for any developments of the Spin-off Plan.

The Group will adopt measures such as expanding sources of revenue and controlling cost to improve the return of the construction and contracting business.

Currently, the Group had ample cash and financial resources to cope with its rapid expansion and its financial position is sound.

Management Discussion and Analysis

Overall Performance

During the period reported, the Group recorded a turnover of HK\$2,062,396,000 (2001: HK\$3,383,985,000), representing a decrease of 39% compared to the corresponding period of last year. The operating profits for the period was HK\$238,735,000 (2001: HK\$284,255,000). Comparing with the corresponding period, without taking into account of the exceptional gain from investment in Ryoden and the impairment loss in Hong Kong properties, the operating profit of the Group for the period actually increased by 372%. Profit attributable to shareholders was HK\$181,873,000 (2001: HK\$329,004,000) while basic earnings per share was HK3.33 cents (2001: HK6.05 cents) and diluted earnings per share was HK3.29 cents (2001: HK5.94 cents). The Group's total shareholders' funds amounted to HK\$8,102,137,000 (2001: HK\$8,011,170,000). The net asset value per share was HK\$1.48 as at 30th June, 2002 (2001: HK\$1.47).

Income

The operating income from property development business decreased 64% from the corresponding period of last year to HK\$717,044,000, accounted for 35% of the total turnover. This was mainly due to the fact that most of the Nerine Cove Project in HK was sold in the first half of 2001 and there was only a few properties sold during the period. In comparison, income from property sales in the PRC achieved a remarkable performance with an increase of 57% from the first half of 2001.

The turnover of contracting and construction business increased 3% from the corresponding period of last year to HK\$1,188,632,000, accounted for 57% of the total turnover.

Rental income of the properties decreased 5% from the corresponding period of the previous year to HK\$92,401,000, accounted for 4% of the total turnover. This was mainly due to the declining of rent.

Infrastructure investment revenue was HK\$29,681,000 accounted for 1.5% of the total turnover, representing a decrease of 53% from the same period of the previous year. This was mainly due to the early retrieval of investment cost.

Turnover from other operations totalled HK\$34,638,000.

Profit from Operations

During the period reported, profit from operations was HK\$238,735,000 (2001: HK\$50,571,000 (excluding gain on disposal of other investment and impairment loss recognised)), of which:

The property development business contributed about HK\$133,734,000 towards the total profit from operations. The Hong Kong property sector is more or less breakeven, while the profit from the PRC property sector came from stock sales and the 2 projects completed in the period. As the selling price of the properties in Beijing was very satisfactory, the overall sales margin of property business was 19% in the first half of 2002, representing a significant improvement from a loss of 1% (before taking into account of impairment loss recognised) in the first half of 2001;

As there was a fierce competition in the construction market, the profit margin of the construction business decreased. With the implementation of various cost reduction measures, the gross profit margin of contracting and construction business was 7.5%, representing a decrease of only 1.5%. The construction sector contributed about HK\$89,487,000 towards the total profit from operations;

Rental from investment properties remained a stable source of profit and contributed about HK\$68,165,000 towards the profit from operations.

During the period, by allotting new equity interests in COP at a premium, the Group recorded a profit of HK\$9,700,000.

Unallocated Administrative Expenses

The unallocated administrative expenses of the Group for the first half of 2002 were HK\$93,593,000, representing an increase of 33% over the previous year. This was mainly attributable to the provision of approximately HK\$14,820,000 for staff annual leave allowances according to the new accounting policy adopted during the period, as well as the diversity of the Group's business during the period resulting in an increase of the related expenses.

It is expected that the expenses in the second half of the year will be controlled within the budget.

Liquidity, Financial Resources and Gearing

As the interest rate remained low and most of the loans in respect of property projects were settled, the finance costs of the Group in the first half of 2002 decrease significantly, to HK\$31,796,000 representing a decrease of 76% compared with that of the corresponding period last year.

As at 30th June, 2002, the consolidated bank debts of the Group amounted to HK\$3,196,810,000 (2001: HK\$3,032,946,000), of which loans denominated in Hong Kong dollars were HK\$0.5 billion, loans denominated in US dollars were HK\$1.4 billion and loans denominated in Renminbi were HK\$1.3 billion.

The net gearing ratio was 16.0% (2001: 16.6%) (basis: total bank debts net of bank balances and cash, and divided by shareholders' funds).

In January 2002, a RMB2 billion master credit agreement was made in the PRC. In July, the Group successfully arranged the refinancing of the US\$160,000,000 syndicated loan due in September with a 5-year syndicated loan of HK\$1,800,000,000.

The Group's cash and bank balances as at 30th June, 2002 was HK\$1,903,015,000.

All of these bank borrowings were made on a floating-rate basis. The Group has no outstanding derivative exposure either for hedging or speculative purpose.

As there was no material change in the other aspects of the Group comparing to those disclosed in the Company's Annual Report for the year ended 31st December, 2001, including taxation, segmental information, employees, charges on assets, exposure to fluctuation in exchange rates and related hedges and contingent liabilities, no detailed disclosures are made herein.

