



中策集團有限公司
China Strategic Holdings Limited



GOODS
INDUSTRY
ON
STRY



INTERIM REPORT 2002 中期報告

德勤 • 關黃陳方會計師行

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**Deloitte
Touche
Tohmatsu**

INDEPENDENT REVIEW REPORT

To the Board of Directors of China Strategic Holdings Limited
中策集團有限公司
(incorporated in Hong Kong with limited liability)

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 3 to 23.

Directors' responsibilities

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

Review work performed

We conducted our review in accordance with the Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

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

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

25th September, 2002

Condensed Consolidated Income Statement

For the six months ended 30th June, 2002

	Notes	Six months ended	
		30th June,	
		2002	2001
		HK\$'000	HK\$'000
		(unaudited)	(unaudited)
Turnover		1,706,190	1,869,118
Cost of sales		(1,421,501)	(1,670,895)
Gross profit		284,689	198,223
Other operating income	4	105,662	77,550
Distribution costs		(115,065)	(95,993)
Administrative expenses		(116,743)	(114,601)
Other expenses	5	(346,237)	(100,755)
Loss from operations	6	(187,694)	(35,576)
Net (loss) gain on disposal of interest in subsidiaries		(19,050)	9,953
Net loss on disposal/dilution of interest in associates		(1,010)	(275)
Finance costs		(53,809)	(46,143)
Share of results of associates		(25,374)	(1,521)
Loss before taxation		(286,937)	(73,562)
Taxation	7	(7,928)	(8,151)
Loss before minority interests		(294,865)	(81,713)
Minority interests		141,166	56,939
Net loss for the period		<u>(153,699)</u>	<u>(24,774)</u>
Loss per share			
— Basic and diluted	8	<u>(32.9) cents</u>	<u>(5.4) cents</u>

Condensed Consolidated Balance Sheet

At 30th June, 2002

	<i>Notes</i>	30.6.2002 HK\$'000 (unaudited)	31.12.2001 <i>HK\$'000</i> (audited)
Non-Current Assets			
Investment properties	9	40,272	49,341
Property, plant and equipment	10	2,104,567	2,452,199
Properties under/held for development		138,439	137,000
Payment for acquisition of land development rights		8,330	2,727
Goodwill		31,891	32,708
Interest in associates	11	257,420	176,268
Receivables — due after one year	12	26,219	302,439
Investments in securities	13	562,040	473,408
Loans to minority shareholders		26,954	26,765
		3,196,132	3,652,855
Current Assets			
Properties held for sale		75,062	32,881
Inventories		712,842	790,288
Trade debtors	14	624,807	481,024
Receivables — due within one year	12	755,657	107,195
Receivables due from associates	11	45,018	13,517
Other receivables, deposits and prepayments		295,807	298,722
Advances to contractors		9,439	9,439
Income and other tax recoverable		1,207	208
Investments in securities	13	40,000	40,000
Bank balances and cash		477,749	744,927
Pledged bank deposits		9,578	83,520
		3,047,166	2,601,721

Condensed Consolidated Balance Sheet *(continued)*

At 30th June, 2002

		30.6.2002	31.12.2001
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(unaudited)	(audited)
Current Liabilities			
Creditors and accrued charges	15	392,514	431,885
Other payables		695,564	563,821
Loans payables	16	280,000	—
Payables due to related companies		38,076	36,492
Payables due to associates		98	9,625
Income and other taxes payable		9,169	32,871
Bank loans and other borrowings		877,803	922,272
		2,293,224	1,996,966
Net Current Assets			
		753,942	604,755
		3,950,074	4,257,610
Capital and Reserves			
Share capital	17	55,298	46,098
Reserves		2,029,234	2,174,692
		2,084,532	2,220,790
Minority Interests			
		1,142,975	1,323,582
Non-Current Liabilities			
Bank loans and other borrowings			
— due after one year		602,264	593,121
Deposits received		76,638	76,638
Loans from minority shareholders		43,665	43,479
		722,567	713,238
		3,950,074	4,257,610

