香港建設(控股)有限公司

HONG KONG CONSTRUCTION (HOLDINGS) LIMITED

Interim Report **2002**

CONSOLIDATED PROFIT AND LOSS ACCOUNT
for the six months ended 30 June 2002 – unaudited
(Expressed in Hong Kong dollars)

		Six months ended 30 June	
		2002	2001
	Note	***$ Million***	*$ Million*
Turnover	*3*	**709.8**	816.8
Cost of sales		**(786.7)**	(901.1)
Gross loss		**(76.9)**	(84.3)
Other revenue	*4*	**11.6**	13.1
Other net income	*5(a)*	**12.8**	14.5
Administrative expenses		**(46.0)**	(66.3)
Other operating expenses		**(0.2)**	(3.5)
Loss from operations		**(98.7)**	(126.5)
Finance costs	*5(b)*	**(63.1)**	(108.4)
Share of profits less losses of associates		**30.1**	(63.7)
Share of profits less losses of jointly controlled entities		**(6.3)**	9.4
Loss from ordinary activities before taxation	*5*	**(138.0)**	(289.2)
Taxation	*6*	**(1.4)**	(1.2)
Loss attributable to shareholders		**(139.4)**	(290.4)
Loss per share			
Basic	*7*	**(22.9) cents**	(57.2) cents

The notes on pages 5 to 17 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2002 – unaudited
(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June 2002 $ Million	2001 $ Million
Balance at 1 January		**1,075.3**	2,094.9
Change in accounting policy in respect of retirement benefits	*1(a) & 16*	**14.0**	–
As restated		**1,089.3**	2,094.9
Exchange differences on translation of the financial statements of foreign entities	*16*	**(1.0)**	–
Deficit on revaluation of non-trading securities		**–**	(0.8)
Net losses not recognised in the profit and loss account		**(1.0)**	(0.8)
Net loss for the period	*16*	**(139.4)**	(290.4)
Realisation of exchange reserve on disposal of a subsidiary	*16*	**(2.7)**	(2.4)
Realisation of investment properties revaluation reserve on disposal of a subsidiary		**–**	19.1
Realisation of revaluation reserve on disposal of non-trading securities	*16*	**0.4**	–
		(141.7)	(273.7)
Balance at 30 June		**946.6**	1,820.4

The notes on pages 5 to 17 form part of this interim financial report.

CONSOLIDATED BALANCE SHEET

At 30 June 2002 – unaudited
(Expressed in Hong Kong dollars)

	Note	At 30 June 2002 $ Million	At 31 December 2001 $ Million
ASSETS			
Non-current assets			
Fixed assets	8		
– Investment properties		**431.1**	454.3
– Other property, plant and equipment		**39.9**	41.2
		471.0	495.5
Properties held for development		**397.0**	397.0
Interest in associates	9	**2,101.1**	2,069.7
Interest in jointly controlled entities	10	**147.1**	149.5
Non-current receivables		**76.0**	61.7
Other non-current financial assets		**21.4**	22.1
Pledged deposits		**13.9**	18.9
		3,227.5	3,214.4
Current assets			
Properties held for sale	11	**123.0**	123.0
Trading securities		**0.3**	0.3
Trade and other receivables	12	**887.6**	985.9
Pledged deposits		**173.8**	197.2
Cash and cash equivalents	13	**280.2**	433.2
		1,464.9	1,739.6
TOTAL ASSETS		**4,692.4**	4,954.0
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	15	**607.9**	607.9
Reserves	16	**338.7**	467.4
		946.6	1,075.3
Minority interests		**83.9**	79.1
Non-current liabilities			
Amounts due to associates	9	**36.3**	37.7
Amounts due to jointly controlled entities	10	**–**	11.9
Creditors and accrued expenses		**180.9**	193.1
		217.2	242.7
Current liabilities			
Trade and other payables	14	**1,351.8**	1,447.4
Bank loans and overdraft	17	**1,822.8**	1,837.0
Floating rate notes	18	**205.5**	206.2
Taxation		**64.6**	66.3
		3,444.7	3,556.9
TOTAL EQUITY AND LIABILITIES		**4,692.4**	4,954.0

The notes on pages 5 to 17 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
for the six months ended 30 June 2002 – unaudited
(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2002	2001
	$ Million	*$ Million*
Net cash used in operating activities	**(170.1)**	(151.8)
Net cash from investing activities	**23.0**	572.5
Net cash used in financing activities	**(5.9)**	(339.1)
Net (decrease)/increase in cash and cash equivalents	**(153.0)**	81.6
Cash and cash equivalents at 1 January	**433.2**	69.8
Cash and cash equivalents at 30 June	**280.2**	151.4

The notes on pages 5 to 17 form part of this interim financial report.

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

1. Basis of preparation

This interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports", issued by the Hong Kong Society of Accountants ("HKSA"). KPMG's independent review report to the board of directors is included on page 18.

