



Lippo Limited
力寶有限公司

(Incorporated in Hong Kong with limited liability)

INTERIM REPORT

For the six months ended 30th June, 2002

CONTENTS

Condensed Consolidated Profit and Loss Account	2
Condensed Consolidated Balance Sheet	3
Condensed Consolidated Statement of Changes in Equity	4
Condensed Consolidated Cash Flow Statement	5
Notes to the Interim Financial Statements	6
Other Financial Information	22
Management Discussion and Analysis	25
Business Review and Prospects	28
Additional Information	30

L I P P O L I M I T E D

The Directors of Lippo Limited (the "Company") present the unaudited consolidated interim financial statements of the Company and its subsidiaries (together, the "Group") for the six months ended 30th June, 2002.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Note	Six months ended 30th June,	
		2002 HK\$'000	2001 HK\$'000 (Restated)
Turnover	3	541,214	928,359
Cost of sales		<u>(335,123)</u>	<u>(390,943)</u>
Gross profit		206,091	537,416
Other revenue		–	860
Administrative expenses		(117,103)	(264,458)
Other operating expenses		(88,915)	(85,331)
Provisions for bad and doubtful debts relating to banking operations		(4,025)	(62,257)
Write-back of provisions/(Provisions) for impairment losses:			
Fixed assets		(21,663)	–
Investment securities		(10,986)	(22,508)
Jointly controlled entity		–	(3,000)
Associates		3,350	(9,000)
Goodwill		(79,863)	–
Loss on dilution of shareholding in an associate		(28,849)	–
Provision for properties held for sale		(17,500)	–
Write-back of deficit on revaluation of investment properties		80,545	–
Gain on disposal of subsidiaries	4	<u>550,964</u>	<u>–</u>
Profit from operating activities	5	472,046	91,722
Finance costs		(35,555)	(50,380)
Share of results of associates		<u>(20,016)</u>	<u>(14,914)</u>
Profit before tax		416,475	26,428
Tax	6	<u>593</u>	<u>(8,688)</u>
Profit before minority interests		417,068	17,740
Minority interests		<u>(486,075)</u>	<u>(50,875)</u>
Net loss from ordinary activities attributable to shareholders		<u>(69,007)</u>	<u>(33,135)</u>
		HK cents	HK cents
Loss per share	7		
Basic		<u>15.7</u>	<u>7.6</u>
Diluted		<u>N/A</u>	<u>N/A</u>

CONDENSED CONSOLIDATED BALANCE SHEET

		30th June, 2002 HK\$'000	31st December, 2001 HK\$'000
	<i>Note</i>		
ASSETS			
NON-CURRENT ASSETS			
Goodwill		68,736	–
Fixed assets		380,479	402,618
Investment properties		1,889,822	1,728,991
Properties under development		42,383	41,987
Interests in associates		403,996	422,978
Investment securities		377,070	267,717
Held-to-maturity securities		153,067	–
Loans and advances		56,491	60,090
Assets less liabilities attributable to banking operations	8	146,507	4,255,341
		<u>3,518,551</u>	<u>7,179,722</u>
CURRENT ASSETS			
Properties held for sale		98,738	116,238
Inventories		41,558	62,640
Held-to-maturity securities		9,567	332,356
Other investments in securities		489,475	467,642
Loans and advances		117,673	30,966
Debtors, prepayments and deposits	9	285,428	188,452
Certificates of deposit held		1,000,000	–
Pledged time deposits		155,835	155,791
Cash and bank balances		2,634,640	742,800
		<u>4,832,914</u>	<u>2,096,885</u>
TOTAL ASSETS		<u>8,351,465</u>	<u>9,276,607</u>
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Share capital	10	43,826	43,826
Reserves	11	2,615,005	2,578,628
		<u>2,658,831</u>	<u>2,622,454</u>
MINORITY INTERESTS		<u>3,457,894</u>	<u>5,294,327</u>
NON-CURRENT LIABILITIES			
Long term bank loans and other borrowing	12	613,318	675,471
CURRENT LIABILITIES			
Bank loans and other borrowing	12	886,381	339,334
Creditors, accruals and deposits received	13	681,977	286,314
Tax payable		53,064	58,707
		<u>1,621,422</u>	<u>684,355</u>
TOTAL EQUITY AND LIABILITIES		<u>8,351,465</u>	<u>9,276,607</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Six months ended 30th June,	
	2002 HK\$'000	2001 HK\$'000
Total equity as at 1st January	2,622,454	2,965,072
Exchange differences on translation of the financial statements of foreign entities and net gain/(loss) not recognised in the condensed consolidated profit and loss account	7,701	(13,855)
Release of goodwill previously eliminated against reserves upon disposal of subsidiaries	147,118	—
Release of other asset revaluation reserve upon disposal of subsidiaries	(49,435)	—
Net loss from ordinary activities attributable to shareholders	<u>(69,007)</u>	<u>(33,135)</u>
Total equity as at 30th June	<u>2,658,831</u>	<u>2,918,082</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30th June,	
	2002 HK\$'000	2001 HK\$'000 (Restated)
Net cash outflow from operating activities	(815,107)	(119,571)
Net cash inflow/(outflow) from investing activities	2,036,601	(7,444)
Net cash outflow from financing activities	(282,874)	(153,385)
Net increase/(decrease) in cash and cash equivalents	938,620	(280,400)
Cash and cash equivalents at 1st January	742,800	1,008,353
Exchange realignments	17,014	(30,771)
Cash and cash equivalents at 30th June	<u>1,698,434</u>	<u>697,182</u>
Analysis of balances of cash and cash equivalents:		
Cash and bank balances (<i>Note</i>)	<u>1,698,434</u>	<u>697,182</u>
<i>Note:</i>		
Cash and bank balances with original maturity of three months or less	1,698,434	697,182
Placements with banks and other financial institutions with original maturity over three months	<u>936,206</u>	<u>—</u>
Total cash and bank balances as at 30th June	<u>2,634,640</u>	<u>697,182</u>

NOTES TO THE INTERIM FINANCIAL STATEMENTS

1. PRINCIPAL ACCOUNTING POLICIES

The interim financial statements are unaudited, condensed and have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25 (revised) "Interim financial reporting" issued by the Hong Kong Society of Accountants ("HKSA").

The accounting policies and disclosure practices adopted in the preparation of the interim financial statements are consistent with those adopted in the Group's audited financial statements for the year ended 31st December, 2001 except that the Group has changed certain of its accounting policies and disclosure practices as a result of the adoption of the following SSAPs issued by HKSA which are effective for accounting periods commencing on or after 1st January, 2002:

SSAP 1 (revised): Presentation of financial statements

SSAP 1 (revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The main revision to SSAP 1 is that the requirement for a statement of recognised gains and losses has been replaced by a statement of changes in equity.

SSAP 11 (revised): Foreign currency translation

SSAP 11 (revised) prescribes the accounting treatment and disclosure requirement for foreign currency activities. It requires the profit and loss account of a foreign subsidiary to be translated at an average rate for the period. The Group has adopted the transitional provision as permitted under SSAP 11 (revised) not to reflect the changes in policy as a prior period adjustment. The changes in policy are applied only to current and future financial statements. The Group has translated the profit and loss account of foreign subsidiaries for the period at average rates in order to comply with this SSAP. The revised SSAP has not had any significant impact on the interim financial statements.

SSAP 15 (revised): Cash flow statements

SSAP 15 (revised) prescribes the basis for the presentation and content of cash flow statement. Cash flows are classified into three categories, namely operating, investing and financing activities instead of five categories. Accordingly, certain comparative amounts in the cash flow statement have been reclassified to conform with the current period's presentation as set out on page 5.

SSAP 25 (revised): Interim financial reporting

SSAP 25 (revised) prescribes the minimum content of an interim financial report. As in line with the revision made in SSAP 1, condensed statement of recognised gains and losses, formerly being one of the minimum components of an interim financial report, was replaced by the condensed statement of changes in equity as set out on page 4.

SSAP 33: Discontinuing operations

SSAP 33 establishes principles for reporting information about discontinuing operations. This SSAP has not had any significant impact on the interim financial statements.

SSAP 34: Employee benefits

SSAP 34 prescribes the accounting treatment and disclosure requirement for employee benefits. The new SSAP requires an enterprise to recognise a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and an expense when the enterprise consumes the economic benefit arising from service provided by an employee in exchange for employee benefits. This SSAP has not had any significant impact on the interim financial statements.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

2. SEGMENT INFORMATION

Segment information is presented by way of business segment as the primary reporting format and geographical segment as the secondary reporting format.

The Group's operating businesses are structured and managed separately, according to the nature of their operations. The Group's business segments represent different strategic business units which are subject to risks and returns that are different from other business segments. In respect of geographical segment reporting, turnover is based on the location of customers. A description of the business segments is as follows:

- (a) treasury investment segment includes investment in cash and bond markets;
- (b) property investment and development segment includes letting of properties and sale of completed properties;
- (c) securities investment segment includes dealings in securities and disposals of investments;
- (d) food businesses segment engages in food manufacturing, wholesale distribution of food and allied fast-moving consumer goods;
- (e) money lending segment includes the provision of finance;
- (f) corporate finance and securities broking segment provides securities and futures brokerage, investment banking, underwriting and other related advisory services;
- (g) banking businesses segment engages in the provision of commercial and retail banking; and
- (h) other segment includes the underwriting of general insurance business, the provision of general insurance agency services and fund management.