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30th June, 2002

	Share capital HK\$'000	Share premium HK\$'000	Special capital reserve HK\$'000	Capital redemption reserve HK\$'000	Goodwill on consolidation HK\$'000	Exchange reserve HK\$'000	Other non-distributable reserves HK\$'000	Retained profits (deficit) HK\$'000	Total HK\$'000
At 1st January, 2001	460,979	1,876,729	—	233	202,694	4,878	34,403	269,938	2,849,854
Exchange adjustment	—	—	—	—	—	(9,495)	—	—	(9,495)
Share of net reserves movement of associates	—	—	—	—	—	(107)	193	—	86
Net gain (loss) not recognised in the condensed consolidated income statement	—	—	—	—	—	(9,602)	193	—	(9,409)
Impairment loss of goodwill of associates	—	—	—	—	11,078	—	—	—	11,078
Realised on disposal of interest in subsidiaries	—	—	—	—	(244)	(746)	(101)	—	(1,091)
Realised on dilution of interest in an associate	—	—	—	—	275	—	—	—	275
Appropriated from retained profits	—	—	—	—	—	—	169	(169)	—
Net loss for the period	—	—	—	—	—	—	—	(24,774)	(24,774)
At 1st July, 2001	460,979	1,876,729	—	233	213,803	(5,470)	34,664	244,995	2,825,933
Exchange adjustment	—	—	—	—	—	2,218	—	—	2,218
Share of net reserves movement of associates	—	—	—	—	—	35	(193)	—	(158)
Net gain (loss) not recognised in the condensed consolidated income statement	—	—	—	—	—	2,253	(193)	—	2,060
Arising from capital reorganisation	(414,881)	—	414,881	—	—	—	—	—	—
Impairment loss of goodwill of subsidiaries and associates	—	—	—	—	2,652	—	—	—	2,652
Realised on disposal/dilution of interest in subsidiaries/associates	—	—	—	—	(25,018)	96	(10,977)	—	(35,899)
Appropriated from retained profits	—	—	—	—	—	—	11,899	(11,899)	—
Net loss for the period	—	—	—	—	—	—	—	(573,956)	(573,956)
At 31st December, 2001	46,098	1,876,729	414,881	233	191,437	(3,121)	35,393	(340,860)	2,220,790
Exchange adjustment	—	—	—	—	—	(831)	—	—	(831)
Share of net reserves movement of associates	—	—	—	—	—	929	(85)	—	844
Net gain (loss) not recognised in the condensed consolidated income statement	—	—	—	—	—	98	(85)	—	13
Issue of shares	9,200	—	—	—	—	—	—	—	9,200
Premium from issue of shares	—	9,200	—	—	—	—	—	—	9,200
Share issue expenses	—	(621)	—	—	—	—	—	—	(621)
Realised on disposal of interest in subsidiaries	—	—	—	—	—	(1,267)	(1,618)	—	(2,885)
Realised on disposal/dilution of interest in associates	—	—	—	—	3,100	(566)	—	—	2,534
Net loss for the period	—	—	—	—	—	—	—	(153,699)	(153,699)
At 30th June, 2002	55,298	1,885,308	414,881	233	194,537	(4,856)	33,690	(494,559)	2,084,532

Condensed Consolidated Cash Flow Statement

For the six months ended 30th June, 2002

	Six months ended	
	30th June,	
	2002	2001
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Net cash from operating activities	169,643	200,880
Net cash used in investing activities	(721,771)	(114,767)
Net cash from (used in) financing activities	271,820	(361,601)
Net decrease in cash and cash equivalents	(280,308)	(275,488)
Cash and cash equivalents at beginning of the period	744,927	873,326
Effect of foreign exchange rate changes	(2,457)	(9,936)
Cash and cash equivalents at end of the period	462,162	587,902
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	477,749	607,179
Bank overdraft	(15,587)	(19,277)
	462,162	587,902

Notes to the Condensed Financial Statements

For the six months ended 30th June, 2002

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties, hotel property and investments in securities.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2001, except as described below.

In the current period, the Group has adopted, for the first time, a number of new and revised SSAPs issued by the Hong Kong Society of Accountants, which has resulted in the adoption of the following new and revised accounting policies. The adoption of these SSAPs has resulted in a change in the format of presentation of the cash flow statement and the statement of changes in equity, but has no material effect on the results for the current or prior accounting periods. Accordingly, no prior adjustment is required.

Discontinuing operations

SSAP 33 "Discontinuing Operations" is concerned with the presentation of financial information regarding discontinuing operations and replaces the requirements previously included in SSAP 2 "Net Profit or Loss for the Period", Fundamental Errors and Changes in Accounting Policies. Under SSAP 33, financial statement amounts relating to the discontinuing operation are disclosed separately from the point at which either a binding sale agreement is entered into or a detailed plan for the discontinuance is announced. The adoption of SSAP 33 has resulted in the identification of the Group's segment of consumers goods and electronic products as discontinuing operations in the current period, details of which are disclosed at note 3.

Notes to the Condensed Financial Statements (continued)

For the six months ended 30th June, 2002

3. SEGMENTAL INFORMATION

Business segments

For management purposes, the Group is currently organised into the following divisions. These divisions are the basis on which the Group reports its primary segment information.

An analysis of the Group's revenue and contribution to operating results by business segments is as follows:

	Toll highway operation	Tires	Heavy industry	Consumer goods	Electronic products	Pharmaceutical products	Property investment	Hotel operation	Investment in securities, loan receivables	Others	Elimination	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Note b)			(Note a)	(Note a)							
For the period ended												
30th June, 2002												
REVENUE												
External	25,194	1,377,208	129,406	—	—	141,159	8,860	21,452	63,289	15,407	—	1,781,975
Inter-segment	—	—	—	—	—	—	—	—	—	492	(492)	—
Total revenue	25,194	1,377,208	129,406	—	—	141,159	8,860	21,452	63,289	15,899	(492)	1,781,975
RESULT												
Segment result	(70,289)	(94,101)	15,539	—	—	(6,049)	(12,069)	(1,027)	(23,065)	12,994	—	(178,067)
Unallocated												
corporate expenses												(39,504)
Interest income												28,417
Dividend income												1,460
Loss from operations												(187,694)
Finance costs												(63,809)
Net loss on disposal of												
interest in subsidiaries												(19,050)
Net loss on disposal/dilution												
of interest in associates												(1,010)
Share of results of associates												(25,374)
Loss before taxation												(286,937)

Inter-segment revenue is charged at market rates.

