

| Interim Report 2002

ALLIED PROPERTIES (H.K.) LIMITED

Allied Properties (H.K.) Limited

Interim Report

For the six months ended 30th June, 2002

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The Board of Directors of Allied Properties (H.K.) Limited (“Company”) is pleased to announce that the unaudited consolidated results of the Company and its subsidiaries (“Group”), for the six months ended 30th June, 2002 with the comparative figures are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

for the six months ended 30th June, 2002

		Six months ended 30th June,	
		2002	2001
	<i>Notes</i>	Unaudited	Unaudited
		HK\$'000	HK\$'000
Turnover	3	425,095	316,404
Other income		4,801	18,744
Total income		429,896	335,148
Cost of sales		(86,723)	(99,396)
Brokerage and commission expenses		(42,639)	(12,140)
Selling expenses		(1,842)	(1,565)
Administrative expenses		(137,634)	(66,163)
Bad and doubtful debts		(14,269)	–
Other operating expenses		(49,384)	(20,185)
Profit from operations	4	97,405	135,699
Finance costs		(40,463)	(65,606)
Release of negative goodwill		30,207	9,245
Amortisation of capital reserve		10,206	10,302
Share of results of associates		52,301	55,878
Share of results of jointly controlled entities		12,303	29,935
Profit before taxation		161,959	175,453
Taxation	5	(22,601)	(19,017)
Profit after taxation		139,358	156,436
Minority interests		(49,795)	(65,629)
Profit attributable to shareholders		89,563	90,807
Dividend		–	–
Earnings per share:			
Basic	6	2.0 cents	2.9 cents
Diluted		N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

at 30th June, 2002

		At 30th June, 2002 Unaudited HK\$'000	At 31st December, 2001 Audited HK\$'000
Non-current assets			
Fixed assets		2,493,718	2,489,586
Intangible assets		8,691	6,040
Negative goodwill		(230,579)	(213,101)
Properties under development		134,307	124,172
Interest in associates		2,107,099	2,132,992
Interest in jointly controlled entities		1,457,897	1,443,503
Investments	7	618,179	639,483
Accounts receivable due after one year		–	167,453
		6,589,312	6,790,128
Current assets			
Properties under development for sale		–	917,896
Properties held for sale		981,779	36,599
Inventories		110	109
Investments	7	20,092	33,742
Accounts receivable, deposits and prepayments	8	2,548,657	2,390,680
Amounts due from associates		95,650	72,805
Amount due from a jointly controlled entity		916	1,763
Tax reserve certificates		3,557	3,557
Short-term pledged bank deposits		1,000	1,000
Short-term bank deposits		109,025	99,442
Bank balances and cash		237,436	178,370
		3,998,222	3,735,963
Current liabilities			
Accounts payable and accrued charges	9	1,083,172	689,761
Amount due to Allied Group Limited		25,972	13,996
Amounts due to associates		27,419	31,557
Amount due to a jointly controlled entity		143,100	118,100
Taxation		24,384	18,307
Bank borrowings due within one year		853,557	1,599,010
Other liabilities due within one year	13	831	–
		2,158,435	2,470,731
Net current assets		1,839,787	1,265,232
		8,429,099	8,055,360

CONDENSED CONSOLIDATED BALANCE SHEET (CONT'D)*at 30th June, 2002*

		At 30th June, 2002 Unaudited <i>HK\$'000</i>	At 31st December, 2001 Audited <i>HK\$'000</i>
	<i>Notes</i>	<u> </u>	<u> </u>
Capital and reserves			
Share capital	<i>10</i>	881,280	870,162
Revaluation reserves	<i>11</i>	392,591	396,187
Accumulated profits		1,183,794	1,094,231
Other reserves	<i>12</i>	2,656,630	2,637,796
		<u>5,114,295</u>	<u>4,998,376</u>
Minority interests		<u>2,131,819</u>	<u>2,165,628</u>
Non-current liabilities			
Bank borrowings due after one year		1,162,787	878,079
Deferred taxation		13,395	13,277
Other liabilities due after one year	<i>13</i>	6,803	–
		<u>1,182,985</u>	<u>891,356</u>
		<u>8,429,099</u>	<u>8,055,360</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the six months ended 30th June, 2002