An analysis of the Group's segment revenue and segment results by business segment and geographical segment is set out below:

Business segment

Six months ended 30th June, 2002

	Treasury investment HK\$'000	Property investment and development HK\$'000	Securities investment HK\$'000	Food businesses HK\$'000	Money lending HK\$'000	Corporate finance and securities broking HK\$'000	Banking businesses HK\$'000	Other HK\$'000	Inter-segment elimination HK\$'000	Consolidated HK\$'000
Revenue										
External	42,074	52,583	78,984	267,386	8,447	29,748	24,566	37,426	-	541,214
Inter-segment	3,625	6,919	-	6,732	41	-	49	-	(17,366)	-
Total	45,699	59,502	78,984	274,118	8,488	29,748	24,615	37,426	(17,366)	541,214
Segment results	42,910	110,988	(48,206)	4,421	503	(5,719)	523,888	(1,131)	(4,316)	623,338
Unallocated corporate expenses (Note)										(153,465)
Finance costs										(33,382)
Share of results of associates	-	182	-	-	-	-	11,834	(32,032)	-	(20,016)
Profit before tax										416,475
Tax										593
Profit before minority interests										417,068
Minority interests										(486,075)
Net loss from ordinary activities attributable to shareholders										(69,007)

Note: Amount included provisions for impairment losses for fixed assets and goodwill of HK\$21,663,000 and HK\$79,863,000 respectively.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

2. SEGMENT INFORMATION (continued)

Business segment (continued)

	Six months ended 30th June, 2001									
	Treasury investment	Property investment and development	Securities investment	Food businesses	Money lending	Corporate finance and securities broking	Banking businesses	Other	Inter-segment elimination	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue										
External	32,037	49,693	166,605	242,120	129,354	37,680	248,755	22,975	-	929,219
Inter-segment	18,459	7,042	-	-	1,402	-	12,965	-	(39,868)	-
Total	<u>50,496</u>	<u>56,735</u>	<u>166,605</u>	<u>242,120</u>	<u>130,756</u>	<u>37,680</u>	<u>261,720</u>	<u>22,975</u>	<u>(39,868)</u>	<u>929,219</u>
Segment results	<u>34,973</u>	<u>29,521</u>	<u>(53,785)</u>	<u>(3,626)</u>	<u>42,269</u>	<u>3,834</u>	<u>81,913</u>	<u>5,189</u>	<u>(4,208)</u>	<u>136,080</u>
Unallocated corporate expenses										(50,228)
Finance costs										(44,510)
Share of results of associates	-	(766)	-	-	-	-	(2,206)	(11,942)	-	(14,914)
Profit before tax										26,428
Tax										(8,688)
Profit before minority interests										17,740
Minority interests										(50,875)
Net loss from ordinary activities attributable to shareholders										<u>(33,135)</u>

Geographical segment

	Six months ended 30th June, 2002				
	Hong Kong HK\$'000	Republic of Singapore HK\$'000	Mainland China HK\$'000	Other HK\$'000	Total HK\$'000
Revenue	<u>225,619</u>	<u>271,310</u>	<u>34,770</u>	<u>9,515</u>	<u>541,214</u>
Segment results	<u>517,191</u>	<u>(24,528)</u>	<u>167,559</u>	<u>(36,884)</u>	<u>623,338</u>

	Six months ended 30th June, 2001				
	Hong Kong HK\$'000	Republic of Singapore HK\$'000	Mainland China HK\$'000	Other HK\$'000	Total HK\$'000
Revenue	<u>503,698</u>	<u>379,299</u>	<u>31,057</u>	<u>15,165</u>	<u>929,219</u>
Segment results	<u>141,207</u>	<u>(31,541)</u>	<u>17,714</u>	<u>8,700</u>	<u>136,080</u>

NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

3. TURNOVER

Turnover represents the aggregate of gross income on treasury investment which includes interest income on bank deposits and held-to-maturity securities, gross rental income, gross proceeds from sales of properties and investments, gross income from underwriting and securities broking, sales income from food businesses, interest income from money lending business, gross income from fund management, gross premiums from insurance business, dividend income and net interest income, commissions, dealing income and other revenues from banking subsidiaries, after elimination of all significant intra-group transactions.

An analysis of the turnover of the Group by principal activity is as follows:

	Six months ended 30th June,	
	2002 HK\$'000	2001 HK\$'000
Treasury investment	42,074	32,037
Property investment and development	52,583	49,693
Securities investment	78,984	166,605
Food businesses	267,386	242,120
Interest and other income from money lending business	8,447	129,354
Corporate finance and securities broking	29,748	37,680
Banking businesses	24,566	247,895
Other	37,426	22,975
	<u>541,214</u>	<u>928,359</u>

Turnover attributable to banking businesses represents turnover generated from Finibanco (Macau), S.A.R.L., a licensed credit institution under the Financial System Act of the Macao Special Administrative Region of the People's Republic of China, since its acquisition by the Group in May 2002 and that generated from The Hongkong Chinese Bank, Limited up to its disposal by the Group in January 2002. Turnover attributable to banking businesses is analysed as follows:

	Six months ended 30th June,	
	2002 HK\$'000	2001 HK\$'000
Interest income	34,693	629,765
Interest expenses	(13,586)	(434,755)
Commission income	2,188	24,028
Commission expenses	(274)	(3,149)
Net dealing income and other revenues	<u>1,545</u>	<u>32,006</u>
	<u>24,566</u>	<u>247,895</u>

4. GAIN ON DISPOSAL OF SUBSIDIARIES

On 17th January, 2002, the Group completed the disposal of its entire interest in The Hongkong Chinese Bank, Limited ("HKCB") and its subsidiaries for an aggregate consideration of HK\$4.2 billion, giving rise to a gain on disposal of subsidiaries, before minority interests, of HK\$550,964,000. HKCB and its subsidiaries contributed a profit before tax of HK\$10,929,000 (2001 – HK\$118,065,000) and profit after tax of HK\$10,721,000 (2001 – HK\$112,164,000) to the Group during the period.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

5. PROFIT FROM OPERATING ACTIVITIES

Profit from operating activities is arrived at after crediting/(charging):

	Six months ended 30th June,	
	2002 HK\$'000	2001 HK\$'000
Investment income from held-to-maturity securities:		
Listed	1,968	300
Unlisted	3,927	–
Dividend income from listed investments	3,804	3,064
Net unrealised holding gain/(loss) on investment securities:		
Listed	(1,713)	2,242
Unlisted	(9,273)	(24,750)
Net realised and unrealised holding gain/(loss) on other investments in securities:		
Listed	(12,145)	(31,044)
Unlisted	644	1,403
Net unrealised holding gain on listed held-to-maturity securities	–	1,550
Depreciation:		
Banking operations	(1,929)	(24,902)
Other	(15,049)	(13,063)
Gain/(Loss) on disposal of fixed assets:		
Banking operations	–	(78)
Other	111	(1,866)
Cost of inventories sold	(207,784)	(165,324)
Amortization of goodwill arising on acquisition of subsidiaries	(569)	–
Provision for loss on guaranteed return arrangement for fund management	(16,502)	(8,128)

6. TAX

	Six months ended 30th June,	
	2002 HK\$'000	2001 HK\$'000
The Company and its subsidiaries:		
Provision for the period:		
Hong Kong	223	6,256
Overseas	35	48
	<u>258</u>	<u>6,304</u>
Under/(Over) provisions for prior years:		
Hong Kong	–	2,551
Overseas	82	(209)
	<u>82</u>	<u>2,342</u>
	<u>340</u>	<u>8,646</u>
Share of tax attributable to overseas associates	(933)	42
Tax charge/(credit) for the period	<u>(593)</u>	<u>8,688</u>

NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

6. TAX (continued)

Hong Kong profits tax has been provided for at the rate of 16 per cent. (2001 – 16 per cent.) on the estimated assessable profits arising in Hong Kong for the period. Overseas tax has been calculated on the estimated assessable profits for the period at the tax rates prevailing in the countries in which the Group operates. No tax provision was required for the jointly controlled entity of the Group as it did not earn any assessable profit for the period (2001 – Nil).

There were no material potential liabilities for deferred taxation as at 30th June, 2002 (2001 – Nil).

7. LOSS PER SHARE

(a) Basic loss per share

Basic loss per share is calculated based on (i) the net loss from ordinary activities attributable to shareholders of HK\$69,007,000 (2001 – HK\$33,135,000), and (ii) the number of 438,257,000 shares (2001 – 438,257,000 shares) in issue during the period.

(b) Diluted loss per share

No diluted loss per share is presented for the periods ended 30th June, 2002 and 2001 as there were no dilutive potential ordinary shares.