The interim financial report has been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited, including compliance with Statement of Standard Accounting Practice 25 "Interim financial reporting" issued by the HKSA.

The financial information relating to the financial year ended 31 December 2001 included in the interim financial report does not constitute the Group's statutory accounts for that financial year but is derived from those accounts. Statutory accounts for the year ended 31 December 2001 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those accounts in their report dated 22 April 2002.

The same accounting policies adopted in the 2001 annual accounts have been applied to the interim financial report, except that the Group has adopted the following new and revised Statements of Standard Accounting Practice ("SSAPs") which became effective for the current accounting period.

(a) *SSAP 34 "Employee benefits"*

In prior years, retirement benefit costs were charged to the profit and loss account over the expected service lives of the members of the scheme on the basis of level percentages of pensionable pay.

With effect from 1 January 2002, in order to comply with SSAP 34, the Group adopted a new accounting policy for defined benefit retirement plans. Under the new policy, the Group's net obligation in respect of its defined benefit retirement plan is calculated by estimating the amount of benefit that employees have earned in return for their services in the current and prior periods. That benefit is discounted to determine the present value of the defined benefit obligation and the current service cost, and the fair value of any plan assets is deducted.

Where the calculation of the Group's net obligation results in a negative amount, the asset recognised is limited to the net total of any recognised actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

As a result of the adoption of this accounting policy, the Group's loss for the period has been decreased by $0.5 million and the net assets as at 30 June 2002 have been increased by $14.5 million. The effect of adopting the new accounting policy has been adjusted to the opening balance of accumulated losses for the period. No restatement of the comparative information has been made.

(b) *SSAP 11 (revised) "Foreign currency translation"*

In previous years, the results of foreign entities were translated at exchange rates ruling at the balance sheet date.

SSAP 11 (revised) has eliminated the choice of translating the results of foreign entities at the closing rate for the period. The results of foreign entities are now required to be translated at the average exchange rates during the period. This change in accounting policy has not had any material effect on the results for the current or prior accounting periods.

(c) *SSAP 1 (revised) "Presentation of financial statements" and SSAP 15 (revised) "Cash flow statements".*

Certain presentational changes have been made in accordance with SSAP 1 (revised) and SSAP 15 (revised).

2. Going concern basis

On 1 December 2000, the Company requested an informal standstill arrangement with its bankers on the payment of all Hong Kong bank loan principal and interest totalling approximately $1.9 billion, pending negotiation and agreement on a formal debt restructuring plan. The Company has also requested a similar standstill arrangement with the holders of the floating rate notes ("the FRNs") with an outstanding balance of US$37 million issued by Hong Kong Construction (Capital) Limited, a wholly-owned subsidiary of the Company. The FRNs were due for repayment on 13 December 2000. In accordance with the terms of the issue of the FRNs and the bank facility agreements, the Group was in default of the FRNs and all its bank borrowings.

On 27 August 2002, the Company and its wholly-owned subsidiaries entered into a restructuring agreement ("the Restructuring Agreement") with its bank creditors setting out the general terms and principles that will form the basis of the formal restructuring of the Group's Hong Kong bank indebtedness. The holders of the FRNs have also been offered similar terms. The documentation and closing of the formal restructuring, which will be subject to certain conditions precedent, is expected to occur on or before 31 December 2002 or such later date as the bank creditors may agree with the Company. The outstanding principal and interest of the Hong Kong bank indebtedness and the FRNs subject to restructuring totalled approximately $2,043.9 million as at 30 June 2002.

The directors are currently taking active steps with a view to achieve closing of the formal debt restructuring as soon as practicable and to implement the proposed property asset disposal strategy included in the Restructuring Agreement. The directors believe that the ongoing support from its bankers will continue and the measures to be taken under the debt restructuring plan will enable the Group to continue in operational existence for the foreseeable future.

Accordingly, the directors are satisfied that it is appropriate to prepare the interim financial report on a going concern basis, notwithstanding the Group's financial position as at 30 June 2002. Should the Group be unable to continue in business as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effects of these adjustments have not been reflected in the interim financial report.

3. Segmental information

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

	Hong Kong *$ Million*	The People's Republic of China *$ Million*	Unallocated *$ Million*	Consolidated *$ Million*
Six months ended 30 June 2002 –				
Revenue from external customers	**669.3**	**40.5**	**–**	**709.8**
Other revenue	**–**	**4.6**	**7.0**	**11.6**
Total revenue	**669.3**	**45.1**	**7.0**	**721.4**
Segment (loss)/profit	**(84.0)**	**11.7**		**(72.3)**
Unallocated operating income and expenses				**(26.4)**
Loss from operations				**(98.7)**