	Six months ended 30th June, 2002 Unaudited HK\$'000	2001 Unaudited HK\$'000
Opening balance – total equity	4,998,376	4,979,735
Revaluation (decrease) increase in investments in securities	(6,461)	13,391
Exchange differences arising on translation of operations outside Hong Kong	221	255
Share of reserves of associates	3,559	2,669
Share of reserves of jointly controlled entities	4,510	(26,157)
Translation reserve released on reclassification of an associate to a subsidiary	–	219
Capital reserve released on reclassification of an associate to a subsidiary	–	(169)
Net gains (losses) not recognised in the income statement	1,829	(9,792)
Profit attributable to shareholders	89,563	90,807
Investment revaluation reserve released to income statement on impairment of non-trading securities	2,563	–
Translation reserve released on disposal of associates	4	–
Goodwill reserve released on disposal of an associate	17,160	–
Capital reserve released to income statement on amortisation	(10,206)	(10,302)
Adjustment in property revaluation reserve on reclassification of an associate to a subsidiary	–	15,666
Property revaluation reserve released on disposal of investment properties	–	(2,000)
Investment revaluation reserve released on disposal of non-trading securities	–	(407)
Translation reserve released on winding up of subsidiaries	–	(33)
Goodwill reserve released on winding up of subsidiaries	–	634
	99,084	94,365
Issue of shares, net of expenses	15,006	357,575
Closing balance – total equity	5,114,295	5,421,883

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30th June, 2002

	Six months ended 2002 Unaudited HK\$'000	30th June, 2001 Unaudited HK\$'000
Net cash from operating activities	501,214	36,200
Net cash from (used in) investing activities	16,965	(615,802)
Net cash (used in) from financing activities	(435,607)	978,690
Net increase in cash and cash equivalents	82,572	399,088
Exchange adjustments	598	205
Cash and cash equivalents at 1st January	190,328	(48,482)
Cash and cash equivalents at 30th June	<u>273,498</u>	<u>350,811</u>
Analysis of the balances of cash and cash equivalents:		
Short-term bank deposits	109,025	178,492
Bank balances and cash	237,436	207,380
Bank overdrafts	(72,963)	(35,061)
	<u>273,498</u>	<u>350,811</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

for the six months ended 30th June, 2002

1. BASIS OF PREPARATION

These condensed interim consolidated financial statements have been prepared in accordance with Statement of Standard Accounting Practice (“SSAP”) 25 (Revised) “Interim Financial Reporting” issued by the Hong Kong Society of Accountants (“HKSA”) and the applicable disclosure requirements set out in Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”).

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in these condensed interim consolidated financial statements are consistent with those set out 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 following its adoption of the following revised or new SSAPs which became effective for the current accounting period:

SSAP 1 (Revised)	:	Presentation of financial statements
SSAP 11 (Revised)	:	Foreign currency translation
SSAP 15 (Revised)	:	Cash flow statements
SSAP 34	:	Employee benefits

Statement of changes in equity

In accordance with SSAP 1 (Revised), the requirement for presenting a statement of recognised gains and losses has changed to presenting a statement of changes in equity. The condensed consolidated statement of changes in equity for the current period has been presented accordingly.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)
for the six months ended 30th June, 2002

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Foreign currency translation

The main revision in SSAP 11 (Revised) is that in preparing the consolidation of financial statements, the income statements of the Group's operations outside Hong Kong have to be translated at the average rates for the period rather than at the exchange rates ruling on the balance sheet date. This change in accounting policy has not had any material effect on the results for the current and prior accounting periods.

Cash flow statement

Under SSAP 15 (Revised), cash flows are classified by operating, investing and financing activities. In addition, the amount presented for cash and cash equivalents has been amended to exclude short-term bank loans which are financing in nature. The condensed consolidated cash flow statement has been presented in accordance with this revised SSAP.

Employee benefits

SSAP 34 prescribes the accounting treatment and disclosures for employee benefits. This SSAP has not had any material effect on the results for the current and prior accounting periods.

Comparative figures have been reclassified to conform with the revised presentation arising from the adoption of the above revised or new SSAPs.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)
for the six months ended 30th June, 2002

3. SEGMENTAL INFORMATION

Analysis of the Group's turnover and contributions to profit (loss) from operations by business segments is as follows:

	Six months ended 30th June, 2002				
	Investment, broking and finance <i>HK\$'000</i>	Property rental and management services <i>HK\$'000</i>	Sale of properties and property based investments <i>HK\$'000</i>	Hotel operations <i>HK\$'000</i>	Total <i>HK\$'000</i>
Turnover	331,413	63,669	27,645	9,838	432,565
Less : inter-segment turnover	(4,894)	(2,576)	-	-	(7,470)
	326,519	61,093	27,645	9,838	425,095
Profit (loss) from operations	78,430	22,940	(5,212)	1,247	97,405
Finance costs					(40,463)
Release of negative goodwill					30,207
Amortisation of capital reserve					10,206
Share of results of associates					52,301
Share of results of jointly controlled entities					12,303
Profit before taxation					161,959
Taxation					(22,601)
Profit after taxation					139,358