8. ASSETS LESS LIABILITIES ATTRIBUTABLE TO BANKING OPERATIONS

Due to the dissimilar nature of banking and non-banking operations, assets less liabilities attributable to banking operations were shown separately in the unaudited consolidated interim financial statements. The financial information in respect of banking operations shown below is based on the unaudited financial statements of Finibanco (Macau), S.A.R.L. (“Finibanco”) for the period ended 30th June 2002, a subsidiary acquired by the Group in May 2002. Finibanco is a licensed credit institution under the Financial System Act of the Macao Special Administrative Region of the People’s Republic of China.

The comparative balances represent financial information in respect of Hongkong Chinese Limited (“HKCL”, together with its subsidiaries, the “HKCL Group”) based on the consolidated financial statements of HKCL, a listed subsidiary of the Company, for the year ended 31st December, 2001.

	30th June, 2002 HK\$'000	31st December, 2001 HK\$'000
Cash and short-term funds	99,765	5,818,886
Placements with banks and other financial institutions maturing between one and twelve months	7,731	37,847
Certificates of deposit held	–	605,402
Other investments in securities	–	194,146
Advances, trade bills and other accounts	183,974	12,194,014
Held-to-maturity securities	–	465,298
Investment securities	–	25,836
Interests in associates	–	55,547
Fixed assets	1,057	1,266,028
	<u>292,527</u>	<u>20,663,004</u>
Deposits and balances of banks and other financial institutions	(79)	(60,880)
Current, fixed, savings and other deposits of customers	(142,136)	(14,589,883)
Certificates of deposit issued	–	(990,607)
Other accounts and provisions	(3,805)	(766,293)
	<u>(146,020)</u>	<u>(16,407,663)</u>
	<u>146,507</u>	<u>4,255,341</u>

NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

8. ASSETS LESS LIABILITIES ATTRIBUTABLE TO BANKING OPERATIONS (continued)

After HKCL completed the disposal of The Hongkong Chinese Bank, Limited and its subsidiaries in January 2002, assets and liabilities of HKCL and its remaining subsidiaries, previously grouped under "Assets less liabilities attributable to banking operations", were reclassified and grouped under the respective lines of assets and liabilities of the consolidated balance sheet of the Company.

Note:

Details of certain financial information in respect of the HKCL Group as at 31st December, 2001 or for the six months ended 30th June, 2001, as the case may be, are set out below:

(a)	Cash and short-term funds	31st December, 2001 HK\$'000
	Cash and balances with banks and other financial institutions	192,823
	Money at call and short notice	5,102,398
	Treasury bills	523,665
		<u>5,818,886</u>
(b)	Other investments in securities	31st December, 2001 HK\$'000
	Debt securities:	
	Listed, at market value	3,199
	Unlisted, at fair value	3,874
		<u>7,073</u>
	Equity securities:	
	Listed, at market value	29,575
	Unlisted, at fair value	123,719
		<u>153,294</u>
	Unlisted investment funds, at fair value	33,779
		<u>194,146</u>
(c)	Advances, trade bills and other accounts	31st December, 2001 HK\$'000
	Advances to customers	12,347,304
	Advances to banks and other financial institutions	42,497
	Trade bills	80,764
	Other accounts	144,417
	Accrued interest	71,714
	Provisions for bad and doubtful debts	(492,682)
		<u>12,194,014</u>

NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

8. ASSETS LESS LIABILITIES ATTRIBUTABLE TO BANKING OPERATIONS (continued)

Note: (continued)

(c) Advances, trade bills and other accounts (continued)

Included in advances to customers are assets leased under finance leases and hire purchase contracts having the characteristics of finance leases. The balance of such advances involved is analysed as follows:

	31st December, 2001 HK\$'000
Gross investment in finance leases and hire purchase contracts, receivable:	
– not later than 1 year	166,412
– later than 1 year but not later than 5 years	491,532
– later than 5 years	1,071,298
	<u>1,729,242</u>
Unearned future finance income	(576,500)
Net investment in finance leases and hire purchase contracts	<u>1,152,742</u>
The net investment in finance leases and hire purchase contracts may also be analysed as follows:	
– not later than 1 year	138,717
– later than 1 year but not later than 5 years	421,587
– later than 5 years	592,438
	<u>1,152,742</u>
Allowance for uncollectible finance leases and hire purchase contracts receivable included in the provision for loan losses	<u>36,689</u>
The cost of assets acquired during the year for letting to customers under finance leases and hire purchase contracts	<u>501,098</u>
Non-performing loans, which represent the gross amount of advances, net of suspended interest, on which interest has been placed in suspense or on which interest accrual has ceased are as follows:	
	31st December, 2001 HK\$'000
Non-performing loans:	
Gross advances	1,014,192
Less: Specific provisions	(348,779)
	<u>665,413</u>
Secured non-performing loans	517,830
Unsecured non-performing loans	496,362
	<u>1,014,192</u>
Market value of collateral held	<u>541,258</u>
Amount of interest in suspense	<u>478,548</u>

The above specific provisions were made after taking into account the value of collateral in respect of such advances.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

8. ASSETS LESS LIABILITIES ATTRIBUTABLE TO BANKING OPERATIONS (continued)

Note: (continued)

(d)	Held-to-maturity securities		31st December, 2001 HK\$'000
	Debt securities, at amortised cost:		
	Listed	207,167	
	Unlisted	297,493	
		<u>504,660</u>	
	Less: Provisions for impairment in values	(39,362)	
		<u>465,298</u>	
	Market value of listed debt securities	<u>178,601</u>	
	An analysis of the issuers of the held-to-maturity securities is as follows:		
	Central governments and central banks	150,003	
	Public sector entities	4,995	
	Banks and other financial institutions	168,769	
	Corporate entities	180,893	
		<u>504,660</u>	
(e)	Investment securities		31st December, 2001 HK\$'000
	Unlisted debt securities, at cost	11,590	
	Unlisted equity securities, at cost	14,246	
		<u>25,836</u>	
	An analysis of the issuers of the investment securities is as follows:		
	Club debentures	11,590	
	Other	14,246	
		<u>25,836</u>	
(f)	Supplementary information on banking operations included in the consolidated profit and loss account		Six months ended 30th June, 2001 HK\$'000
	Interest income	754,258	
	Interest expenses	(444,764)	
	Net gain on foreign exchange trading	4,650	
	Realised and unrealised holding gains on other investments in securities	9,667	
	Dividend income from listed investments	2,301	
	Net loss from other dealing activities	(434)	
	Charge for bad and doubtful debts	(62,257)	
	Provisions made on held-to-maturity securities	(3,136)	

NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

8. ASSETS LESS LIABILITIES ATTRIBUTABLE TO BANKING OPERATIONS (continued)

Note: (continued)

(g) Operating income by division

	Six months ended 30th June, 2001 HK\$'000
Commercial and retail banking	254,878
Treasury and investment activities	107,626
Corporate finance and securities brokerage	26,322
Other businesses	18,872
	<u>407,698</u>

(h) Maturity profile of major assets and liabilities

	Repayable on demand HK\$'000	3 months or less HK\$'000	1 year or less but over 3 months HK\$'000	5 years or less but over 1 year HK\$'000	After 5 years HK\$'000	Undated HK\$'000	Total HK\$'000
At 31st December, 2001:							
Assets							
Treasury bills (including Exchange Fund Bills)	-	69,674	453,991	-	-	-	523,665
Cash and other short-term funds	192,823	5,102,398	-	-	-	-	5,295,221
Placements with banks and other financial institutions maturing between one and twelve months	-	27,819	10,028	-	-	-	37,847
Certificates of deposit held	-	39,997	294,452	270,953	-	-	605,402
Debt securities:							
Other investments in securities	-	-	-	-	-	7,073	7,073
Held-to-maturity securities	-	76,991	185,147	207,684	3,865	30,973	504,660
Investment securities	-	-	-	-	-	11,590	11,590
Advances to customers	1,177,731	1,255,196	1,048,040	2,827,200	4,647,982	1,391,155	12,347,304
Advances to banks and other financial institutions	8,125	-	1,560	32,812	-	-	42,497
	<u>1,378,679</u>	<u>6,572,075</u>	<u>1,993,218</u>	<u>3,338,649</u>	<u>4,651,847</u>	<u>1,440,791</u>	<u>19,375,259</u>
Liabilities							
Deposits and balances of banks and other financial institutions	27,641	33,239	-	-	-	-	60,880
Current, fixed, savings and other deposits of customers	2,257,901	11,018,244	1,313,738	-	-	-	14,589,883
Certificates of deposit issued	-	-	990,607	-	-	-	990,607
	<u>2,285,542</u>	<u>11,051,483</u>	<u>2,304,345</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,641,370</u>

(i) Further details of the related off-balance sheet exposure are disclosed in Note 14 to the interim financial statements.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

9. DEBTORS, PREPAYMENTS AND DEPOSITS

Included in the balances are trade debtors with ageing analysis as follows:

	30th June, 2002 HK\$'000	31st December, 2001 HK\$'000
Outstanding balances with ages:		
Repayable on demand	22,944	–
Within 30 days	48,634	48,298
Between 31 and 60 days	38,057	45,148
Between 61 and 90 days	24,061	27,155
Between 91 and 180 days	5,140	8,067
Over 180 days	16,554	1,234
	<u>155,390</u>	<u>129,902</u>

Trading terms with customers are either on cash basis or on credit. For those customers who trade on credit, invoices are normally payable within 30-90 days of issuance. Credit limits are set for customers. The Group seeks to maintain tight control over its outstanding receivables in order to minimise credit risk. Overdue balances are regularly reviewed by senior management.