Notes to the Condensed Financial Statements *(continued)*

For the six months ended 30th June, 2002

3. SEGMENTAL INFORMATION *(continued)*

Business segments *(continued)*

		Heavy	Consumer	Electronic	Property	Hotel	Investment in securities, loan	Newspaper	Others	Elimination	Consolidated
	Tires	industry	goods	products	investment	operation	receivables	publishing			
	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000
			(Note a)	(Note a)				(Note c)			
For the period ended											
30th June, 2001											
REVENUE											
External	1,541,853	64,355	94,360	23,102	74,142	24,925	21,028	46,381	19,828	—	1,909,974
Inter-segment	—	—	—	—	—	—	—	—	1,117	(1,117)	—
Total revenue	<u>1,541,853</u>	<u>64,355</u>	<u>94,360</u>	<u>23,102</u>	<u>74,142</u>	<u>24,925</u>	<u>21,028</u>	<u>46,381</u>	<u>20,945</u>	<u>(1,117)</u>	<u>1,909,974</u>
RESULT											
Segment result	<u>4,086</u>	<u>11,522</u>	<u>7,387</u>	<u>19</u>	<u>(32,533)</u>	<u>3,826</u>	<u>(5,029)</u>	<u>(38,887)</u>	<u>2,514</u>	<u>—</u>	<u>(47,095)</u>
Unallocated corporate expenses											(25,175)
Interest income											33,554
Dividend income											<u>3,140</u>
Loss from operations											(35,576)
Finance costs											(46,143)
Net gain on disposal of											
interest in subsidiaries											9,953
Net loss on disposal/dilution											
of interest in associates											(275)
Share of results of associates											<u>(1,521)</u>
Loss before taxation											<u>(73,562)</u>

Inter-segment revenue is charged at market rates.

Notes to the Condensed Financial Statements *(continued)*

For the six months ended 30th June, 2002

3. SEGMENTAL INFORMATION *(continued)*

Business segments *(continued)*

Notes:

- (a) In January 2002, the Group's interest in Ningbo Zhongce Taifeng Food Company Limited ("Taifeng Food") and Hangzhou Zhongce Electrics Co., Limited ("Hangzhou Electrics") were disposed of respectively. Taifeng Food is mainly engaged in manufacturing and trading of food products while Hangzhou Electrics is engaged in manufacturing and trading of electronic products, representing the business segment of consumer goods and electronic products respectively.

Upon the completion of the disposal, the Group had no interest in Taifeng Food and Hangzhou Electrics and the business segments of consumer goods and electronic products were regarded as discontinued operation in 2002.

- (b) In September 2002, China Land Group Limited ("China Land"), a subsidiary of the Company entered into a memorandum of understanding to dispose of the interest in a subsidiary engaged in toll highway operation. Upon the completion of the disposal, the Group will have no interest in the business of toll highway operation.

- (c) In December, 2001, the Group's interest in Actiwater Resources Limited ("Actiwater"), which is mainly engaged in newspaper publishing, was disposed of to Sing Pao Media Group Limited. The gain on disposal of Actiwater was approximately HK\$93,806,000. Upon the completion of the disposal, the business segment of newspaper publishing was regarded as discontinued operation in 2001.

Notes to the Condensed Financial Statements *(continued)*

For the six months ended 30th June, 2002

3. SEGMENTAL INFORMATION *(continued)*

Geographical segments

The following provides an analysis of the Group's turnover and contribution to (loss) profit from operations by geographic market, irrespective of the origin of the goods/services:

	Turnover		Contribution to (loss) profit	
	Six months		from operations	
	ended 30th June,		Six months	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The People's Republic of China, other than Hong Kong (the "PRC")	1,576,636	1,804,617	(129,580)	62,117
Hong Kong	112,334	64,501	(86,816)	(63,543)
Overseas	17,220	—	8,642	(24,472)
	<u>1,706,190</u>	<u>1,869,118</u>	<u>(207,754)</u>	<u>(25,898)</u>
Finance costs			(53,809)	(46,143)
Share of results of associates			(25,374)	(1,521)
Loss before taxation			<u>(286,937)</u>	<u>(73,562)</u>

4. OTHER OPERATING INCOME

	Six months ended	
	30th June,	
	2002	2001
	HK\$'000	HK\$'000
Gain on disposal of investments in securities	63,289	—
Interest income	28,417	33,554
Unrealised gain on investments in securities	—	21,028
Dividend income from listed investments	1,460	3,140
Gain on disposal of property, plant and equipment	231	45
Others	12,265	19,783
	<u>105,662</u>	<u>77,550</u>

Notes to the Condensed Financial Statements (continued)

For the six months ended 30th June, 2002

5. OTHER EXPENSES

	Six months ended	
	30th June,	
	2002	2001
	HK\$'000	HK\$'000
Unrealised loss on investments in securities	41,768	—
Impairment loss recognised in respect of investments in securities	44,585	—
Impairment losses recognised in respect of property, plant and equipment	236,525	—
Impairment loss recognised in respect of properties held for sale	1,185	—
Impairment loss recognised in respect of investment properties	9,069	—
Impairment loss recognised in respect of inventories	6,885	—
Amortisation of goodwill	817	2,332
Allowance for bad and doubtful debts	—	55,287
Loss on disposal of investments in securities	—	23,621
Impairment loss recognised in respect of goodwill of associates	—	11,078
Impairment loss recognised in respect of interest in associates	—	3,591
Others	5,403	4,846
	<u>346,237</u>	<u>100,755</u>

6. LOSS FROM OPERATIONS

Loss from operations has been arrived at after charging:

	Six months ended	
	30th June,	
	2002	2001
	HK\$'000	HK\$'000
Depreciation and amortisation of property, plant and equipment	73,940	82,630
Amortisation of intangible assets included in administrative expenses	817	2,692
	<u>74,757</u>	<u>85,322</u>

Notes to the Condensed Financial Statements *(continued)*

For the six months ended 30th June, 2002

7. TAXATION

	Six months ended	
	30th June,	
	2002	2001
	HK\$'000	HK\$'000
The charge comprises:		
Taxation in other jurisdictions	7,928	7,428
Share of taxation of associates	—	723
	<u>7,928</u>	<u>8,151</u>

Taxation in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

8. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the period of HK\$153,699,000 (HK\$24,774,000 for the six months ended 30th June, 2001) and on the adjusted weighted average of 467,586,677 (460,978,942 for the six months ended 30th June, 2001) ordinary shares in issue during the period.

The computation of diluted loss per share does not assume the exercise of the share options as their exercise would result in a decrease in loss per share.

9. MOVEMENTS IN INVESTMENT PROPERTIES

Revaluation deficit of HK\$9,069,000 was made by the directors with reference to market price.

10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, property, plant and equipment with an aggregate net book value of approximately HK\$150 million were disposed of as a result of the disposal of subsidiaries.

Notes to the Condensed Financial Statements *(continued)*

For the six months ended 30th June, 2002

10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT *(continued)*

During the period, the construction of the toll highway in the PRC was completed and the Group commenced its toll highway operations. However, the management intended to refocus the Group's principal business to hotel operation. Accordingly, the Group reviewed the carrying amount of toll highway using the estimated selling prices. An impairment loss of approximately HK\$72,305,000 representing the difference between the estimated selling prices and carrying amount was identified and charged to the condensed consolidated income statement. In addition, due to recurring losses suffered by a tire factory subsidiary in the PRC, the Group reviewed the carrying amount of machinery and equipment with reference to the estimated value determined under the discounted cash flow method, an impairment loss of approximately HK\$164 million was identified and charged to the condensed consolidated income statement accordingly.

The Group incurred expenditure of approximately HK\$114 million on its property, plant and equipment.

In the opinion of the directors, there is no material difference between the carrying amount and the market value of hotel property as at 30th June, 2002.

11. INTEREST IN ASSOCIATES/RECEIVABLES DUE FROM ASSOCIATES

In April 2002, the Group acquired approximately 34.58% interest in Ananda Wing On Travel (Holdings) Limited ("Ananda Wing On"), a company with its shares listed on The Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange") for a consideration of approximately HK\$130 million and the interest was further diluted to approximately 30.95% after further issue of shares by Ananda Wing On in May 2002.

12. MOVEMENTS IN RECEIVABLES

Included in receivables of approximately HK\$123 million (31.12.2001: HK\$123 million) and HK\$110 million (31.12.2001: HK\$110 million) were due from Danwei Limited ("Danwei") and Lucklong Venture Limited ("Lucklong") respectively. Mr. Lau Ko Yuen, Tom, alternate director to Ms. Chau Mei Wah, Rosanna of the Group, is a director of the ultimate holding company of Danwei and Lucklong. In addition, Ms. Chau Mei Wah, Rosanna is also a director of Danwei and Lucklong. Shares of certain property holding companies held by Danwei and Lucklong were pledged to the Group as securities to the loans.

Other than the above amounts of approximately HK\$233 million which were secured, the remaining balances of receivables were unsecured. All receivables bear interest at prevailing market rates.

In addition, included in receivables an amount of approximately HK\$40 million (31.12.2001: Nil) was due from an associate of the Group.

Notes to the Condensed Financial Statements *(continued)*

For the six months ended 30th June, 2002

13. MOVEMENTS IN INVESTMENTS IN SECURITIES

During the period, the Group acquired certain investments at a consideration of approximately HK\$306 million and disposed of certain investments with the carrying value of approximately HK\$131 million. In addition, an unrealised loss on investments in securities of approximately HK\$42 million has been charged in the condensed consolidated income statement during the period. The directors identified an impairment loss of approximately HK\$45 million which was charged to the condensed consolidated income statement.

14. TRADE DEBTORS

The Group allows its trade customers a credit period normally ranging from 90 days to 180 days. The aged analysis of the trade debtors at the reporting date is as follows:

	30.6.2002	31.12.2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 - 90 days	447,874	330,169
91 - 180 days	76,892	93,564
Over 180 days	100,041	57,291
	<u>624,807</u>	<u>481,024</u>

15. CREDITORS AND ACCRUED CHARGES

At the reporting date, included in creditors and accrued charges are creditors with the following aged analysis:

	30.6.2002	31.12.2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 - 90 days	278,079	278,148
91 - 180 days	38,375	43,876
Over 180 days	41,768	75,570
	<u>358,222</u>	<u>397,594</u>
Add: Accrued charges	34,292	34,291
	<u>392,514</u>	<u>431,885</u>

Notes to the Condensed Financial Statements *(continued)*

For the six months ended 30th June, 2002

16. LOANS PAYABLES

During the period, the Group obtained additional unsecured other borrowings of approximately HK\$280 million which bear interest at prevailing market rates and are repayable within one year. The borrowings were used for general working capital purposes.