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)
for the six months ended 30th June, 2002

3. SEGMENTAL INFORMATION (CONT'D)

	Six months ended 30th June, 2001				
	Investment, broking and finance <i>HK\$'000</i>	Property rental and management services <i>HK\$'000</i>	Sale of properties and property based investments <i>HK\$'000</i>	Hotel operations <i>HK\$'000</i>	Total <i>HK\$'000</i>
Turnover	166,882	64,347	82,956	9,223	323,408
Less : inter-segment turnover	(2,398)	(4,606)	–	–	(7,004)
	<u>164,484</u>	<u>59,741</u>	<u>82,956</u>	<u>9,223</u>	<u>316,404</u>
Profit from operations	111,660	21,999	1,820	220	135,699
Finance costs					(65,606)
Release of negative goodwill					9,245
Amortisation of capital reserve					10,302
Share of results of associates					55,878
Share of results of jointly controlled entities					29,935
Profit before taxation					175,453
Taxation					(19,017)
Profit after taxation					<u>156,436</u>

During the period under review, less than 10% of the operations of the Group in terms of both turnover and results of operations were carried on outside Hong Kong. Accordingly, no geographical segmental information is shown.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)
for the six months ended 30th June, 2002

4. PROFIT FROM OPERATIONS

	Six months ended 30th June,	
	2002	2001
	<u>HK\$'000</u>	<u>HK\$'000</u>
Profit from operations has been arrived at after charging:		
Depreciation	11,860	5,233
Amortisation of intangible assets	299	17
Net realised loss on trading securities	582	66
Net unrealised loss on trading securities	2,357	–
Realised loss on derivatives	482	–
Impairment losses of non-trading securities	4,760	–
and after crediting:		
Interest income	136,218	56,084
Profit on dealing in foreign currencies	4,922	1,423
Profit on other dealing activities	159	116
Unrealised profit on derivatives	81	1,069
Profit on disposal of associates	3,534	–
Profit on disposal of investment properties	–	7,690
Profit on disposal of land and building	–	685
Profit on disposal of non-trading securities	–	13,072
Realised profit on derivatives	–	2,806
Net unrealised profit on trading securities	–	33,208
	<u> </u>	<u> </u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)
for the six months ended 30th June, 2002

5. TAXATION

	Six months ended 30th June,	
	2002	2001
	<u>HK\$'000</u>	<u>HK\$'000</u>
The charge comprises:		
Hong Kong Profits Tax	7,314	4,085
Taxation outside Hong Kong	576	182
Deferred taxation	121	–
Share of taxation attributable to associates	(531)	10,918
Share of deferred taxation attributable to associates	12,703	1,047
Share of taxation attributable to jointly controlled entities	2,418	2,785
	<u>22,601</u>	<u>19,017</u>

Hong Kong Profits Tax is calculated at the rate of 16% on the estimated assessable profits derived from Hong Kong.

Taxation outside Hong Kong is calculated at the rates prevailing in the respective jurisdictions.

There was no significant unprovided deferred tax for the period.

6. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit attributable to shareholders of HK\$89,563,000 (2001: HK\$90,807,000) and on the weighted average number of 4,385,195,967 (2001: 3,085,421,362) shares in issue during the period.

No diluted earnings per share has been presented for the current and corresponding periods because the Company has no dilutive potential ordinary shares during both periods.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)
for the six months ended 30th June, 2002