10. SHARE CAPITAL

Shares

	30th June, 2002 HK\$'000	31st December, 2001 HK\$'000
<i>Authorised:</i>		
30,000,000,000 (31st December, 2001 – 30,000,000,000) shares of HK\$0.10 each	<u>3,000,000</u>	<u>3,000,000</u>
<i>Issued and fully paid:</i>		
438,257,010 (31st December, 2001 – 438,257,010) shares of HK\$0.10 each	<u>43,826</u>	<u>43,826</u>

NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

11. RESERVES

	Share premium HK\$'000	Special capital reserve HK\$'000	Capital redemption reserve HK\$'000	Capital reserve HK\$'000	Other asset revaluation reserve HK\$'000	Exchange equalisation reserve HK\$'000	Accumu- lated losses HK\$'000	Total HK\$'000
At 1st January, 2002	517,794	1,709,202	17,408	382,480	81,999	(100,321)	(29,934)	2,578,628
Release of goodwill previously eliminated against reserves upon disposal of subsidiaries	-	-	-	147,118	-	-	-	147,118
Released upon disposal of subsidiaries	-	-	-	-	(49,435)	-	-	(49,435)
Transfer of portion of depreciation charge on leasehold properties attributable to the related revaluation surplus to accumulated losses	-	-	-	-	(282)	-	282	-
Exchange differences on consolidation	-	-	-	-	-	7,701	-	7,701
Loss for the period	-	-	-	-	-	-	(69,007)	(69,007)
At 30th June, 2002	517,794	1,709,202	17,408	529,598	32,282	(92,620)	(98,659)	2,615,005

Pursuant to a special resolution passed at an extraordinary general meeting of the Company on 23rd December, 1998 and the confirmation by the court on 26th January, 1999, the then issued and fully paid-up share capital of the Company was reduced from approximately HK\$1,753,028,000 divided into 438,257,010 shares of HK\$4.00 each to approximately HK\$43,826,000 divided into 438,257,010 shares of HK\$0.10 each and an amount standing to the credit of the share capital account of the Company of approximately HK\$1,709,202,000 was cancelled (the "Cancellation") on 27th January, 1999. The credit arising from the Cancellation was transferred to a special capital reserve account. A summary of the terms of the undertaking given by the Company (the "Undertaking") in respect of the application of the special capital reserve is set out below:

- The reserve shall not be treated as realised profits; and
- The reserve shall be treated as an undistributable reserve for so long as there shall remain any outstanding debts or claims which was in existence on the date of the Cancellation provided that the amount of the reserve may be reduced by the amount of any future increase in the share capital and the share premium account. Any part of the reserve so reduced is released from the terms of the Undertaking.

As at 30th June, 2002, the balance of the special capital reserve subject to the Undertaking amounted to HK\$1,709,202,000 (31st December, 2001 – HK\$1,709,202,000).

The other asset revaluation reserve mainly comprises revaluation surplus in respect of leasehold land and buildings which were reclassified from investment properties.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

12. BANK LOANS AND OTHER BORROWING

	30th June, 2002	31st December, 2001
	HK\$'000	HK\$'000
Bank loans, secured – Note (a)	1,421,701	936,829
Other borrowing:		
Commercial papers – Note (b)	77,998	77,976
	1,499,699	1,014,805
Portion due within one year included under current liabilities	(886,381)	(339,334)
Non-current portion	613,318	675,471
The maturities of other borrowing are as follows:		
Within one year	35,099	77,976
In the second year	42,899	–
	77,998	77,976
The maturities of bank loans are as follows:		
Within one year	851,282	261,358
In the second year	216,426	284,980
In the third to fifth years, inclusive	244,795	242,337
After five years	109,198	148,154
	1,421,701	936,829
	1,499,699	1,014,805

Note:

- (a) The bank loans were secured by shares in certain listed subsidiaries held by the Group, first legal mortgages over certain investment properties and leasehold land and buildings of the Group and certain securities owned by margin clients of the Group.
- (b) In 1997, Lippo Commercial Paper Limited (“LCPL”), a wholly-owned subsidiary of the Company, entered into a commercial paper programme with a number of dealers under which LCPL may issue loan notes guaranteed by the Company up to a principal amount of US\$120 million at any time outstanding for working capital purposes.

As at 30th June, 2002, the Group had outstanding commercial papers issued with an aggregate value of US\$10 million (equivalent to approximately HK\$77,998,000; 31st December, 2001 – US\$10 million, equivalent to approximately HK\$77,976,000) which bear interest at 2.75 per cent. per annum above the London Interbank Offered Rate or at fixed rates.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

13. CREDITORS, ACCRUALS AND DEPOSITS RECEIVED

Included in the balances are trade creditors with ageing analysis as follows:

	30th June, 2002 HK\$'000	31st December, 2001 HK\$'000
Outstanding balances with ages:		
Repayable on demand	234,713	–
Within 30 days	25,514	38,646
Between 31 and 60 days	30,015	29,279
Between 61 and 90 days	13,240	6,865
Between 91 and 180 days	16,344	5,947
Over 180 days	22,079	3,019
	<u>341,905</u>	<u>83,756</u>

14. CONTINGENT LIABILITIES

At the balance sheet date, the Group had the following contingent liabilities:

(a) Guarantees in respect of banking facilities

	30th June, 2002 HK\$'000	31st December, 2001 HK\$'000
Guarantees provided in respect of banking facilities granted to:		
An associate	–	11,100
Investee companies	2,925	2,924
	<u>2,925</u>	<u>14,024</u>

(b) As at 30th June, 2002, the Group has entered into certain foreign exchange contracts. Pursuant to the contracts, the Group is committed to sell Japanese Yen with principal sums of HK\$138,308,000 (31st December, 2001 – HK\$131,177,000), purchase Japanese Yen with principal sums of HK\$65,600,000 (31st December, 2001 – HK\$15,575,000), sell United States Dollar with principal sums of HK\$64,702,000 (31st December, 2001 – HK\$15,959,000) and purchase United States Dollar with principal sums of HK\$124,797,000 (31st December, 2001 – HK\$140,357,000).

(c) Details of off-balance sheet exposures related to banking operations

(i) Contingent liabilities and commitments

Summary of the contract amounts of each significant class of contingent liabilities and commitments:

	30th June, 2002 HK\$'000	31st December, 2001 HK\$'000
Direct credit substitutes	–	20,882
Transaction-related contingencies	55,673	55,854
Trade-related contingencies	46,146	148,277
Forward forward deposits	–	77,852
Other commitments with an original maturity of:		
Under one year or which are unconditionally cancellable	–	2,711,893
One year and over	–	70,853
	<u>101,819</u>	<u>3,085,611</u>

NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

14. CONTINGENT LIABILITIES (continued)

(c) Details of off-balance sheet exposures related to banking operations (continued)

(ii) Derivatives

There were no derivatives outstanding as at 30th June, 2002.

The following is a summary of the aggregate notional contract amounts of each significant type of derivatives outstanding as at 31st December, 2001:

	31st December, 2001		
	Trading HK\$'000	Hedging HK\$'000	Total HK\$'000
Exchange rate contracts:			
Forward contracts	425,038	–	425,038
Currency swaps	63,915	30,878	94,793
Interest rate contracts:			
Interest rate swaps	–	173,881	173,881
	<u>488,953</u>	<u>204,759</u>	<u>693,712</u>

The contract/notional amounts, credit risk weighted amounts, and replacement costs of the above off-balance sheet exposures of last year were as follows:

	31st December, 2001		
	Contract/ notional amount HK\$'000	Credit risk weighted amount HK\$'000	Replacement cost HK\$'000
Contingent liabilities and commitments	3,085,611	109,648	N/A
Derivatives:			
Exchange rate contracts	519,831	3,988	13,020
Interest rate contracts	173,881	790	1,207
	<u>3,779,323</u>	<u>114,426</u>	<u>14,227</u>

15. COMMITMENTS

The Group had the following capital commitments at the balance sheet date:

	30th June, 2002 HK\$'000	31st December, 2001 HK\$'000
Capital commitments in respect of property, plant and equipment:		
Contracted, but not provided for	1,496	4,151
Other capital commitments		
Contracted, but not provided for	6,240	6,238
	<u>7,736</u>	<u>10,389</u>

NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

16. RELATED PARTY TRANSACTIONS

As at 31st December, 2001, the Group had the following balances with The Hongkong Chinese Bank, Limited ("HKCB"), a former banking subsidiary of the Company, and its subsidiaries, which have not been eliminated on consolidation:

31st December,
2001
HK\$'000

Included under the following item as referred to
in Note 8 to the interim financial statements:

Current, fixed, savings and other deposits of customers 220,009

As at 31st December, 2001, connected parties of the Group, including holding companies, fellow subsidiaries and a former substantial shareholder of a subsidiary of the Company and their related companies, had the following balances with HKCB and its subsidiaries:

31st December,
2001
HK\$'000

Included under the following item as referred to
in Note 8 to the interim financial statements:

Current, fixed, savings and other deposits of customers 2,487,650

The Directors are of the opinion that these transactions were undertaken on terms similar to those offered to unrelated customers in the ordinary course of business of the relevant companies. HKCB and its subsidiaries ceased to be related parties to the Group after their disposal by the Group in January 2002.