	Hong Kong *$ Million*	The People's Republic of China *$ Million*	Unallocated *$ Million*	Consolidated *$ Million*
Six months ended 30 June 2001 –				
Revenue from external customers	770.6	46.2	–	816.8
Other revenue	–	1.6	11.5	13.1
Total revenue	770.6	47.8	11.5	829.9
Segment (loss)/profit	(91.8)	9.1		(82.7)
Unallocated operating income and expenses				(43.8)
Loss from operations				(126.5)

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

	Construction *$ Million*	Property leasing *$ Million*	Unallocated *$ Million*	Consolidated *$ Million*
Six months ended 30 June 2002 –				
Revenue from external customers	**700.8**	**9.0**	**–**	**709.8**
Other revenue	**–**	**4.6**	**7.0**	**11.6**
Total revenue	**700.8**	**13.6**	**7.0**	**721.4**
Segment (loss)/profit	**(85.9)**	**13.6**		**(72.3)**
Unallocated operating income and expenses				**(26.4)**
Loss from operations				**(98.7)**

	Construction *$ Million*	Property leasing *$ Million*	Unallocated *$ Million*	Consolidated *$ Million*
Six months ended 30 June 2001 –				
Revenue from external customers	807.7	9.1	–	816.8
Other revenue	–	1.6	11.5	13.1
Total revenue	807.7	10.7	11.5	829.9
Segment (loss)/profit	(93.3)	10.6		(82.7)
Unallocated operating income and expenses				(43.8)
Loss from operations				(126.5)

4. Other revenue

	Six months ended 30 June	
	2002 ***$ Million***	2001 *$ Million*
Interest income	**3.4**	7.5
Property fee income	**4.6**	1.6
Other income	**3.6**	4.0
	11.6	13.1

5. Loss from ordinary activities before taxation

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

	Six months ended 30 June	
	2002	2001
	$ Million	*$ Million*
(a) Other net income		
Net realised and unrealised loss/(gain) on trading securities carried at fair value	**0.1**	(0.1)
Exchange loss/(gain)	**9.1**	(30.5)
Loss on disposal of a subsidiary	**–**	16.6
Profit on disposal of fixed assets	**(15.5)**	–
Gain on liquidation of a subsidiary	**(7.0)**	–
Others	**0.5**	(0.5)
	(12.8)	(14.5)

	Six months ended 30 June	
	2002	2001
	$ Million	*$ Million*
(b) Finance costs		
Interest on bank advance and other borrowings repayable within five years	**63.1**	108.4

	Six months ended 30 June	
	2002	2001
	$ Million	*$ Million*
(c) Other items		
Depreciation	**1.2**	1.2

6. Taxation

	Six months ended 30 June	
	2002	2001
	$ Million	*$ Million*
PRC taxation	**0.9**	0.1
Share of associates' taxation	**0.5**	1.1
	1.4	1.2

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

7. Loss per share

(a) Basic loss per share

The calculation of basic loss per share is based on loss attributable to shareholders of $139.4 million (2001: $290.4 million) and on 607.9 million (2001: 507.9 million) ordinary shares in issue during the period.

(b) Diluted loss per share

There were no dilutive potential ordinary shares in existence during the six months ended 30 June 2002 and 2001.

8. Fixed assets

Investment properties were not revalued at 30 June 2002 as the Directors considered that the value of investment properties did not differ significantly between 31 December 2001 and 30 June 2002.

9. Interest in associates

	At 30 June 2002 *$ Million*	At 31 December 2001 *$ Million*
Share of net deficits	**(485.0)**	(513.2)
Amounts due from associates, less provision	**2,586.1**	2,582.9
	2,101.1	2,069.7
Amounts due to associates	**(36.3)**	(37.7)
	2,064.8	2,032.0

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

The amounts due from associates include $54.7 million (at 31 December 2001: $50.0 million) which is interest-bearing at various rates up to 10.0% per annum.

10. Interest in jointly controlled entities

	At 30 June 2002 $ Million	At 31 December 2001 $ Million
Share of net deficits	**(200.5)**	(193.3)
Amounts due from jointly controlled entities	**347.6**	342.8
	147.1	149.5
Amounts due to jointly controlled entities	**–**	(11.9)
	147.1	137.6

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

The amounts due from jointly controlled entities include $181.4 million (at 31 December 2001: $193.3 million) which is interest-bearing at 10.0% per annum.

11. Properties held for sale

Included in properties held for sale are amounts of $123.0 million (at 31 December 2001: $123.0 million), stated net of a general provision, made in order to state these properties at the lower of their cost and estimated net realisable value.

12. Trade and other receivables

	At 30 June 2002 $ Million	At 31 December 2001 $ Million
Gross amount due from customers for contract work	**264.0**	268.2
Amounts due from associates	**95.0**	95.0
Debtors, deposits and prepayments	**528.6**	622.7
	887.6	985.9

(a) Included in the gross amount due from customers for construction contracts of the Group is $140.1 million (at 31 December 2001: $160.0 million) relating to contract work of which one of the company's subsidiaries is a sub-contractor. The subsidiary has submitted claims to the employer, which is one of the Group's jointly controlled entities, in respect of the work in progress. The claims are currently disputed by the employer principally on the basis that certain contra charges have yet to be agreed. Advances received from the employer amounted to $181.0 million as at 30 June 2002 (at 31 December 2001: $181.0 million). No counterclaim from the employer has been received by the subsidiary up to the date of approval of this interim financial report. The construction contracts were substantially completed during the year ended 31 December 2001 and the matter will be placed under arbitration.