7. INVESTMENTS

	Investment in securities							
	Non-trading securities		Trading securities		Other investments		Total	
	At	At	At	At	At	At	At	At
	30th June, 2002	31st December, 2001	30th June, 2002	31st December, 2001	30th June, 2002	31st December, 2001	30th June, 2002	31st December, 2001
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Listed equity securities issued by corporate entities, at market value								
Hong Kong	265,166	260,455	5,397	14,395	-	-	270,563	274,850
Outside Hong Kong	1,295	1,383	1,839	6,010	-	-	3,134	7,393
	<u>266,461</u>	<u>261,838</u>	<u>7,236</u>	<u>20,405</u>	<u>-</u>	<u>-</u>	<u>273,697</u>	<u>282,243</u>
Unlisted equity securities issued by corporate entities								
Hong Kong	172,142	188,190	248	509	-	-	172,390	188,699
Outside Hong Kong	68,341	69,119	-	-	-	-	68,341	69,119
	<u>240,483</u>	<u>257,309</u>	<u>248</u>	<u>509</u>	<u>-</u>	<u>-</u>	<u>240,731</u>	<u>257,818</u>
Unlisted marketable debt securities issued by overseas								
government	-	-	7,777	7,772	-	-	7,777	7,772
issued by banks	-	-	4,831	5,056	-	-	4,831	5,056
	<u>-</u>	<u>-</u>	<u>12,608</u>	<u>12,828</u>	<u>-</u>	<u>-</u>	<u>12,608</u>	<u>12,828</u>
Exchange seats and statutory deposits and other deposits with Exchange and Clearing companies	-	-	-	-	16,978	17,223	16,978	17,223
Amounts due from investee companies less impairment loss	-	-	-	-	94,257	103,113	94,257	103,113
	<u>506,944</u>	<u>519,147</u>	<u>20,092</u>	<u>33,742</u>	<u>111,235</u>	<u>120,336</u>	<u>638,271</u>	<u>673,225</u>
Carrying amount analysed for reporting purposes as:								
Non-current	506,944	519,147	-	-	111,235	120,336	618,179	639,483
Current	-	-	20,092	33,742	-	-	20,092	33,742
	<u>506,944</u>	<u>519,147</u>	<u>20,092</u>	<u>33,742</u>	<u>111,235</u>	<u>120,336</u>	<u>638,271</u>	<u>673,225</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)
for the six months ended 30th June, 2002

8. ACCOUNTS RECEIVABLE, DEPOSITS AND PREPAYMENTS

For trade receivables in respect of securities, bullion and commodities businesses, the Group allows a credit period up to the settlement dates of respective securities, bullion and commodities transactions or a credit period mutually agreed with the contracting parties. The average credit terms of other trade receivables range from 30 days to 180 days. Included in accounts receivable, deposits and prepayments are trade receivables totalling HK\$2,458,609,000 (at 31st December, 2001: HK\$2,337,991,000), the aged analysis of which is as follows:

	At 30th June, 2002 <u>HK\$'000</u>	At 31st December, 2001 <u>HK\$'000</u>
0 to 30 days	2,290,677	1,581,574
31 to 180 days	47,865	216,020
181 to 365 days	10,263	409,849
Over 365 days	523,057	542,481
	2,871,862	2,749,924
Allowance for doubtful debts	(413,253)	(411,933)
	<u>2,458,609</u>	<u>2,337,991</u>

Included in the above balance of HK\$2,871,862,000 (at 31st December, 2001: HK\$2,749,924,000) are term loans totalling HK\$925,700,000 (at 31st December, 2001: HK\$1,187,376,000), the maturity profile of which is shown in note 19.

There were listed and unlisted securities and properties of clients held as collateral against secured margin loans and term loans. The market value of the listed securities at 30th June, 2002 was HK\$6,282,224,000 (at 31st December, 2001: HK\$7,152,636,000).

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)

for the six months ended 30th June, 2002

8. ACCOUNTS RECEIVABLE, DEPOSITS AND PREPAYMENTS (CONT'D)

On 24th November, 1999, Sun Hung Kai & Co. Limited ("Sun Hung Kai"), a subsidiary of the Company since May 2001, entered into an agreement for the sale of 770,000,000 shares in Tian An China Investments Company Limited ("Tian An") to Millennium Touch Limited ("MT"). These 770,000,000 Tian An shares represented approximately 19.79% of the then issued share capital of Tian An and 9.07% of the issued share capital of Tian An at 30th June, 2002 (at 31st December, 2001: 9.07%). MT paid 5% of the purchase price and entered into a loan agreement with Sun Hung Kai group to finance the balance. As security for the loan agreement, MT entered into a share mortgage with Sun Hung Kai group. The share mortgage provided that if there was default under the loan agreement, then Sun Hung Kai group may enforce its security by, inter alia, selling the 770,000,000 Tian An shares to discharge the indebtedness owed by MT to Sun Hung Kai group or foreclosing on the shares.

MT has been in default under the loan agreement since 24th November, 2000. There was an unrealised loss of HK\$134,124,000 to Sun Hung Kai group up to 31st December, 2000 by marking to market those 770,000,000 Tian An shares to a closing market price of HK\$0.134 at 31st December, 2000. Despite the rise in market price of Tian An shares to a closing market price of HK\$0.147 at 30th June, 2002, no adjustment of the said unrealised loss or write-back was accounted for in the income statement since 1st January, 2001. The amount due from MT after deducting the unrealised loss of HK\$134,124,000 at 30th June, 2002 was HK\$103,180,000 (at 31st December, 2001: HK\$103,180,000) and has been included as term loan under the Group's balance of accounts receivable, deposits and prepayments.