As at 30th June, 2002, the Group had amounts due from associates in a total of HK\$170,195,000 (31st December, 2001 – HK\$189,133,000), amounts due to associates in a total of HK\$2,185,000 (31st December, 2001 – HK\$2,168,000) and an amount due from a jointly controlled entity of HK\$69,937,000 (31st December, 2001 – HK\$69,937,000). The balances with the associates and the jointly controlled entity are unsecured, interest-free and have no fixed terms of repayment.

OTHER FINANCIAL INFORMATION

Set out below are further information relating to banking operations of the Group prior to the disposal of The Hongkong Chinese Bank, Limited (“HKCB”) in January 2002.

1. Management of risks

HKCB, a former principal subsidiary of Hongkong Chinese Limited (“HKCL”, together with its subsidiaries, the “HKCL Group”), had established policies and procedures for risk management which were reviewed regularly by management and various management committees including the Asset and Liability Committee, Operations Committee, Credit Committee and Audit Committee to ensure the proper monitoring and control of all major risks arising from the HKCL Group’s activities at all times. The Asset and Liability Committee met regularly to oversee the compliance of the HKCB’s activities with all the risk limits approved by the directors of HKCL Group. The Internal Auditors and Compliance Officers of the HKCL Group also performed regular reviews to supplement the various internal control measures adopted by management and different divisions to ensure compliance with these policies and procedures.

(a) Credit risk

Credit risk arose from the possibility that the counterparty in a transaction may default. It arose from lending, trade finance, treasury, derivatives and other activities undertaken by the HKCL Group.

The credit policies of HKCB and its subsidiaries set out in detail the credit approval and monitoring mechanism, the loan classification criteria and provisioning policy, which was established in accordance with the requirements and provisions of the Hong Kong Banking Ordinance and the relevant guidelines issued by the Hong Kong Monetary Authority.

The credit risk management function was independent of business units. It oversaw the implementation of credit policies and ensured the quality of credit evaluation and approval. Credit approval was conducted in accordance with the HKCL Group’s credit policies, taking into account the type and tenor of loans, creditworthiness and repayment ability of prospective borrowers, collateral available and the resultant risk concentration in the context of the HKCL Group’s total assets.

Day-to-day credit management was performed by the Credit Committee. Decisions made by the Credit Committee were reviewed regularly by the executive directors of the HKCL Group and the HKCL Group’s board of directors, which also consisted of non-executive directors who were independent of the day-to-day operations of the HKCL Group.

The HKCL Group had established guidelines to ensure that all new products were properly designed and reviewed prior to their approval. All relevant departments within the HKCL Group were required to involve and ensure that appropriate processes, systems and controls were in place before any new product was launched.

OTHER FINANCIAL INFORMATION *(continued)***1. Management of risks** *(continued)**(b) Liquidity risk*

HKCB managed the liquidity structure of its assets, liabilities and commitments in view of market conditions and its business needs, as well as to ensure that its operations met with the statutory requirement on minimum liquidity ratio.

Management comprising executive directors and senior managers monitored the liquidity position of HKCB on an ongoing basis to ensure the availability of sufficient liquid funds to meet all obligations as they fell due and to make the most efficient use of the HKCL Group's financial resources.

(c) Capital

The HKCL Group maintained a strong capital base to support the development of its businesses and to comply with the statutory requirement on minimum capital adequacy ratio.

Capital was allocated to the various activities of the HKCL Group depending on the degree of risks associated with activity.

(d) Interest rate risk

Interest rate risk primarily resulted from timing differences in the repricing of interest bearing assets, liabilities and commitments. HKCB's interest rate positions arose mainly from treasury and commercial banking activities undertaken. HKCB had established policies and systems to monitor its interest-sensitive positions and net repricing gap. The interest rate risk was managed and monitored regularly by the Treasury Department (the "Treasury") under the guidelines and limits approved by the directors.

(e) Foreign exchange risk

Foreign exchange risk was the risk to earnings or capital arising from movements of foreign exchange rates.

HKCB's foreign exchange risk primarily arose from currency exposures originating from its commercial banking activities and foreign exchange dealings by the Treasury. Foreign exchange risk was managed and monitored on an ongoing basis by the Treasury under the guidelines and limits approved by the directors.

OTHER FINANCIAL INFORMATION *(continued)***1. Management of risks** *(continued)**(f) Market risk*

Market risk was the risk that changes in interest rates, foreign exchange rates, equity or commodity prices would affect the prices of financial instruments taken or held by HKCB. Financial instruments included foreign exchange contracts, interest rate contracts, equity and fixed income securities.

Market risk limits were approved by the HKCL Group's board of directors. Actual positions were compared with approved limits and monitored by the Assets and Liabilities Management Committee which was made up of executive directors, the treasurer and senior managers of HKCB. Exposures were measured and monitored on the basis of principal or notional amounts, outstanding balances and pre-determined stop-loss limits. All market risk trading positions were subject to periodic mark-to-market valuation, which was monitored and managed by the Treasury. With respect to the investment accounts, the HKCL Group had established evaluation procedures for the selection of fund managers and the Treasury performed regular reviews of the operation and performance of these investment accounts. The HKCL Group's Internal Auditors also performed regular reviews and testing to ensure compliance with the market risk limits and guidelines adopted by the HKCL Group.

2. Segment information

On the basis of the location of the principal operations of the HKCL Group or, in the case of HKCB, on the location of the branches responsible for reporting the results or booking the assets, the HKCL Group operated predominantly in Hong Kong with over 90 per cent. of the HKCL Group's operating income, profit before taxation, total assets, total liabilities, contingent liabilities and commitments arose therefrom or booked therein.

MANAGEMENT DISCUSSION AND ANALYSIS

Significant events during the period

On 17th January, 2002, Hongkong Chinese Limited (“HKCL”), a listed subsidiary of the Company, completed the disposal (the “Disposal”) of its entire interest in The Hongkong Chinese Bank, Limited (“HKCB”), then a banking subsidiary of HKCL, and its subsidiaries, for an aggregate consideration of HK\$4.2 billion, representing a premium of approximately 30 per cent. over the consolidated net assets of HKCB immediately prior to the Disposal. The Disposal increased the Group’s net assets by HK\$0.1 billion and did not result in any significant gain or loss after netting off minority interests.

On the same date, Lippo China Resources Limited (“LCR”), another listed subsidiary of the Company, also completed the acquisition (the “Acquisition”) of 35.2 per cent. effective interest in HKCL from China Resources Enterprise, Limited for an aggregate consideration of approximately HK\$1.8 billion. Goodwill arising on the Acquisition attributable to the Group amounted to HK\$53.3 million, representing a premium of 4.6 per cent. over the net assets acquired. Such goodwill was written-off and charged against the profit and loss account for the period.

Following the Disposal, HKCL continued to engage in various financial services businesses.

Results for the period

As a result of the Disposal, the turnover mix of the Group changed significantly. Among the total turnover, 22 per cent. (2001 – 21 per cent.) was contributed from treasury and securities investments, 49 per cent. (2001 – 26 per cent.) from food businesses and 4.5 per cent. (2001 – 27 per cent.) from banking businesses. Total turnover dropped 42 per cent. to HK\$541 million (2001 – HK\$928 million).

The Disposal enabled the Group to realise its investment at an attractive premium at an appropriate time. However, the downturn in the local property and investment markets has adversely affected the Group’s performance during the period. After taking into account the provisions made for its property portfolio and securities investments, the aforesaid write-off of goodwill and the results of certain associates, the Group recorded a net loss attributable to shareholders of HK\$69.0 million for the six months ended 30th June, 2002 (2001 – HK\$33.1 million).

Given the uncertainty in the local property market, a total provision of HK\$104 million (2001 – HK\$12 million) for diminution in value of properties was made against the Group’s property portfolio in Hong Kong. However, the loss was covered by the revaluation surplus of HK\$145 million arising from Lippo Plaza in Shanghai, the People’s Republic of China (“China”). Rental income remained a stable income source of the Group and increased by 5.8 per cent. as compared to the corresponding period in last year.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)***Results for the period** *(continued)*

As a result of the adverse conditions in the stock markets, the Group also made total provisions for diminution in value of HK\$22.8 million (2001 – HK\$67.4 million) for its securities investments during the period. Most of the investments of the Group had been marked to their market values.

In early 2002, Export and Industry Bank, Inc. (old “EIB”), an associate of LCR in the Philippines, completed legal merger with Urban Bank, Inc. and Urbancorp Investments, Inc.. The new merged bank was named as Export and Industry Bank, Inc. (new “EIB”) and is now ranked number 18 in terms of capital and number 22 in terms of total assets among the 45 universal and commercial banks in the Philippines. Approval for the listing of the shares of the new EIB on the Philippines Stock Exchange has been obtained and the shares are expected to be listed shortly. Pursuant to the merger, LCR’s interest in EIB decreased from approximately 37 per cent. (before minority interests) to approximately 21 per cent., resulting in a one-off loss on dilution of shareholding of HK\$28.8 million. The results of the new EIB has improved over the period, contributing a profit of HK\$12.8 million (2001 – loss of HK\$2.2 million) to LCR.