17. SHARE CAPITAL

	Number of shares	Value HK\$'000
Authorised:		
Ordinary shares of HK\$0.10 each at 31st December, 2001 and 30th June, 2002	<u>8,000,000,000</u>	<u>800,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.10 each at 1st January, 2002	460,978,942	46,098
Issue of shares	<u>92,000,000</u>	<u>9,200</u>
At 30th June, 2002	<u>552,978,942</u>	<u>55,298</u>

During the period ended 30th June, 2002, the Company issued and allotted 92,000,000 ordinary shares of HK\$0.10 each in the Company to its substantial shareholders for cash at HK\$0.20 per share. The shares issued rank pari passu with the then existing shares in issue in all respects.

Notes to the Condensed Financial Statements *(continued)*

For the six months ended 30th June, 2002

18. COMMITMENTS

At the reporting date, the Group had the following capital commitments:

	30.6.2002	31.12.2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Contracted for but not provided in the financial statements		
in respect of:		
— Land development right	208,508	214,254
— Properties under/held for development	27,036	26,902
— Properties under construction	134,974	129,393
— Construction in progress	26,607	10,849
— Interest in an associate	200,000	—
— Property, plant and equipment	—	18,005
	<u>597,125</u>	<u>399,403</u>
Authorised but not contracted for in respect of property, plant and equipment		
	<u>75,807</u>	<u>35,096</u>

19. CONTINGENT LIABILITIES

(a) At 30th June, 2002, the Group had given guarantees to banks in respect of banking facilities granted to outsiders and an associate with the aggregate amount of approximately HK\$189 million (31.12.2001: HK\$183 million).

(b) In August 1999, the architect of Paul Y. Plaza located in Guangzhou, the PRC, initiated legal proceedings against Eventic Limited ("Eventic"), an indirect wholly-owned subsidiary of China Land in respect of claim for payment of service fees and other expenses of HK\$0.6 million and HK\$6.6 million respectively. Eventic engaged the architect for architectural services in respect of Paul Y. Plaza.

Eventic has vigorously defended the claims and made a counterclaim for loss and damages suffered due to insufficient supervision services provided by the architect.

In view of the counterclaim made by Eventic, the architect amended its total claims to HK\$7.7 million. At the date of this report, the proceedings are still ongoing and are the stage of the exchange of documents. After taking into consideration the advice of China Land's legal counsel, the directors consider the outcome of the proceedings will not have material adverse financial effect on the Group.

Notes to the Condensed Financial Statements *(continued)*

For the six months ended 30th June, 2002

19. CONTINGENT LIABILITIES *(continued)*

- (c) In July 2001, Huizhou World Express Property Ltd. ("Huizhou World Express"), an indirect non-wholly owned subsidiary of China Land as developer, initiated legal proceedings against the Huizhou Municipal Government of the Guangdong Province, the PRC, in its capacity as the guarantor of Huizhou Jia Cheng Group Co., Ltd. ("Huizhou Jia Cheng"), the main contractor in the construction of Hongkong Macau Square, under a guarantee letter dated 7th September, 1994 executed by the Huizhou Municipal Government in favour of Huizhou World Express. The amount claimed by Huizhou World Express was approximately Rmb243.6 million, being the construction costs of approximately Rmb167.5 million paid by Huizhou World Express to Huizhou Jia Cheng together with the damages for the amount of approximately Rmb76.1 million.

At the date of this report, Huizhou World Express is waiting for the hearing of the case. At this stage, the outcome cannot be predicted with certainty. As the total construction cost of Hongkong Macau Square has already been written off, the directors are of the opinion that there is unlikely to be any material adverse financial impact on the Group in the event that the final judgement is not in favour of Huizhou World Express.

- (d) In June 2002, a sub-contractor of Paul Y. Plaza initiated legal proceedings against Eventic, in respect of a claim for payment of sub-contract works for approximately Rmb5.2 million.

Eventic has vigorously defended the claim as there was no contractual relationship between Eventic and the sub-contractor. Eventic has also made a counterclaim and/or set off against the sub-contractor for the balance of unused advance payment and overpayment of approximately Rmb4.2 million and Rmb0.8 million respectively paid to the sub-contractor.

As at the date of this report, the proceedings are still ongoing. The directors are of the opinion that there is unlikely to be any material adverse financial impact on the Group in the event that the final judgement is not in favour of Eventic.

Notes to the Condensed Financial Statements *(continued)*

For the six months ended 30th June, 2002

20. PLEDGE OF ASSETS

At 30th June, 2002 and 31st December, 2001 the following assets were pledged to secure credit facilities granted to the Group:

- (a) Investment properties with a carrying value of HK\$10,410,000 (31.12.2001: HK\$17,630,000).
- (b) Certain property, plant and equipment with a carrying value of HK\$125,546,000 (31.12.2001: HK\$234,462,000).
- (c) Investments in securities of HK\$1,929,000 (31.12.2001: HK\$5,244,000).
- (d) Certain shares in associates with carrying value of approximately HK\$53,194,000 (31.12.2001: HK\$53,194,000).
- (e) Bank deposits of HK\$9,578,000 (31.12.2001: HK\$83,520,000).
- (f) The right to receive toll fee income of a subsidiary engaged in the toll-highway operation has been pledged to a bank to secure the credit facilities granted to the Group.

In addition, all the assets of a subsidiary of the Group has been pledged to a bank to secure credit facilities granted to the Group.