The credit of trade receivables in respect of the finance business including secured margin loans and secured term loans are approved and reviewed by the respective committees. Clients are normally required to provide additional margin or securities whenever there are any shortfalls in their accounts. Specific allowances are made for doubtful debts as and when they are considered necessary by the management and the credit committee. Trade receivables in the balance sheet are stated net of such allowances.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)
for the six months ended 30th June, 2002

9. ACCOUNTS PAYABLE AND ACCRUED CHARGES

Included in accounts payable and accrued charges are trade payables of HK\$838,146,000 (at 31st December, 2001: HK\$421,225,000), the aged analysis of which is as follows:

	At 30th June, 2002 <i>HK\$'000</i>	At 31st December, 2001 <i>HK\$'000</i>
0 to 30 days	706,373	323,453
31 to 180 days	60,153	44,309
181 to 365 days	26,337	5,187
Over 365 days	45,283	48,276
	838,146	421,225

10. SHARE CAPITAL

	Number of shares	Value <i>HK\$'000</i>
Ordinary shares of HK\$0.20 each		
Authorised:		
At 31st December, 2001 and 30th June, 2002	30,000,000,000	6,000,000
Issued and fully paid:		
At 31st December, 2001	4,350,809,620	870,162
Exercise of warrant subscription rights	55,591,900	11,118
At 30th June, 2002	4,406,401,520	881,280

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)
for the six months ended 30th June, 2002

11. REVALUATION RESERVES

	At 30th June, 2002 <i>HK\$'000</i>	At 31st December, 2001 <i>HK\$'000</i>
Property revaluation reserve	395,570	397,858
Investment revaluation reserve	(2,979)	(1,671)
	<u>392,591</u>	<u>396,187</u>

12. OTHER RESERVES

	At 30th June, 2002 <i>HK\$'000</i>	At 31st December, 2001 <i>HK\$'000</i>
Special capital reserve	2,320,430	2,320,430
Share premium	458,700	454,812
Capital redemption reserve	72,044	72,044
Translation reserve	(214,299)	(222,291)
Capital (goodwill) reserve	19,755	12,801
	<u>2,656,630</u>	<u>2,637,796</u>

13. OTHER LIABILITIES

	At 30th June, 2002 <i>HK\$'000</i>	At 31st December, 2001 <i>HK\$'000</i>
Obligation under a finance lease	2,227	–
Other employee benefits	5,407	–
	7,634	–
Less : Amount classified under current liabilities	(831)	–
Amount due after one year	<u>6,803</u>	<u>–</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)
for the six months ended 30th June, 2002

14. CONTINGENT LIABILITIES

There were no material changes in the contingent liabilities of the Group at 30th June, 2002 compared to the position at 31st December, 2001 as set out in the Company's annual report for 2001 except for the following:

- (a) During the period, a guarantee amounting to HK\$215,000,000 at 31st December, 2001 which was provided to banks in respect of credit facilities utilised by a wholly-owned subsidiary of a jointly controlled entity was released.
- (b) On 9th September, 2002, Sun Hung Kai Investment Services Limited ("SHKIS"), an indirect wholly-owned subsidiary of Sun Hung Kai, was served with a Writ attaching a Statement of Claim by Shenzhen Building Materials Group Co. Limited, a Shenzhen P.R.C.-registered company, claiming the return of certain shares in Shenzhen International Holdings Limited (worth approximately HK\$37,000,000) together with interest, costs and damages. The actions taken by SHKIS were based on considered advice from reputable legal counsel, which advice was strictly followed in its implementation. The claim will be strenuously defended and at this stage the management takes the view that no contingency arises for which a provision is required to be made.

15. CAPITAL COMMITMENTS

	At 30th June, 2002 HK\$'000	At 31st December, 2001 HK\$'000
Capital expenditure contracted for but not provided for in the financial statements:		
For property development projects	36,474	37,512
Others	–	1,101
	<u>36,474</u>	<u>38,613</u>
Other capital expenditure authorised but not contracted for	<u>3,159</u>	<u>–</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)

for the six months ended 30th June, 2002

16. LEASE COMMITMENTS

At 30th June, 2002, the Group had outstanding minimum lease payments under non-cancellable operating leases, which fall due as follows:

	At 30th June, 2002		At 31st December, 2001	
	Land and buildings HK\$'000	Others HK\$'000	Land and buildings HK\$'000	Others HK\$'000
Within one year	23,664	14,307	24,515	12,372
In the second to fifth years inclusive	36,403	3,765	46,438	8,980
After the fifth year	-	240	-	-
	<u>60,067</u>	<u>18,312</u>	<u>70,953</u>	<u>21,352</u>

Operating leases are negotiated for an average term of two years.