Share of results of associates also included a loss attributable to LCR’s 25 per cent. interest in the Meizhou Wan power plant project in Fujian Province, China. Since expenses incurred were no longer capitalised upon completion of the construction work in 2001 whereas negotiation of the electricity tariff was still in process, there was a shortfall in revenue and resulted in a loss of HK\$30.5 million (2001 – Nil) shared by LCR. Recently, the project company has reached an interim agreement with the local power company, pursuant to which a framework was set out to resolve the outstanding issues, in particular, that relating to electricity tariff.

Total assets and net asset value

Total assets dropped HK\$0.9 billion to HK\$8.4 billion as at 30th June, 2002 (31st December, 2001 – HK\$9.3 billion), mainly due to the special distribution made by HKCL to its shareholders following the Disposal. It amounted to approximately HK\$2.0 billion, of which HK\$0.7 billion was distributed to its minority shareholders. Despite the net loss for the period, net asset value of the Group increased slightly to HK\$2,659 million (31st December, 2001 – HK\$2,622 million) and consolidated net asset value per share remained more or less the same as last year end at HK\$6.1.

Liquidity ratio and gearing ratio

As a result of the Disposal, the financial position of the Group was strengthened over the period with an aggregate of certificates of deposit held and cash balances amounted to HK\$3.8 billion (2001 – HK\$1.7 billion, adjusted to include cash balances of HKCL and its subsidiaries, other than HKCB and its subsidiaries). As at the end of June 2002, liquidity ratio remained at a very healthy level of 3.0:1, more or less the same as that at 31st December, 2001.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)***Liquidity ratio and gearing ratio** *(continued)*

Total borrowings of the Group comprised of bank loans and commercial papers issued. As part of the financing arrangement for the Acquisition, total bank loans of the Group increased to HK\$1,422 million (31st December, 2001 – HK\$937 million), of which 60 per cent. (31st December, 2001 – 28 per cent.) was repayable within one year. Commercial papers outstanding remained the same as last year end and amounted to HK\$78 million. Subsequent to the end of the period, HK\$163 million of bank loans and HK\$35.1 million of commercial papers have been repaid. Due to increase in bank loans, gearing ratio (total borrowings, net of minority interests, to shareholders' equity) increased to 33 per cent. as at 30th June, 2002 (31st December, 2001 – 22 per cent.). It was still well below the average among companies in the same industry.

The Group's banking facilities (other than those relating to banking operations) were secured by certain leasehold land and buildings, investment properties and shares in certain subsidiaries owned by the Group and certain securities owned by margin clients of the Group, with interest carried at floating rates. As at 30th June, 2002, 82 per cent. (31st December, 2001 – 75 per cent.) of such bank loans were denominated in United States dollars or Hong Kong dollars. All commercial papers were denominated in United States dollars. When appropriate, hedging instruments including forward contracts, swaps and currency loans are used to manage foreign exchange exposures.

Other than those attributable to banking operations, the Group had no material capital commitments or contingent liabilities outstanding at the end of June 2002 (31st December, 2001 – Nil).

Changes in accounting policies

Certain accounting policies of the Group and disclosure practices were changed as a result of the adoption of the new or revised accounting standards issued by the Hong Kong Society of Accountants with details as set out in Note 1 to the interim financial statements. These had no significant impact on the Group's profit and loss account or balance sheet.

Staff and remuneration

The Group had approximately 800 employees as at 30th June, 2002. Total staff costs incurred during the period amounted to HK\$99 million (2001 – HK\$193 million). The Group offered competitive remuneration packages to its employees. Certain employees of the Group were granted options under share option schemes of their respective companies.

Outlook

With the recessionary haze clinging on the economy, the outlook for profitability remains weak. In response to the challenging environment, the Group will continue to seek to diversify its income sources and enhance its asset returns. The Group believes that the increase in the stake of HKCL would enhance the shareholders' value of the Company. With its strong and healthy financial position, the Group is well placed to actively but prudently explore investment opportunities in the region.

BUSINESS REVIEW AND PROSPECTS**Business review**

The operating environment remained difficult for the first half of the year. The sluggish global economy was further aggravated by the corporate scandals in the United States. Volatile stock markets, stagnant local property markets, high unemployment rate and deflation continued to weaken the local economy as well as investment sentiment. Amid this adverse operating environment, the Group recorded a net loss of HK\$69 million for the period under review.

Lippo China Resources Limited (“LCR”), a principal listed subsidiary of the Company, and its subsidiaries (“LCR Group”) recorded a net loss of HK\$159 million for the period under review. The LCR Group’s investment properties continued to maintain a very high level of occupancy during the period under review amid a softening leasing market. The rental generated has provided the LCR Group with a stable recurrent income although due to the weak local market conditions, the achievable rates have been steadily declining especially in the office sector. “Lippo Plaza”, a grade A office and retail complex situated at Huaihai Zhong Road, Shanghai, the People’s Republic of China (“China”), also achieved nearly full occupancy during the period under review and the rental rate is still on an upward trend. The LCR Group has 66.5 per cent. interest in this project.

The 724 megawatt (net) coal-fired Meizhou Wan power plant project in Putian City, Fujian Province, China, in which the LCR Group has 25 per cent. interest, has been physically completed and in operation. However, its formal commercial operation has been postponed due to the ongoing re-negotiation of the electricity tariff and other terms with the Fujian provincial authorities and the local power company. The postponement of the formal commercial operation of the power plant project, despite its physical completion and revenue-generating operation, is not in accordance with the terms of its project financing. The project company has been working closely with the lenders, the Fujian provincial authorities and the local power company and has recently reached an interim agreement with the local power company regarding the electricity tariff and other terms with a view to resolving all the issues amicably.

The economic conditions in Singapore and South-east Asia further deteriorated. Auric Pacific Group Limited, a listed subsidiary of LCR in Singapore, recorded a net loss attributable to shareholders of S\$5.9 million, a decrease of 8 per cent. as compared to a net loss of S\$6.4 million for the last corresponding period. For the period under review, provisions for exchange losses and diminution in values of its investments were made.

Hongkong Chinese Limited (“HKCL”), a listed subsidiary of LCR, and its subsidiaries (“HKCL Group”) reported a consolidated net loss attributable to shareholders of HK\$11.7 million.

In view of the keen competition and difficult operating environment in the banking industry, HKCL successfully completed the disposal of The Hongkong Chinese Bank, Limited (“HKCB”) and its subsidiaries to CITIC Ka Wah Bank Limited on 17th January, 2002 for an aggregate consideration of HK\$4.2 billion.

BUSINESS REVIEW AND PROSPECTS *(continued)***Business review** *(continued)*

With the disposal of HKCB and its subsidiaries, HKCL Group has a very strong financial position and is well-positioned to take advantage of any good investment opportunities. To enhance its shareholders' value, LCR increased its controlling interest in HKCL. On 17th January, 2002, LCR completed the acquisition from China Resources Enterprise, Limited of the remaining 50 per cent. interest in Lippo CRE (Financial Services) Limited (now known as HKCL Holdings Limited), the holding company of HKCL, and approximately 5.84 per cent. interest in HKCL for an aggregate consideration of approximately HK\$1.8 billion. Furthermore, on 21st August, 2002, LCR entered into an agreement with independent third parties for the acquisition of an additional 6.49 per cent. interest in HKCL for an aggregate consideration of approximately HK\$57 million. As at the date of this report, LCR is interested in approximately 71.11 per cent. of the issued share capital of HKCL.

On 27th May, 2002, the HKCL Group successfully acquired 85 per cent. interest in the issued share capital of Finibanco (Macau), S.A.R.L. ("Finibanco"), a licensed credit institution in Macau, for MOP 190 million (equivalent to approximately HK\$185 million). This acquisition is consistent with the objective of the Group's management of creating additional value for shareholders and increasing its investment in the investment banking and financial service sector. China's accession to the World Trade Organization and Macau's close proximity to the Pearl River Delta are expected to further enhance the tourism and the financial and business activities in the territory. It is expected that Finibanco can offer HKCL a platform to extend its financial services at an important traffic and commercial hub at the entrance of the Pearl River Delta.

On 28th May, 2002, the HKCL Group also acquired 85 per cent. interest in the issued share capital of ImPac Asset Management (Holdings) Ltd. which, through its subsidiaries, provides investment and management advisory services in relation to mutual funds in Hong Kong and Asia. This acquisition will complement the existing fund management business of HKCL.

Amid the tough economic environment, The Hong Kong Building and Loan Agency Limited ("HKBLA"), a listed subsidiary of LCR, was able to achieve a net profit of HK\$246,000 for the period under review, against a net loss of HK\$13 million for the last corresponding period. As a result of the low interest rates on deposits, HKBLA had taken opportunities to invest in higher-yield investments. Accordingly, turnover generated from mortgage finance business dropped whereas that from treasury investment activities increased. HKBLA is debt-free and has maintained a very strong financial position throughout the period.