21. RELATED PARTY TRANSACTIONS

During the period, the Group had the following significant transactions with related parties:

Name of company	Nature of transactions	Six months ended	
		2002	2001
		HK\$'000	HK\$'000
Lucklong	Loan interest income received and receivable by the Group	3,035	4,000
Danwei	Loan interest income received and receivable by the Group	3,389	5,000

Note:

Danwei and Lucklong are companies, in which certain directors of the Company are the directors of their ultimate holding company and the directors of Danwei and Lucklong.

The above transactions were carried out in accordance with the terms agreed between the relevant parties.

Notes to the Condensed Financial Statements *(continued)*

For the six months ended 30th June, 2002

22. POST BALANCE SHEET EVENT

Subsequent to the reporting date, the Group had the following significant subsequent events:

- (1) On 4th June, 2002, the Company entered into subscription agreement with Companion Building Material International Holdings Limited ("Companion Building"), a company whose shares are listed on the Hong Kong Stock Exchange, to subscribe 20,000,000,000 new shares of Companion Building for a total consideration of HK\$200 million.

The transactions was completed on 20th September, 2002.

- (2) Pursuant to a resolution passed at a board of directors' meeting of the Company held on 15th July, 2002, the Company proposed to issue not less than 276,489,471 new shares of HK\$0.10 each by way of rights issue ("Rights Issue") at a subscription price of HK\$0.15 per rights share to the existing shareholders, in the proportion of one rights share for every two existing shares held, with the bonus issue of warrants. The bonus issue of warrants would be issued to the shareholders under the Rights Issue on the basis of three units of subscription rights with initial subscription price of HK\$0.16 each for every five rights shares taken up.

The Rights Issue was completed on 27th August, 2002.

- (3) As announced on 29th July, 2002, the Group proposed an extensive group reorganization by entering into following agreements:

- (a) On 22nd July, 2002, China Land, entered into a conditional subscription agreement with Ananda Wing On, in relation to a subscription of 1,000,000,000 subscription shares in China Land by Ananda Wing On at an issue price of HK\$0.30 per subscription share amounting in aggregate to a total consideration of approximately HK\$300 million ("Subscription agreement").

- (b) On 22nd July, 2002, China Land entered into a conditional placing agreement with the placing agent, on a best efforts basis in relation to the placing, of up to 1,333,333,333 new shares in China Land at an issue price of HK\$0.30 per placing share. Total proceeds of approximately HK\$400 million ("Placing Agreement").

- (c) On 22nd July, 2002, China Land entered into a conditional sale and purchase agreement with Ananda Wing On to acquire from Ananda Wing On the entire issued share capital of, and the shareholder's loan of approximately HK\$44.4 million to Shropshire Property Limited ("Shropshire") for a consideration of approximately HK\$110 million. The consideration will be satisfied by the issue of 366,666,666 new shares in China Land at HK\$0.30 per consideration share. Shropshire has the right to acquire 60% interest in Luoyang Golden Gulf Hotel Co., Limited ("Luoyang Golden Gulf"). The principal assets of Luoyang Golden Gulf is Golden Gulf Hotel located in Luoyang, the PRC ("First sale and purchase agreement").

Notes to the Condensed Financial Statements *(continued)*

For the six months ended 30th June, 2002

- (d) On 22nd July, 2002, China Land entered into another conditional sale and purchase agreement with Paul Y. — ITC Construction Holdings Limited ("Paul Y. — ITC"), a substantial shareholder of the Company, to acquire from Paul Y. — ITC the entire issued share capital of, and the shareholder's loan of approximately HK\$482.5 million to, Rosedale Hotel Group Limited which indirectly owns Best Western Rosedale on the Park for a cash consideration of HK\$250 million ("Second sale and purchase agreement").
- (e) On 22nd July, 2002, Clever Basin Holdings Limited, a wholly-owned subsidiary of China Land, entered into a conditional sale and purchase agreement with Hutchison Hotels Holdings (International) Limited ("Hutchison Hotels Holdings") to acquire from Hutchison Hotels Holdings the entire issued share capital of, and the shareholder's loan of approximately HK\$605.6 million to Makerston Limited, which holds a 95% indirect interest in Beijing Harbour Plaza Co., Limited ("Beijing Harbour") for a total consideration of HK\$515 million. The consideration will be satisfied on completion by cash in the amount of HK\$150 million and issue of a promissory note for the principal amount of HK\$365 million. The principal asset of Beijing Harbour is Beijing Harbour Plaza Hotel ("Third sale and purchase agreement").

Upon the completion of Subscription agreement, Placing agreement, and the First, Second and Third sale and purchase agreements, the interest of China Land held by the Group will be diluted from approximately 65.56% to approximately 27.97%.

The above transactions has not been completed up to the date of this report.

- (4) On 19th September, 2002, China Enterprises Limited ("China Enterprises"), a subsidiary of the Company whose shares of which are listed on the New York Stock Exchange ("NYSE") was informed by the NYSE that the NYSE intends to suspend the trading in China Enterprises' common stock prior to the NYSE opening on 27th September, 2002 for a failure to meet the NYSE's continuing listing standards. China Enterprises intends to request a review of the NYSE's decision according to NYSE appeal procedures. Following the review, if China Enterprises is unsuccessful in its appeal, the NYSE may apply to the Securities and Exchange Commission to delist the common stock of China Enterprises from the NYSE.
- (5) On 13th September, 2002, China Land and its subsidiary entered into a memorandum of understanding with a third party to dispose of China Land's 60% interest in Shenzhen Longchen Xinyuan Industrial Co., Ltd at a net consideration of approximately HK\$60 million.