17. PLEDGE OF ASSETS

At 30th June, 2002, certain of the Group's investment properties, hotel property, land and buildings, properties under development, properties held for sale and bank deposits with an aggregate carrying value of HK\$3,439,340,000 (at 31st December, 2001: HK\$3,406,179,000), certain securities in respect of a listed subsidiary with a cost of HK\$1,607,866,000 (at 31st December, 2001: HK\$1,607,866,000) and listed investments belonging to the Group and margin clients with an aggregate carrying value of HK\$1,537,002,000 (at 31st December, 2001: HK\$3,798,857,000) were pledged to secure loans and general banking facilities to the extent of HK\$4,149,820,000 (at 31st December, 2001: HK\$4,276,159,000) granted to the Group. Facilities amounting to HK\$2,016,147,000 (at 31st December, 2001: HK\$2,431,911,000) were utilised at 30th June, 2002.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)

for the six months ended 30th June, 2002

18. RELATED PARTY TRANSACTIONS

The following is a summary of the significant transactions with related parties during the period:

(a) Summary of income and expense items

	(Income)/Expenses	
	Six months ended 30th June,	
	2002	2001
	<u>HK\$'000</u>	<u>HK\$'000</u>
Underwriting commission paid to the ultimate holding company	–	2,660
Corporate management services, calculated at 0.5% of the Group's net assets to the ultimate holding company	12,496	12,449
Rent, property management and air-conditioning fees from the ultimate holding company	(1,764)	(1,661)
Dividend income from a fellow subsidiary	(9,300)	(12,200)
Property management and air-conditioning fees and other property related service fees from a jointly controlled entity	(7,508)	(7,466)
Administration and management fees from a jointly controlled entity	(930)	(680)
Rent, property management and air-conditioning fees to a jointly controlled entity	143	1,883
Dividend income from an associate	(2,000)	(7,344)
Rent, property management, air-conditioning fees and other related service fees from an associate	(876)	(631)
Interest income from an associate	(7,591)	(3,650)

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)
for the six months ended 30th June, 2002

18. RELATED PARTY TRANSACTIONS (CONT'D)

- (b) During the period, both the Group and a joint venture partner, each having a 50% interest in a jointly controlled entity, received and repaid various interest free loans from such jointly controlled entity. At 30th June, 2002, the amounts lent to the Group totalled HK\$143,000,000 (at 30th June, 2001: HK\$146,500,000).
- (c) Throughout the period up to 13th June, 2002, the Group had a guarantee outstanding which was provided to banks in respect of credit facilities utilised by a wholly-owned subsidiary of a jointly controlled entity. The guarantee provided was in proportion to the Group's interest in the jointly controlled entity and the amount at 13th June, 2002 was HK\$207,500,000 (at 30th June, 2001: HK\$230,000,000). The guarantee was released on 14th June, 2002.
- (d) A promissory note of HK\$40,419,000 was issued by a listed associate for the purpose of repaying the outstanding principal and interest under the 4% convertible loan note dated 2nd June, 1998 due on 2nd June, 2002. The promissory note bears interest at 7% per annum and matures on 2nd June, 2003.

The above transactions have been entered into on terms agreed by the parties concerned.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)
for the six months ended 30th June, 2002

19. MATURITY PROFILE OF TERM ASSETS AND LIABILITIES

The following tables list the assets and liabilities of the Group which have a term of maturity. Overdue assets are reported as on demand.

	At 30th June, 2002					
	On	Within	3 months	1 year to	After	Total
	demand	3 months	to 1 year	5 years	5 years	
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>
Assets						
Fixed deposits						
with banks	-	110,025	-	-	-	110,025
Promissory notes of						
a listed associate	-	-	40,419	145,000	-	185,419
Term loans	273,885	219,462	432,353	-	-	925,700
Marketable debt						
securities	-	12,608	-	-	-	12,608
	<u>-</u>	<u>12,608</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,608</u>
Liabilities						
Bank loans and						
overdrafts	-	806,154	47,403	830,435	332,352	2,016,344
Obligation under						
a finance lease	-	204	627	1,396	-	2,227
	<u>-</u>	<u>204</u>	<u>627</u>	<u>1,396</u>	<u>-</u>	<u>2,227</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)
for the six months ended 30th June, 2002