Based on legal advice, the directors are confident that the subsidiary will succeed in its claims and accordingly, the gross amount due from customers for contract work of $140.1 million (at 31 December 2001: $160.0 million) will be recovered in full and no provision is considered necessary in this respect.

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

	At 30 June 2002	At 31 December 2001
	$ Million	*$ Million*
0 to less than 2 months	**106.4**	186.7
2 to less than 6 months	**16.1**	23.8
6 to less than 12 months	**33.6**	14.2
12 months and more	**95.9**	106.3
	252.0	331.0
Retention monies receivable due within one year	**110.9**	103.4
	362.9	434.4

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

13. Cash and cash equivalents

	At 30 June 2002	At 31 December 2001
	$ Million	*$ Million*
Deposits with banks and other financial institutions	**159.4**	23.9
Cash at bank and in hand	**120.8**	409.3
	280.2	433.2

14. Trade and other payables

	At 30 June 2002 *$ Million*	At 31 December 2001 *$ Million*
Advances received from a jointly controlled entity	**181.0**	181.0
Creditors and accrued expenses	**949.0**	982.2
Gross amount due to customers for contract work	**101.8**	164.2
Other loans *(note 17)*	**120.0**	120.0
	1,351.8	1,447.4

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

	At 30 June 2002 *$ Million*	At 31 December 2001 *$ Million*
0 to less than 2 months	**130.6**	130.1
2 to less than 6 months	**37.7**	16.7
6 to less than 12 months	**13.1**	30.7
12 months and more	**34.7**	25.5
	216.1	203.0
Retention monies payable due within one year	**119.0**	83.2
	335.1	286.2

15. Share capital

	No. of share	***$ Million***
Issued and fully paid:		
At 1 January and 30 June 2002	607,853,996	607.9

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

At 30 June 2002, the outstanding options were:

Date option granted	Period during which options exercisable	Exercise price	Number of options outstanding at the period end
20 May 1998	20 November 1998 to 19 May 2005	$3.48	14,920,000
18 June 1998	18 December 1998 to 18 June 2005	$2.29	2,950,000
28 September 1998	28 March 1999 to 28 September 2005	$1.48	3,000,000

16. Reserves

	Share premium	Capital redemption reserve	Capital reserve	Exchange reserve	Revaluation reserves Investment properties	Revaluation reserves Investment in non-trading securities	Accumulated losses	Total
	$ Million	*$ Million*	*$ Million*	*$ Million*	*$ Million*	*$ Million*	*$ Million*	*$ Million*
At 1 January 2002								
– As previously reported	1,369.6	14.6	175.7	(15.3)	6.3	(0.4)	(1,083.1)	467.4
– Prior year adjustment in respect of retirement benefits	–	–	–	–	–	–	14.0	14.0
– As restated	1,369.6	14.6	175.7	(15.3)	6.3	(0.4)	(1,069.1)	481.4
Realisation on disposal of a subsidiary	–	–	–	(2.7)	–	–	–	(2.7)
Realisation on disposal of non-trading securities	–	–	–	–	–	0.4	–	0.4
Exchange differences on translation of financial statements of foreign entities	–	–	–	(1.0)	–	–	–	(1.0)
Loss for the period	–	–	–	–	–	–	(139.4)	(139.4)
At 30 June 2002	1,369.6	14.6	175.7	(19.0)	6.3	–	(1,208.5)	338.7

17. Interest-bearing borrowings

At 30 June 2002, the interest-bearing borrowings were secured as follows:

	At 30 June 2002 *$ Million*	At 31 December 2001 *$ Million*
Bank overdraft		
– secured	**40.5**	31.3
– unsecured	**0.4**	–
Bank loans		
– secured	**1,725.2**	1,749.0
– unsecured	**56.7**	56.7
	1,822.8	1,837.0
Other loans *(note 14)*		
– unsecured	**120.0**	120.0
Floating rate notes *(note 18)*		
– secured	**205.5**	206.2

Included in the balance of other loans is a loan from a related party, China Everbright Holdings Co Ltd, amounting to $120.0 million (at 31 December 2001: $120.0 million). The loan is unsecured, interest-bearing at 7.0% per annum and repayable on demand.

18. Floating rate notes

On 11 December 1997, a wholly-owned subsidiary issued floating rate notes ("the FRNs") which are denominated in United States dollars and guaranteed by the Company, with principal amount of US$65 million. The notes bear interest at the rate of 0.875% per annum above the London Interbank Offered Rate for six month US dollars deposits payable semi-annually. The original redemption date of the FRNs is 13 December 2000.