The above transactions has not been completed up to the date of this report.

INTERIM DIVIDEND

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

ANALYSIS OF THE GROUP'S PERFORMANCE

The Group's turnover for the six months ended 30th June, 2002 totaled HK\$1.706 billion, representing a decrease of 8.7% from HK\$1.869 billion over the comparable period last year. The Group for the first time recorded turnover in toll highway operation and pharmaceutical products contributed from China Land Group Limited and Tung Fong Hung Investment Limited respectively. The turnover in consumer goods, electronic products and newspaper publishing operations was not consolidated as a result of restructuring or disposal of those operations.

The Group's unaudited consolidated loss for the six months ended 30th June, 2002 amounted to HK\$153.7 million. This was primarily due to operating losses incurred in the Group's tires operation, toll highway operation, investments in properties and in securities, the amount of which included the provision for impairment losses on toll highway, and property, plant and equipments as well as investments in securities.

LIQUIDITY AND FINANCIAL RESOURCES

During the first half of 2002, the Group financed its operations through cash generated from its business activities, banking facilities provided by its bankers and disposing of investments.

The Group's short-term borrowing has been reduced from HK\$922 million as at 31st December, 2001 to approximately HK\$878 million as at 30th June, 2002. Long-term borrowing has been increased from HK\$593 million as at 31st December, 2001 to approximately HK\$602 million as at 30th June, 2002. As a result, the Group's total borrowing has been reduced from HK\$1,515 million as at 31st December, 2001 to approximately HK\$1,480 million as at 30th June, 2002 representing a decrease of 2.3%. The gearing ratio, calculated to the total long-term borrowing divided by total shareholders funds increased from 26.7% to 28.9%.

Cash and bank balances amounted to approximately HK\$487 million, most of which were denominated in Hong Kong dollars and Australian dollars. The Company was not exposed to any material exchange rate fluctuation during the period under review.

SIGNIFICANT INVESTMENTS

China Enterprises Limited (carried on business in Hong Kong as China Tire Holdings Limited)

During the period, tire prices remained flat amidst the highly competitive tire market but the prices of major raw materials such as natural rubber and nylon cord have moved up. Despite the above, China Enterprises Limited (“China Enterprises”) was able to maintain a 7.2% revenue growth with revenue climbed up to Rmb1.46 billion as compared to Rmb1.36 billion recorded in the same period last year due to China Enterprises’s efforts to reorganize its product strategy into marketable and higher margin products and discontinue those of lower profit margins. There was a notable increase in the sales of radial tire of 22.1% and bicycle tire of 18.3%. Gross profit margin improved from 12.97% to 13.49%. China Enterprises was able to control the rising cost of production while benefiting from the sales of higher margin products at the same time.

Compared to the same period last year, due to the discontinuance of free delivery services as well as the stringent cost cutting efforts coupled with the more efficient and effective administrative and marketing strategy introduced by the management, selling and administrative expenses decreased 27.6% to Rmb114.9 million.

For the six months ended 30th June, 2002. China Enterprises incurred a consolidated net loss of Rmb23 million (2001 : net loss of Rmb18 million), which was mainly attributable to an impairment loss provision of long-lived asset in an operating subsidiary.

On 19th September, 2002, China Enterprises announced that the New York Stock Exchange ("NYSE") informed the company that the NYSE intended to suspend trading in the China Enterprises' common stock prior to the Exchange's opening on 27th September, 2002 for failure to meet the NYSE's continuing listing standards. China Enterprises intends to request a review of the NYSE's decision according to NYSE appeal procedures. Following the review, if China Enterprises is unsuccessful in its appeal, the NYSE may apply to the Securities and Exchange Commission to delist the common stock of China Enterprises from the NYSE.

China Land Group Limited

China Land Group Limited ("China Land") incurred a loss attributable to shareholders for the first half year of 2002 amounted to HK\$73.6 million compared to HK\$38.1 million for the corresponding period in the previous year. The loss incurred during the period was mainly attributable to provision for impairment losses in respect of toll highway, properties and the finance costs resulted from bank borrowing used to finance the construction of Shenzhen Highway.

Subject to the completion of the subscription agreement, the placing agreement, the First, Second and Third sale and purchase agreements and by the approvals of the shareholders of China Land and the Registrar of Companies in Bermuda respectively, the name of China Land will be changed in order to reflect the principal business of China Land. A further announcement will be made on the proposed change of the new company name of China Land as soon as practicable.

After the completion of the above-mentioned group reorganisation exercise, China Land will focus its activities on hotel operations and investments and other leisure-related businesses and therefore will consider to dispose of those non-core businesses of the China Land.

Australia Net.Com Limited

Australia Net.Com Limited (“ANC”), an Australian Stock Exchange listed subsidiary, recorded a consolidated loss of A\$1.19 million compared with operating profit after income tax of A\$35,023 for the preceding period. The loss was mainly due to provision for diminution in value of investments. ANC is confident that given the substantial financial resources, it will continue to look at strategic investment opportunities as they arise.

Tung Fong Hung Investment Limited

Tung Fong Hung Investment Limited (“Tung Fong Hung”), a wholly-owned subsidiary of the Company since November 2001, incurred a net loss of HK\$18.5 million for the six months ended 30th June, 2002. The performance of the retailing business was dampened by the low local consumption sentiment as a result of the slow economic recovery.