Prospects

It is expected that the global economy will remain volatile in the second half of the year. The outlook for the local economy is also likely to remain difficult and challenging. Amid this adverse operating environment, the Group is confident it can overcome the challenges ahead. With a strong financial position, the Group is well-positioned to explore new investment opportunities which will provide future growth and create long term value for the shareholders.

ADDITIONAL INFORMATION**Interim dividend**

The Directors do not recommend the payment of an interim dividend for the six months ended 30th June, 2002 (2001 – Nil).

Directors' interests in the securities of the Company and associated corporations

As at 30th June, 2002, the interests of the Directors of the Company in the equity or debt securities of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) as recorded in the register required to be kept by the Company under 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 (the "Model Code") were as set out below.

The Company

Name	Type of interest	Number of shares of HK\$0.10 each in the Company
Stephen Riady	Note (i)	248,297,776
Jark Pui Lee	Family	48
John Luen Wai Lee	Personal	825,000

Lippo China Resources Limited ("LCR")

Name	Type of interest	Number of shares of HK\$0.10 each in LCR	Amount of warrants to subscribe for shares of HK\$0.10 each in LCR
Stephen Riady	Notes (i) and (ii)	6,141,720,389	HK\$233,423,940.75

ADDITIONAL INFORMATION (continued)**Directors' interests in the securities of the Company and associated corporations**
(continued)**Hongkong Chinese Limited ("HKCL")**

Name	Type of interest	Number of shares of HK\$1.00 each in HKCL
Stephen Riady	Notes (i), (ii) and (iii)	873,318,440
Jark Pui Lee	Personal	350
	Family	350
John Luen Wai Lee	Personal	200
	Family	200

Note:

- (i) As at 30th June, 2002, Lippo Cayman Limited ("Lippo Cayman"), and through its wholly-owned subsidiaries, Lippo Capital Limited ("Lippo Capital"), J & S Company Limited and Huge Returns Limited, was directly and indirectly interested in an aggregate of 248,297,776 shares of HK\$0.10 each in, representing approximately 56.7 per cent. of, the issued share capital of the Company. Lippo Cayman is wholly owned by Lanius Limited ("Lanius"), the trustee of a trust, the beneficiaries of which include Mr. Stephen Riady and his family members.
- (ii) As at 30th June, 2002, the Company was indirectly interested in 6,141,720,389 shares of HK\$0.10 each in, representing approximately 66.7 per cent. of, the issued share capital of LCR, and warrants of LCR with an aggregate subscription value of HK\$233,423,940.75. The subscription rights attached to the warrants of LCR expired on 22nd July, 2002 and following such date, the warrants ceased to be valid for any purpose.
- (iii) As at 30th June, 2002, LCR was directly and indirectly interested in an aggregate of 873,318,440 shares of HK\$1.00 each in, representing approximately 64.6 per cent. of, the issued share capital of HKCL.
- (iv) As at 30th June, 2002, LCR was indirectly interested in 157,496,038 shares of HK\$1.00 each in, representing approximately 70 per cent. of, the issued share capital of The Hong Kong Building and Loan Agency Limited.
- (v) As at 30th June, 2002, Mr. Stephen Riady was deemed to be interested in 3,481,769,218 shares of HK\$0.10 each in AcrossAsia Multimedia Limited ("AAM"), an associated corporation (within the meaning of the SDI Ordinance) of the Company.
- (vi) As at 30th June, 2002, Mr. John Luen Wai Lee was interested in 230,000 shares of HK\$0.10 each in AAM and was deemed to be interested in 300,000 shares of US\$1.00 each in KeyTrend Technology Holdings Limited, an associate of AAM.
- (vii) Mr. Stephen Riady was also deemed to be interested in the share capital of the associated corporations (within the meaning of the SDI Ordinance) of the Company held through Lippo Cayman under the provisions of the SDI Ordinance.
- (viii) Certain Directors have non-beneficial personal equity interests in certain subsidiaries of the Company held for the benefit of the Group solely for the purpose of holding the requisite qualifying shares.

ADDITIONAL INFORMATION (continued)**Directors' interests in the securities of the Company and associated corporations** (continued)

Save as disclosed herein, as at 30th June, 2002, none of the Directors or the chief executive of the Company were beneficially interested in any equity or debt securities of the Company or any of its associated corporations (within the meaning of the SDI Ordinance) which are required to be recorded in the register kept by the Company under Section 29 of the SDI Ordinance or which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

As at 30th June, 2002, the following Directors of the Company held options as stated below:

Name	Number of shares of HK\$0.10 each in LCR in respect of which options have been granted*
John Luen Wai Lee	9,000,000
David T. Yeh	9,000,000

* The options were granted on 23rd June, 1997 at a consideration of HK\$1.00 per grantee under the Share Option Scheme for Employees adopted by LCR (the "LCR Scheme"). Such options can be exercised on or before 23rd June, 2007 in accordance with the rules of the LCR Scheme to subscribe for shares in LCR at an initial exercise price of HK\$5.30 per share (subject to adjustment). Pursuant to the bonus issue of new shares in the ratio of one for one in October 1997, the rights issue of new shares in July 1999 on the basis of one rights share for every one share held and the rights issue of new shares in November 2000 on the basis of one rights share for every two shares held, the holder of each option is entitled to subscribe for six shares of HK\$0.10 each in LCR at an exercise price of HK\$0.883 per share (subject to adjustment). None of the options were exercised by any of the above Directors during the six months ended 30th June, 2002.

Save as disclosed herein, as at 30th June, 2002, none of the Directors or the chief executive of the Company nor their spouses or children under 18 years of age, were granted or had exercised any right to subscribe for any equity or debt securities of the Company or any of its associated corporations (within the meaning of the SDI Ordinance).

Share option schemes

Details of the share option schemes of the subsidiaries of the Company are set out below.

- (a) Pursuant to the LCR Scheme approved and adopted by the shareholders of LCR on 2nd May, 1994 (the "LCR Adoption Date"), the directors of LCR may, at their discretion, grant to any employees (including directors) of LCR and its subsidiaries options to subscribe for shares in LCR. The purpose of the adoption of the LCR Scheme was to provide an incentive scheme to the employees of LCR and its subsidiaries. Under the rules of the LCR Scheme, no more options can be granted from the tenth anniversary of the LCR Adoption Date. The options can be exercisable after two months from the date on which the options are deemed to be granted and accepted and prior to the expiry of ten years from that date.

ADDITIONAL INFORMATION (continued)**Share option schemes** (continued)

The maximum number of shares in respect of which options may be granted under the LCR Scheme shall not exceed 10 per cent. of the number of issued shares of LCR from time to time, excluding the aggregate number of shares issued on exercise of options, and the maximum number of shares in respect of which options may be granted under the LCR Scheme in any one financial year shall not exceed 5 per cent. of the total number of issued shares of LCR from time to time. In addition, the maximum number of shares in respect of which options may be granted under the LCR Scheme to any grantee shall not exceed 25 per cent. of the number of shares subject to the LCR Scheme at the time of grant. The exercise price for the share under the LCR Scheme will be determined by the directors of LCR at their absolute discretion but in any event shall not be less than 80 per cent. of the average of the closing price of the shares of LCR as stated on the daily quotation sheets of the Stock Exchange for the five trading days immediately preceding the date of offer of the option or the nominal value of the shares of LCR, whichever is the greater. The consideration for the grant is HK\$1.00 per grantee which must be paid on acceptance to LCR by the grantee within 28 days after the date of offer of the option.

The following is a summary of movement in share options of LCR during the six months ended 30th June, 2002:

Date of grant	Exercise price per share	Period during which share options are exercisable	Quantity of share options outstanding at 1st January, 2002	Quantity of share options exercised/lapsed during the six months ended 30th June, 2002	Quantity of share options outstanding at 30th June, 2002
23rd June, 1997	HK\$0.883	August 1997 to June 2007	5,800,000	Nil	5,800,000
			5,800,000	Nil	5,800,000

Pursuant to the bonus issue of new shares in the ratio of one for one in October 1997, the rights issue of new shares in July 1999 on the basis of one rights share for every one share held and the rights issue of new shares in November 2000 on the basis of one rights share for every two shares held, the holder of each share option is entitled to subscribe for six shares of HK\$0.10 each in LCR in cash at the above exercise price per share which is subject to adjustment.

As at 30th June, 2002, save for Messrs. John Luen Wai Lee and David T. Yeh, Directors of the Company, and each of them held 1,500,000 options, none of the Directors, chief executive or substantial shareholders of the Company or their respective associates had any interests in options to subscribe for shares of LCR. The remaining 2,800,000 share options are held by directors of LCR's subsidiaries or employees of LCR or its subsidiaries.

ADDITIONAL INFORMATION *(continued)***Share option schemes** *(continued)*

As at the date of this report, the total number of shares available for issue under the LCR Scheme is 920,108,871 shares of HK\$0.10 each, representing approximately 10 per cent. of the issued share capital of LCR. The exercise in full of the 5,800,000 share options would, under the present capital structure of LCR, result in the issue of 34,800,000 shares of HK\$0.10 each, representing approximately 0.38 per cent. of the issued share capital of LCR.