19. Contingent liabilities

(a) Contingent liabilities at the balance sheet date in respect of guarantees given to banks and other lenders to secure loans and advances to associates amounted to $100.2 million (at 31 December 2001: $1,162.4 million).

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

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

(d) At 30 June 2002, one of the Group's associates has conducted a review of certain billing arrangements with the Group, and as of the date of approval of this interim financial report, this associate is still in the process of assessing the validity of certain development costs charged in previous years by the Group for the development of this associate's property in Guangzhou, the PRC.

No provision in respect of the above review is considered necessary in the interim financial report by the Directors as the review of development costs is still ongoing.

(e) At 30 June 2002, one of the Company's subsidiaries has received claims from former subcontractors in relation to the alleged non-payments for construction work done totalling $62.4 million ("the alleged claims") (at 31 December 2001: $55.7 million). The subsidiary is in the process of preparing counterclaims to these former subcontractors for replacement costs and damages in substantially the same amount as the alleged claims.

Based on legal advice, the directors are confident that the alleged claims are unlikely to be enforced against the subsidiary. Accordingly, no provision is considered necessary by the Directors at the balance sheet date.

20. Material related party transactions

(a) During the period, the Group had several construction contracts with a group ("the related group"), which can exercise significant influence over the Group in making financial and operating decisions, for the provision of consulting and engineering services on a combination of cost plus basis and fixed price basis. Progress payments received and receivable from these related companies amounted to $3.0 million during the period ended 30 June 2002 (6 months ended 30 June 2001: $9.9 million).

The amount due from the related group at the period end amounted to $111.3 million (at 31 December 2001: $126.5 million).

(b) During the period, another related group provided construction services to the Group and charged progress payment amounting to $89.3 million (6 months ended 30 June 2001: $Nil). The net amount due to this related group at the period end amounted to $24.5 million (at 31 December 2001: $9.4 million).

(c) During the period, the Group had the following transactions with one of its associates:

(i) Charged interest on shareholders' loans amounting to $1.3 million (6 months ended 30 June 2001: $1.9 million). Interest is charged at various rates up to 5% p.a. during the period (6 months ended 30 June 2001: 9% p.a.).

(ii) The net amount due from these associates at the period end amounted to $435.8 million (at 31 December 2001: $429.5 million).

(d) During the period, certain employees of the Group were seconded to certain jointly controlled entities and the Group charged staff costs amounting to $3.2 million (6 months ended 30 June 2001: $11.1 million). The net amount due from these jointly controlled entities in this connection at the period end amounted to $119.6 million (at 31 December 2001: $110.1 million).

(e) The Group provided construction services to certain of its joint ventures and charged progress payment amounting to $19.0 million during the period (6 months ended 30 June 2001: $Nil). The net amount due to these joint ventures at the period end amounted to $26.0 million (at 31 December 2001: $34.0 million).

(f) Included in other loans under trade and other payables is an amount advanced from a related party, amounting to $120.0 million (at 31 December 2001: $120.0 million) at the period end (see note 17). Interest paid and payable to this related party amounted to $4.5 million for the period (6 months ended 30 June 2001: $4.2 million).

21. Approval of interim financial report

The interim financial report was approved and authorised for issue by the board of directors on 23 September 2002.

KPMG

INDEPENDENT REVIEW REPORT TO THE BOARD OF DIRECTORS OF HONG KONG CONSTRUCTION (HOLDINGS) LIMITED

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 1 to 17.

Directors' responsibilities

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Statement of Standard Accounting Practice 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants. The interim financial report is the responsibility of, and has been approved by, the directors.

Review work performed

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Society of Accountants.

A review consists principally of making enquiries of Group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Fundamental uncertainty

In arriving at our review conclusion, we have considered the adequacy of the disclosures made in the interim financial report concerning the continued support of the Group's bankers and the ability of the Group to obtain sufficient external funding. The interim financial report has been prepared on a going concern basis, the validity of which depends upon the ongoing support of the Group's bankers and the successful outcome of the Group's restructuring plan. The interim financial report does not include any adjustments that would result from a failure to obtain such support or to implement the restructuring plan. Details of the circumstances relating to this fundamental uncertainty are described in note 2 to the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2002.

KPMG
Certified Public Accountants

Hong Kong, 23 September 2002

FINANCIAL REVIEW AND ANALYSIS

Results

The Directors report that the unaudited consolidated loss attributable to shareholders for the six months ended 30 June 2002 was $139.4 million, compared to loss attributable to shareholders of $290.4 million for the corresponding period of the previous year. It is due mainly to a loss arising from ongoing construction projects of $85.9 million. The finance costs for the current period decreased to $63.1 million from $108.4 million for the corresponding period of last year, benefiting from the fall of market interest rate. The share of profit of associates was $30.1 million compared with the share of losses of associates of $63.7 million for the last corresponding period. It is mainly because of the steady performance of the rental market in the PRC and no provision for loss on buy-back guarantee for property sold by associates is required in the current period. Loss per share decreased to 22.9 cents from 57.2 cents for the corresponding period of the previous year. The Directors did not recommend the payment of any interim dividends.