19. MATURITY PROFILE OF TERM ASSETS AND LIABILITIES (CONT'D)

	At 31st December, 2001					Total HK\$'000
	On demand HK\$'000	Within 3 months HK\$'000	3 months to 1 year HK\$'000	1 year to 5 years HK\$'000	After 5 years HK\$'000	
Assets						
Fixed deposits with banks	-	100,442	-	-	-	100,442
Convertible loan note and promissory note of a listed associate	-	-	110,202	145,000	-	255,202
Accounts receivable due after one year	-	-	-	167,453	-	167,453
Term loans	276,878	358,682	551,816	-	-	1,187,376
Marketable debt securities	-	12,828	-	-	-	12,828
	<u>-</u>	<u>12,828</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,828</u>
Liabilities						
Bank loans and overdrafts	-	982,078	616,932	383,701	494,378	2,477,089
	<u>-</u>	<u>982,078</u>	<u>616,932</u>	<u>383,701</u>	<u>494,378</u>	<u>2,477,089</u>

20. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current period's presentation.

INTERIM DIVIDEND

The Directors do not recommend the declaration of an interim dividend. It should be noted however that the Group took advantage of the relatively low share prices of Sun Hung Kai compared to the net asset values and increased its shareholding in Sun Hung Kai during the period from 52.29% to 53.84%. It is further noted that the Group has, subsequent to the period end increased the shareholding in Sun Hung Kai to the present level of 61.67%.

For the six months ended 30th June, 2001, the Company did not declare an interim dividend.

FINANCIAL REVIEW

The profit attributable to shareholders for the period was approximately HK\$89.6 million, a decrease of 1.3% compared to the corresponding period of last year of approximately HK\$90.8 million. The Group's financial statements have since May 2001 consolidated those of Sun Hung Kai, when that company became a subsidiary of the Company. Accordingly, the comparative consolidated income statement should be interpreted with regard to this abbreviated period of consolidation.

Financial Resources, Liquidity and Capital Structure

The Group is principally financed by net cash inflow from operating activities and banking facilities granted by the banks. The banking facilities of the Group are reviewed from time to time and new banking facilities will be secured or renewed to meet the funding requirements for capital commitments, investments and operations of the Group.

The issued share capital of the Company increased from HK\$870.2 million to HK\$881.3 million during the period due to the exercise of warrant subscription rights as shown in note 10 to the condensed financial statements on page 16.

The liquidity of the Group as evidenced by the current ratio (current assets/current liabilities) was 1.85 times, which improved from the 1.51 times applicable at the end of last year.

At 30th June, 2002, the Group's net bank borrowings amounted to HK\$1,668.9 million (at 31st December, 2001: HK\$2,198.3 million), representing bank borrowings of HK\$2,016.3 million (at 31st December, 2001: HK\$2,477.1 million) less bank deposits, bank balances and cash of HK\$347.4 million (at 31st December, 2001: HK\$278.8 million) and the Group had net assets of HK\$5,114.3 million (at 31st December, 2001: HK\$4,998.4 million). Accordingly, the Group's gearing ratio of net bank borrowings to net assets was 32.6% (at 31st December, 2001: 44.0%).

FINANCIAL REVIEW (CONT'D)

Financial Resources and Liquidity (Cont'd)

The bank borrowings of the Group are repayable as follows:

	At 30th June, 2002 <i>HK\$'000</i>	At 31st December, 2001 <i>HK\$'000</i>
Within one year or on demand	853,557	1,599,010
More than one year but not exceeding two years	144,986	157,615
More than two years but not exceeding five years	685,449	226,086
More than five years	332,352	494,378
	<u>2,016,344</u>	<u>2,477,089</u>

The major portion of the Group's bank borrowings are charged at floating rates.

Risk of Foreign Exchange Fluctuation

There have been no significant changes in the exposures to foreign exchange risks from those previously outlined in the Company's annual report for 2001.

Contingent Liabilities

Details regarding the contingent liabilities are set out in note 14 to the condensed financial statements on page 18.

Pledge of Assets

Details regarding the pledge of assets are set out in note 17 to the condensed financial statements on page 19.

OPERATIONAL REVIEW

Properties

Hong Kong and overseas

The performance of China Online Centre, the commercial/office building at 333 Lockhart Road, Wanchai, has been affected by an unfavourable office rental market. Piling for phase two of Ibis North Point, the hotel at Java Road, has been completed. Century Court, located directly opposite Allied Kajima Building and Novotel Century Hong Kong hotel in Wanchai, continued to enjoy satisfactory occupancy rates. The Group commenced marketing for sale its St. George Apartments on Waterloo Road around the middle of the year and the response was satisfactory.