Since no share options were granted under the LCR Scheme during the six months ended 30th June, 2002, no value of the share options granted has been disclosed.

On 1st September, 2001, Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") was amended whereby if LCR wishes to continue to grant options under the LCR Scheme on or after 1st September, 2001, it must also comply with the new requirements set out therein.

- (b) Pursuant to the Share Option Scheme for Employees (the "HKCL Scheme") approved and adopted by the shareholders of HKCL, a listed subsidiary of the Company, on 21st September, 1992 (the "HKCL Adoption Date"), the directors of HKCL might, at their discretion, grant to any full time employees of HKCL and its subsidiaries ("HKCL Group"), including full time executive directors, options to subscribe for shares in HKCL. The purpose of the adoption of the HKCL Scheme was to motivate the employees of the HKCL Group. Under the rules of the HKCL Scheme, no more options could be granted from the tenth anniversary of the HKCL Adoption Date. The share options vested after six months and were exercisable for a period expiring on the tenth anniversary date after the options were granted and accepted.

The maximum number of shares in respect of which options might be granted under the HKCL Scheme should not exceed 10 per cent. of the number of issued shares of HKCL from time to time, excluding the aggregate number of shares which were issued pursuant to the HKCL Scheme, and the maximum number of shares in respect of which options might be granted in any one financial year should not exceed 5 per cent. of the total number of issued shares of HKCL from time to time. In addition, the maximum number of shares in respect of which options might be granted under the HKCL Scheme to any grantee should not exceed 25 per cent. of the number of shares of HKCL subject to the HKCL Scheme at the time of grant. The exercise price of options was determined by the board of directors of HKCL and should not be less than the higher of the nominal value of the shares of HKCL and 80 per cent. of the average closing prices of the shares of HKCL on the Stock Exchange for the five trading days immediately preceding the date of offer of the options. The consideration for the grant was HK\$1.00 per grantee which must be paid on acceptance to HKCL by the grantee within 28 days after the date of offer of the options.

ADDITIONAL INFORMATION (continued)**Share option schemes** (continued)

The following is a summary of movement in share options of HKCL during the six months ended 30th June, 2002:

Date of grant	Exercise price per share	Period during which share options are exercisable	Quantity of share options outstanding at 1st January, 2002	Quantity of share options lapsed during the six months ended 30th June, 2002	Quantity of share options outstanding at 30th June, 2002
9th March, 1994	HK\$2.59	September 1994 to March 2004	490,000	490,000	Nil
4th August, 1999	HK\$2.40	February 2000 to August 2009	100,000	100,000	Nil
			590,000	590,000	Nil

The holder of each share option was entitled to subscribe for one share of HK\$1.00 in HKCL in cash at the above exercise price per share which was subject to adjustment. The above interests in options to subscribe for shares of HKCL were held by the employees of the HKCL Group. No options were exercised by the option holders and all the above outstanding options lapsed in January 2002 in accordance with the rules of the HKCL Scheme as the holders of the options were no longer the employees of the HKCL Group.

As at 30th June, 2002, none of the Directors, chief executive or substantial shareholders of the Company or their respective associates had any interests in options to subscribe for shares of HKCL.

Since no share options were granted under the HKCL Scheme during the six months ended 30th June, 2002, no value of the share options granted has been disclosed.

Subsequent to 30th June, 2002, no further share options have been granted and the HKCL Scheme expired on 21st September, 2002.

- (c) Pursuant to the Executives' Share Option Scheme of Auric Pacific Group Limited ("Auric"), a listed subsidiary of the Company in Singapore, approved by the shareholders of Auric on 17th December, 1992 (the "Auric Scheme"), the directors of Auric may, at their discretion, grant to any employees of Auric or any of its subsidiaries ("Auric Group") options to subscribe for shares in Auric. The purpose of the adoption of the Auric Scheme was to provide opportunities for full-time senior executives of the Auric Group of the rank of manager and above (including full time executive directors of Auric) who have contributed to the growth and prosperity of the Auric Group to participate in the equity of Auric. The Auric Scheme will continue in operation for a period of ten years from the date of adoption, that is, 17th December, 1992 and will expire after 16th December, 2002 unless extended with the approval of the shareholders at a general meeting of Auric. The share options should be held for one year from the date of grant before they can be exercised.

ADDITIONAL INFORMATION *(continued)***Share option schemes** *(continued)*

The total number of shares in respect of which Auric may grant options shall at no time exceed 5 per cent. of the total issued share capital of Auric (the "Issue Limit"). The total number of shares for which Auric may grant options in any one financial year shall not exceed 10 per cent. of the Issue Limit (the "Annual Limit") provided that any part of the Annual Limit not utilized may, subject to any necessary approvals, be carried forward to succeeding financial years and for this purpose, the unutilized Annual Limit of a financial year shall be added to and form part of the Annual Limit of the next succeeding year. The maximum number of shares of Auric in respect of which options may be granted to any single executive for the entire duration of the Auric Scheme shall not in aggregate exceed 1,000,000 shares of Auric. The maximum entitlement of each participant under the Auric Scheme is as follows:

Category	Maximum entitlement of shares of Auric
Chief Executive Officer	200,000
Chief Financial Officer	100,000
Divisional Directors	100,000
General Managers	30,000
Assistant General Managers	20,000
Business Managers	15,000

The exercise price for the share under the Auric Scheme will be an amount equal to the greater of the nominal value of the shares of Auric and the average of the last transacted prices of the shares of Auric for the five consecutive market days on which dealings in shares took place on the Singapore Exchange Securities Trading Limited immediately preceding the date on which the share options were offered. The consideration for the grant is S\$1.00 per grantee which must be paid on acceptance to Auric within 30 days after the date of offer of the options.

ADDITIONAL INFORMATION (continued)**Share option schemes** (continued)

The following is a summary of movements in share options of Auric during the six months ended 30th June, 2002:

Date of grant	Exercise price per share	Period during which share options are exercisable	Quantity of share options outstanding at 1st January, 2002	Quantity of share options exercised during the six months ended 30th June, 2002	Quantity of share options lapsed during the six months ended 30th June, 2002	Quantity of share options outstanding at 30th June, 2002
25th March, 1998	S\$1.02	March 1999 to March 2003	75,000	Nil	15,000	60,000
27th April, 1999	S\$1.53	April 2000 to April 2004	135,000	Nil	30,000	105,000
			210,000	Nil	45,000	165,000

The holder of each share option is entitled to subscribe for one share of S\$0.50 in Auric in cash at the above exercise price per share which is subject to adjustment. During the six months ended 30th June, 2002, no options were exercised and options for 45,000 shares of S\$0.50 each lapsed as the holders of these options were no longer the employees of the Auric Group.

As at 30th June, 2002, none of the Directors, chief executive or substantial shareholders of the Company or their respective associates had any interests in options to subscribe for shares of Auric. The above interests in options to subscribe for shares of Auric were held by the employees of the Auric Group.

As at the date of this report, the total number of shares available for issue under the Auric Scheme is 2,041,500 shares of S\$0.50 each (provided further options for such shares are granted), representing approximately 1.62 per cent. of the issued share capital of Auric. The exercise in full of the remaining options which had been granted would, under the present capital structure of Auric, result in the issue of 165,000 shares of S\$0.50 each, representing approximately 0.16 per cent. of the issued share capital of Auric.

Since no share options were granted under the Auric Scheme during the six months ended 30th June, 2002, no value of the share options granted has been disclosed.

ADDITIONAL INFORMATION *(continued)***Substantial shareholders**

As at 30th June, 2002, according to the register of interests kept by the Company under Section 16(1) of the SDI Ordinance, and so far as is known to the Directors, the persons (other than a Director or chief executive of the Company) who were, directly or indirectly, beneficially interested in 10 per cent. or more in the issued share capital of the Company were as set out below.

Name	Number of shares of HK\$0.10 each in the Company	Approximate percentage
Lippo Capital	218,500,000	49.9
Lippo Cayman	248,297,776	56.7
Lanius	248,297,776	56.7

Note:

- (i) By virtue of Section 8 of the SDI Ordinance, Lanius was deemed to have the same beneficial interest in the shares of the Company as Lippo Cayman, a wholly-owned subsidiary of Lanius, and Lippo Cayman's interest included the interest of Lippo Capital, a wholly-owned subsidiary of Lippo Cayman.
- (ii) The interests of Lippo Cayman and Lanius are the same as the interest of Mr. Stephen Riady as disclosed in the section headed "Directors' interests in the securities of the Company and associated corporations".

Purchase, sale or redemption of securities

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

Code of Best Practice

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the period, except that the non-executive Directors were not appointed for a specific term but are subject to retirement by rotation and re-election at the Company's annual general meetings in accordance with the Company's Articles of Association.

Review of interim report

The 2002 Interim Report has been reviewed by the Company's Audit Committee which comprises two independent non-executive Directors.

By Order of the Board
Lippo Limited
John Luen Wai Lee
Managing Director

Hong Kong, 25th September, 2002