Debt Restructuring

At the end of 2000, the Group faced liquidity problems and failed to repay its loans when they were due. This included an aggregate indebtedness of $1.9 billion to its bank creditors in Hong Kong and floating rate notes ("FRNs") of US$37 million due for repayment on 13 December 2000. The Group immediately appointed KPMG Financial Advisory Services as financial adviser for its debt restructuring scheme.

The Company has entered into a restructuring agreement on 27 August 2002 ("Restructuring Agreement") with the banks. The Restructuring Agreement sets out those terms and principles and provides that formal documentation ("Formal Documentation") to implement the same will be entered into between the Company and the banks in due course. The Formal Documentation is to be entered into on or before 31 December 2002 or such later date as may be agreed by a simple majority of the bank creditors' steering committee. Whilst one minor change to the termination provisions for the standstill arrangement set out in the standstill letter entered into by the Company and certain of its subsidiaries with its bank creditors on 11 June 2001 ("Standstill Letter") has been made by the Restructuring Agreement all other terms and provisions of the Standstill Letter remain in place.

Similar terms, as those agreed with the Banks, have been offered to the holders of the guaranteed FRNs due 2000 issued by a subsidiary of the Company and guaranteed by the Company.

Liquidity and financial resources

The Group's borrowings at the balance sheet date comprised Hong Kong and PRC bank loans of $1.82 billion and the FRNs of US$26.3 million (after debt auction in 2001). As the Group and the Company were in default of all these borrowings at the balance sheet date, these amounts became due immediately and were classified as current liabilities.

All these borrowings are interest bearing with interest rates fixed at market rates plus margin at various intervals of time from one month to one year after the previous fixing. The majority of the borrowings are denominated in Hong Kong dollars. As of the balance sheet date the foreign currency borrowings included US$ borrowings of

12.1%, RMB borrowings of 7.8% and Japanese Yen borrowings of 5.1% approximately of the total borrowings. The Group had pledged deposits of $187.7 million and cash and cash equivalents of $280.2 million at the balance sheet date. The Group has not used financial instruments for currency hedging purposes.

Details of charges on Group assets

The Company and certain of its subsidiaries have entered into a guarantee and debenture dated 3 December 2001, under which all of their assets and properties were charged by way of fixed and floating charges in favour of the bank creditors and the holders of the FRNs for the purpose of securing the Hong Kong bank indebtedness and the FRNs.

Gearing ratio

The Borrowings to Equity Ratio of the Group as at 30 June 2002 amounted to 177.5% (at 31 December 2001: 140.8%), being the ratio of "total borrowings less cash and cash equivalents and pledged deposits" divided by "shareholders' equity".

BUSINESS REVIEW

Construction

The Group had in hand contracts valued at $6.3 billion at the end of August 2002 (excluding the share of joint venture partners). They included a construction contract for residential development at the Tung Chung Station, a construction contract for residential development at Lai Chi Kok, one government joint venture contract for Penny's Bay reclamation stage 1, three West Rail projects, the widening of Tolo Highway, improvement works at Tuen Mun Wong Chu Road, Qingzhou Min Jiang Bridge in Fuzhou, Shanghai Outer Ring Tunnel project and a Chinese government joint venture contract for main construction of the National Grand Theatre in Beijing. The Group has been actively restructuring its construction business so as to form a major source of income. It is now tendering for several private contracts and plans to bid for large-scale construction projects in both China and Hong Kong, such as Shenzhen Convention and Exhibition Centre, Lamma Power Station Extension and Design and Construction of Central Government Complex, Legislative Council Complex, Exhibition Gallary and Civic Place at Tamar, Central, Hong Kong.

Property

The Group has interests in first class commercial and residential developments in Shenzhen, Guangzhou, Haikou and Beijing. The influx of foreign investors to open up the Chinese market in recent years coupled with the successful entry of China into WTO in 2001 help stabilized the Group's rental income generated from the commercial property markets in Shenzhen and Guangzhou although the property sales market remain sluggish.

Employees

At the end of June 2002, there were a total of approximately 398 employees employed by the Group. The employees are remunerated according to the nature of jobs, their and the Group's performance, and market conditions. Some of the employees are entitled to year end bonus and participation in the share option scheme of the Group.

OUTLOOK

Although signs have emerged that the US economy has improved in the past few months, the speed or robustness of the economic recovery of Hong Kong is still uncertain with continuing high unemployment rate, falling property prices and deflationary pressure are expected to continue to undermine local consumer confidence and investment sentiments. The rest of the year will continue to be challenging for the Group. In view of such challenging operating environment, the Group will continue the corporate strategy of restructuring the organization, streamline the operations, dispose of the non-core business and assets, rehabilitate the under-performing business and apply stringent cost control.