Share Option Scheme

During the six months ended 30th June, 2002, option to subscribe for a total of 3,730,000 ordinary shares of HK\$0.10 each (the "Shares") of the Company were exercised in which:

- (i) on 1st March, 2002, options to subscribe for 80,000 Shares at an exercise price of HK\$0.52 per Share were exercised and 200,000 Shares at an exercise price of HK\$0.58 per Share were exercised. The weighted average market price immediately before the exercises of such options was HK\$0.98.
- (ii) on 9th April, 2002, options to subscribe for 570,000 Shares at an exercise price of HK\$0.52 per Share were exercised and 300,000 Shares at an exercise price of HK\$0.58 per Share were exercised. The weighted average market price immediately before the exercises of such options was HK\$0.97.
- (iii) on 29th April, 2002, options to subscribe for 800,000 Shares at an exercise price of HK\$0.52 per Share were exercised and 1,300,000 Shares at an exercise price of HK\$0.58 per Share were exercised. The weighted average market price immediately before the exercises of such options was HK\$0.96.
- (iv) on 30th May, 2002, options to subscribe for 380,000 Shares at an exercise price of HK\$0.52 per Share were exercised and 100,000 Shares at an exercise price of HK\$0.58 per Share were exercised. The weighted average market price immediately before the exercises of such options was HK\$0.96.

None of the directors of the Company have exercised any options to subscribe for Shares of the Company.

No options have been granted to any eligible employees (including the directors and independent non-executive directors of the Company) to subscribe for Shares of the Company.

Options to subscribe for 2,150,000 Shares have been lapsed during the six months ended 30th June, 2002.

Directors' Interests in Shares and Rights to Subscribe for Shares

At 30th June, 2002, the interests of the directors and their associates in the share capital of the Company and its associated corporations, within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

(a) Personal Interests in the Shares

Name of director	Number of Shares
Mr. Kong Qingping	460,000
Mr. Yao Peifu	500,000
Mr. Yao Xiancheng	500,000
Mr. Cui Duosheng	5,360,000
Mr. Yip Chung Nam	1,200,000
Mr. Luo Weikang	220,000
Dr. Li Kwok Po, David	200,000
Mr. Li Fuyou (resigned on 18th June, 2002)	500,000

(b) Interests in options to acquire Shares

Name of director	Number of Shares under options granted on			
	17th July, 1997 <i>(Note 1)</i>	14th February, 1998 <i>(Note 2)</i>	30th September, 1998 <i>(Note 3)</i>	4th January, 2000 <i>(Note 4)</i>
Mr. Sun Wen Jie	6,880,000	20,000,000	3,800,000	2,500,000
Mr. Kong Qingping	1,000,000	11,000,000	1,840,000	2,000,000
Mr. Yao Peifu	3,800,000	15,000,000	2,000,000	2,000,000
Mr. Yao Xiancheng	3,800,000	15,000,000	2,000,000	2,000,000
Mr. Cui Duosheng	1,000,000	9,000,000	1,440,000	1,700,000
Mr. Cheung Shiu Kit	1,000,000	—	—	—
Mr. Yip Chung Nam	800,000	1,000,000	—	—
Mr. Luo Weikang	900,000	5,000,000	880,000	1,500,000
Mr. Wu Jianbin	550,000	800,000	720,000	1,300,000
Mr. Li Fuyou (resigned on 18th June, 2002)	3,800,000	15,000,000	2,000,000	2,000,000

Notes:

- (1) The share options were granted at an exercise price of HK\$4.06 per Share, exercisable for the period from 17th July, 1998 to 16th July, 2007 (both days inclusive).
- (2) The share options were granted at an exercise price of HK\$1.08 per Share, exercisable for the period from 14th February, 1999 to 13th February, 2008 (both days inclusive).
- (3) The share options were granted at an exercise price of HK\$0.52 per Share, exercisable for the period from 30th September, 1999 to 29th September, 2008 (both days inclusive).
- (4) The share options were granted at an exercise price of HK\$0.58 per Share, exercisable for the period from 4th January, 2001 to 3rd January, 2010 (both days inclusive).

Save as disclosed above, none of the directors or their associates had or were deemed to have any interests in any securities of the Company or any of its associated corporations (as defined in the SDI Ordinance) and none of the directors, or their spouse or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the period.

Share Capital and Substantial Shareholders

Share Capital

The Company's total issued share capital as at 30th June, 2002 was 5,467,753,609 Shares.

Substantial Shareholders

At 30th June, 2002, according to the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance, the following shareholders had an interest of 10% or more in the share capital of the Company:

Name of shareholder	Number of Shares held	Percentage of interests
China Overseas Holdings Limited ("COHL")	3,122,890,800	57.11%
China State Construction Engineering Corporation ("CSCEC")	3,122,890,800	57.11%

CSCEC owns 100% of COHL and is accordingly deemed by the SDI Ordinance to be interested in 3,122,890,800 Shares directly owned by COHL.

Save as disclosed above, the Company has not been notified of any other interests representing 10% or more of the Company's issued share capital at 30th June, 2002.

Corporate Governance

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30th June 2002, in compliance with Appendix 14 of the Rules Governing the Listing of Securities of the Stock Exchange.

Purchase, Sale or Redemption of the Company's Listed Securities

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the period.

Review of Interim Report

The unaudited interim report of the Group for the six months ended 30th June, 2002 was reviewed by the members of the Audit Committee of the Company.

I would like to take this opportunity to express our most sincere thanks to the trust and support extended to the Group by various sectors of the community, our shareholders and our staff.

By order of the Board
Kong Qingping
Vice Chairman and Chief Executive

Hong Kong, 12th September, 2002