Allied Kajima Limited, which is 50% indirectly owned by the Group and the core properties of which group include Allied Kajima Building, Novotel Century Hong Kong hotel and the Westin Philippine Plaza Hotel (“Westin Hotel”), contributed a profit of approximately 34% lower than the corresponding period of last year mainly due to the renovation of the Westin Hotel.

Mainland P.R.C.

The overall performance of Tian An, a 43.27% owned listed associate of Sun Hung Kai, in the first half of this year was satisfactory. As the mainland P.R.C. property market is currently strong, the Group is hopeful of an improving performance from Tian An in the second half.

Financial Services

Sun Hung Kai, the Group’s listed subsidiary, reported a 32.8% decrease in profit. Notwithstanding the difficult environment, Sun Hung Kai’s securities brokerage division continued to expand its distribution capacity, targeting clients through asset gathering exercises and flexible margin financing programs. With its strong client base and product diversity, Sun Hung Kai has improved its market share during these difficult economic conditions. One of the most significant new income streams came from its development of the opportunity to provide a new service as a Liquidity Provider and market maker for derivative warrant issuers. Sun Hung Kai will continue to develop new income streams.

OPERATIONAL REVIEW (CONT'D)

Employees

The total number of staff of the Group at 30th June, 2002 was 1,375 (at 31st December, 2001: 1,347). The Group reviews remuneration packages from time to time and normally annually. Besides salary payments, other staff benefits include contributions to employee provident funds, medical subsidies and a discretionary bonus scheme.

Management of Risks

The management of risks in respect of the Group's finance business is primarily conducted by Sun Hung Kai. There has been no material change in the nature of Sun Hung Kai group's exposures, policies and practices in managing its risks to those which were previously reported in the Company's annual report for 2001.

BUSINESS OUTLOOK

The outlook for the Hong Kong property market for the remainder of 2002 is likely to remain subdued. Accordingly, the Group will continue to adopt a cautious and conservative approach for the foreseeable future.

SHARE OPTIONS

No option was granted under the share option scheme of the Company during the six months ended 30th June, 2002, nor was there any option outstanding at 31st December, 2001 and 30th June, 2002.

DIRECTORS' INTERESTS IN SECURITIES

At 30th June, 2002, Mr. Patrick S.W. Lee, a Director of the Company, had the following beneficial interests in the securities of the Company and its associated corporations, within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), as recorded in the register required to be kept by the Company under Section 29 of the SDI Ordinance:

Name of Director	Number of securities	Nature of interest
Patrick S.W. Lee	(i) 2,700,000 shares and 540,000 warrants of the Company	Personal Interest
	(ii) 5,500,000 shares in Allied Group Limited (Note)	Personal Interest

Note: Allied Group Limited is the ultimate holding company of the Company.

Save as disclosed above, no interests were held or deemed or taken (under the SDI Ordinance) to be held by any Directors and their associates in any equity or debt securities of the Company or any of its associated corporations (within the meaning of the SDI Ordinance) at 30th June, 2002.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

At 30th June, 2002, none of the Directors of the Company had any personal interests in share options to subscribe for shares in the Company granted under the share option scheme of the Company.

No rights to subscribe for equity or debt securities of the Company had been granted to or exercised by any Directors or any of their spouses or children under eighteen years of age at any time during the period under review.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

At 30th June, 2002, according to the register required to be kept by the Company under Section 16(1) of the SDI Ordinance, the shareholders interested in 10% or more of the issued share capital of the Company were as follows:

Name of Shareholder	Number of shares held	%
Sunhill Investments Limited (<i>Note 1</i>)	1,023,513,270	23.23
Capscore Limited (<i>Note 2</i>)	1,265,618,340	28.72
Allied Group Limited	3,051,591,158 (<i>Note 3</i>)	69.25

Notes:

1. Sunhill Investments Limited is a wholly-owned subsidiary of Allied Group Limited.
2. Capscore Limited is a wholly-owned subsidiary of Allied Group Limited.
3. The number of shares held by Allied Group Limited comprised the shareholdings of Allied Group Limited and its subsidiaries, including but not limited to Sunhill Investments Limited and Capscore Limited.

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

CORPORATE GOVERNANCE

Audit Committee Review

The audit committee of the Company (“Audit Committee”) has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a general review of the unaudited interim financial report. In carrying out this review, the Audit Committee has relied on a review conducted by the Group’s external auditors in accordance with Statement of Auditing Standards 700 issued by the HKSA as well as obtaining reports from management. The Audit Committee has not undertaken detailed independent audit checks.

CORPORATE GOVERNANCE (CONT'D)

Code of Best Practice

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30th June, 2002, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

By Order of the Board
Sir Gordon Macwhinnie
Chairman

16th September, 2002