INTERIM DIVIDEND

The Directors do not recommend the payment of any interim dividend for the period (2001: $Nil).

PRACTICE NOTE 19 TO THE LISTING RULES

The Company itself and through its subsidiaries have entered into contractual joint venture agreements with several joint venture members and have undertaken substantial investments for development of certain properties and infrastructure projects, and construction works. Pursuant to these agreements, investments were made to joint venture companies in the form of capital and advances in proportion to the respective joint venture members' capital contribution ratios or in accordance with the terms of the joint venture agreements. These investments were classified under the headings "Interest in jointly controlled entities" and "Interest in associates" in the consolidated balance sheet of the Company and its subsidiaries. Details of such investments as at 30 June 2002 are disclosed below:–

Affiliated companies	% interest attributable to the Group	Amounts due from affiliated companies	Guarantee given for facilities utilised by affiliated companies	Annual interest rate on advances
		$ Million	*$ Million*	
Karbony Investment Ltd	40%	845.4	100.2	Interest free
Hong Kong Construction SMC Development Ltd	40%	110.7	–	Partial interest free/Partial bearing interest at 10% per annum
Hainan Yangpu Land Development Co. Ltd	30%	4.3	–	Interest free
Hainan Yangpu Merchant Co. Ltd	25%	26.6	–	Interest free
Hong Kong Construction Kam Lung Ltd	50%	466.8	–	Interest free

Affiliated companies	% interest attributable to the Group	Amounts due from affiliated companies	Guarantee given for facilities utilised by affiliated companies	Annual interest rate on advances
		$ Million	*$ Million*	
Right Choice International Ltd	27.5%	238.5	–	Interest free
Dorboy Investment Ltd	50%	399.4	–	Interest free
Quick Wealth Investments Ltd	50%	435.8	–	Partial interest free/Partial bearing interest at HK$ prime rate
Greenway Venture Ltd	20%	54.0	–	Interest free
First Choice International Development Ltd	25%	120.6	–	Interest free
Forsum Ltd	36.25%	1.7	–	Interest free
Hainan Zhong-gu Property Co. Ltd	50%	181.4	–	Interest bearing at 10% per annum
Hong Kong Construction-AMEC Joint Venture	55%	86.3	–	Interest free
Hong Kong Construction-Maeda-CRABC Joint Venture	34%	37.7	–	Interest free
HK ACE Joint Venture	30%	33.3	–	Interest free
AMEC-Hong Kong Construction CC-202 Joint Venture	35%	8.5	–	Interest free
BCJ Joint Venture	20%	0.2	–	Interest free
Hong Kong Construction Maeda-Yokogawa-Hitachi Joint Venture	25%	0.3	–	Interest free
		3,051.5	100.2	

Notes:

– The advances are unsecured, without fixed repayment terms and are repayable in cash out of the net cash surplus from operation of the affiliated companies.

– The advances made were funded by internal resources and by bank borrowings for general working capital purposes.

– There is no committed capital injection and committed amount to be advanced to the affiliated companies by the Group.

– Save for those mentioned above, no guarantee has been given by the Group for facilities granted to the above mentioned affiliated companies.

As at 30 June 2002, total committed capital injections, advances made, committed advances to be made to affiliated companies and guarantees given by the Group for facilities utilised by affiliated companies, in aggregate, amounted to approximately $3,151.7 million which represented approximately 332.9% of the net asset value of the Group as at 30 June 2002.

As the circumstances giving rise to this disclosure will probably continue to exist, the Board will ensure that the required details will be disclosed in the subsequent interim reports and annual reports providing adequate and sufficient information to allow investors to make an informed assessment of the financial position of the Group.

A proforma combined balance sheet of the affiliated companies as at 30 June 2002 is presented below:

	Combined total	
	$ Million	*$ Million*
Fixed assets		
Investment properties		3,295.4
Hotel properties		735.9
Others		40.3
		4,071.6
Land and properties under development		2,196.3
Interest in jointly controlled entities		1,287.2
Other non-current assets		1,416.9
Current assets		
– Properties held for sale	981.4	
– Other current assets	1,075.7	
		2,057.1
Total assets		11,029.1
Share capital	1,221.4	
Reserves	(1,397.5)	(176.1)
Non-current liabilities		
– Advances from shareholders	6,170.7	
– Bank and other loans	1,373.9	
– Other non-current liabilities	23.9	7,568.5
Current liabilities		
– Amounts due to shareholders/joint venturers	1,089.8	
– Current portion of bank loans	257.0	
– Other current liabilities	2,289.9	3,636.7
Equity and liabilities		11,029.1

Attributable interest of the affiliated companies to the Group as at 30 June 2002 amounted to a deficit of $662.9 million.

SHARE OPTION SCHEME

The Company has a share option scheme which was adopted on 22 January 1998 ("Adoption Date") whereby the directors of the Company at any time within 10 years after the Adoption Date are authorised, at their discretion, to invite employees of the Group, including Directors of any Company in the Group, to take up options to subscribe for shares of the Company. The exercise price of options was determined by the board and was the higher of the nominal value of the shares and 80% of the average of the closing prices of the shares on The Stock Exchange of Hong Kong Ltd for the five business days immediately preceding the date of the grant. The options vest after 6 months and are exercisable for various periods of not exceeding $9^1/_2$ years commencing 6 months after the date on which the grant of the option is accepted, or up to 21 January 2008, whichever is earlier.

The maximum number of shares in respect of which options may be granted under the share option scheme may not exceed 10% of the issued share capital of the Company from time to time excluding any shares issued pursuant to the scheme.

At 30 June 2002, the directors and employees of the Company had the following interests in options to subscribe for shares of the Company (market value per share at 30 June 2002 is $0.69) granted at nominal consideration under the share option scheme of the Company. Each option gives the holder the right to subscribe for one share.

	Date of grant	Exercise price per share $	Number of options outstanding at 1 January 2002	Number of options cancelled during the period	Number of options outstanding at 30 June 2002
Directors					
CHEN Libo	20/5/1998	3.48	4,000,000	–	4,000,000
	18/6/1998	2.29	2,000,000	–	2,000,000
	28/9/1998	1.48	3,000,000	–	3,000,000
Employees	20/5/1998	3.48	7,920,000	(600,000)	7,320,000
	18/6/1998	2.29	950,000	–	950,000
	28/9/1998	1.48	1,000,000	(1,000,000)	–
Other participants	20/5/1998	3.48	8,600,000	(5,000,000)	3,600,000
	18/6/1998	2.29	2,000,000	(2,000,000)	–
	28/9/1998	1.48	2,000,000	(2,000,000)	–

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

At 30 June 2002, the Directors and chief executive had the following interests in the share capital and options of the Company (within the meaning of the Securities (Disclosure of Interests) Ordinance):

(i) Shares

Name of director	Number of ordinary shares Personal interests
CHEN Libo	3,800,000

(ii) Options to subscribe for shares of $1.00 each in the Company granted under the share option scheme of the Company

Name of director	Date of grant	Exercise price per share $	Consideration paid for the options granted $	Number of options exercised during the six months ended 30 June 2002	Number of options outstanding at 30 June 2002
CHEN Libo	20/5/1998	3.48	1	–	4,000,000
	18/6/1998	2.29	1	–	2,000,000
	28/9/1998	1.48	1	–	3,000,000

The options are held by the Directors under personal interests and exercisable for six and a half years after the expiry of six months from the respective dates of acceptance of the grant of the offers by the Directors.

During the period, no Directors exercised any share options to subscribe for shares in the Company.

Save as disclosed above, no right to subscribe for equity or debt securities of the Company has been granted to any director or chief executive of the Company or to any of their spouses or children under 18 years old, nor have any such rights been exercised by them during the period.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30 June 2002, the Company has been notified of the following interests in the Company's issued shares, other than interests of the Directors, amounting to 10% or more of the ordinary shares in issue:

	Number of ordinary shares held	Percentage of total issued shares
China Everbright International Ltd *(Note)*	62,007,000	10.20%
China Everbright Holdings Co Ltd *(Note)*	62,007,000	10.20%
Shanghai Construction (Group) General Co	149,000,000	24.51%

Note: Out of the 62,007,000 ordinary shares, 60,000,000 ordinary shares are beneficially owned by Maddington Ltd and 2,007,000 ordinary shares are held by China Everbright Securities Investments Ltd, both of which are wholly-owned subsidiaries of China Everbright International Ltd. China Everbright International Ltd is a company listed on The Stock Exchange of Hong Kong Ltd and is indirectly owned as to approximately 69.01% by China Everbright Holdings Co Ltd through its direct and indirect wholly-owned subsidiaries, namely, Guildford Ltd, Datten Investments Ltd and Everbright Investment & Management Ltd.

Both parties are considered to have deemed interests in the same shares.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2002, there was no purchase, sale or redemption of the listed securities of the Company by the Company or any of its subsidiaries.

CODE OF BEST PRACTICE

The Company has complied throughout the six months ended 30 June 2002 with the Code of Best Practice as set out by The Stock Exchange of Hong Kong Ltd in Appendix 14 to the Listing Rules.

AUDIT COMMITTEE

The audit committee comprises two independent non-executive directors and one non-executive director with written terms of reference in accordance with the requirements of the Listing Rules, and reports to the board of directors. The audit committee has reviewed the Company's interim results for the six months ended 30 June 2002.

On behalf of the board
SHI LIWEN
Chairman

Hong Kong, 23 September 2002