Tung Fong Hung has been aggressively developing new products to suit the current market needs and widen the product range with an aim to simulate revenue. New herbal health product, “Chien-Ti-Qing-Hui-Wan” (“CTW”), has received overwhelming market response, and has now become a steady income earner.

The western pharmaceutical manufacturer, Jean-Marie Pharmacal Company Limited, has recently completed its official certification of the “Good Manufacturing Practice” (“GMP”) qualification. Becoming one of the very few GMP certified manufacturers in Hong Kong, Jean-Marie will be barrier-free to enter into the big, unexplored local and overseas markets in the hospital sectors.

Meanwhile, Tung Fong Hung is also concentrating on streamlining the organizational structure to improve the operational efficiency and enhance cost control awareness so as to put it in a stronger financial position to face the coming challenges.

CORPORATE DEVELOPMENTS

In February 2002, Million Good Limited, a wholly-owned subsidiary of China Enterprises which is owned as to 55.2% effective equity interest and 88.8% effective voting

interest by the Company, and Ananda Wing On Travel (Holdings) Limited (“Ananda Wing On”) entered into a subscription agreement (the “Subscription Agreement”) in respect of the subscription of 4,800,000,000 new shares of HK\$0.01 each in the capital of Ananda Wing On at an issue price of HK\$0.027 per share which will be paid upon completion of the Subscription Agreement. At the same time, China Enterprises and Ananda Wing On entered into a subscription agreement (the “CN Agreement”) regarding the subscription of the convertible note issued by Ananda Wing On to China Enterprises or its nominee for a consideration of HK\$120,000,000 which will be paid upon completion of the CN Agreement. Further details can be found in the circular to shareholders dated 4th March, 2002. Completion of the aforesaid transactions took place in April, 2002.

In June 2002, Calisan Developments Limited (“Calisan”) and Well Orient Limited (“Well Orient”) are substantial shareholders of the Company and have agreed to place, through Tai Fook Securities Company Limited (“Tai Fook”) on a best efforts basis, an aggregate of 92,000,000 existing shares of the Company to independent investors at a price of HK\$0.20 per share. At the same date, the Company, Calisan and Well Orient as subscribers, whereby each of Calisan and Well Orient agreed to subscribe for 50% of the shares of the Company placed under the placing agreement dated 6th June, 2002, entered into among Calisan, Well Orient and Tai Fook subject to a maximum of 46,000,000 new shares of the Company and 46,000,000 new shares of the Company respectively at the price of HK\$0.20 per subscription share. Completion of the transaction took place in June 2002. Further details of the transaction are set out in the announcement dated 7th June, 2002.

In June 2002, the Company as the subscriber and Companion Building Material International Holdings Limited (“Companion”) entered into a subscription agreement in relation to the subscription for 20,000,000,000 shares in Companion at a total subscription price of HK\$200,000,000. Further details of the transaction are set out in the joint announcement dated 7th June, 2002. Completion of the aforesaid transaction took place in September, 2002.

In July 2002, a project management services agreement entered into between the Company and Paul Y. Project Management International Limited, a wholly-owned subsidiary of Paul Y. - ITC Construction Holdings Limited (“Paul Y.”), in respect of the provision of project management services for the development of the Liqiao Industrial

Park at Shunyi District, Beijing, the PRC for a term of five years and for a total remuneration of not more than HK\$9,000,000. Further details of the transaction are set out in the announcement dated 9th July, 2002.

In July 2002, the Company announced to propose to raise net proceeds of approximately HK\$40 million by issuing not less than 276,489,471 new shares by the rights issue with the bonus issue at a price of HK\$0.15 per rights share. The Company will provisionally allot one rights share for every two existing shares held by the qualifying shareholders on the record date with bonus warrants in the proportion of three units of subscription rights with initial subscription price of HK\$0.16 for every five rights shares taken up. Completion of rights issue with bonus issue took place in August, 2002.

In July 2002, the Company announced to propose an extensive group reorganization, the principal elements included the entering into of the subscription agreement, the placing agreement, the first, second and third sale and purchase agreements by China Land, a 65.6% owned subsidiary of the Company. Upon completion of the proposal agreements, the Company's interest in China Land would be diluted from 65.6% to 22.0% of the issued share capital of China Land as enlarged by the subscription shares, the placing shares and the consideration shares. Further details of the transaction are set out in the joint announcement dated 26th July, 2002.

PROSPECTS

With a looming uncertainty on the speed of recovery of global economy evidenced by slow and anaemic consumption prospects in US, Japan and Europe and further heightened by the recent tension in the Middle East, deflationary concerns continues to plague the global economy.

However, with a highly untapped consumption market, China is expected to be a high growth area in the global arena. With its accession into the World Trade Organization, its successful bid for the 2008 Olympic Games and the expected stabilizing transition of power in the coming 16th People Congress, China has demonstrated its political stability and most importantly as its steadfast aim to become a global economic powerhouse.

The Group shall focus its investment strategy on identifying China related investments which can add value. The Group has identified the hospitality and property sectors in China as a lucrative and high growth sector while further enhancing its current industrial portfolio.

NUMBER OF EMPLOYEES, REMUNERATION POLICIES AND SHARE OPTION SCHEME

As at 30th June, 2002, the Group employed approximately 12,315 staff. Remuneration packages comprised of salary and year-end bonuses based on individual merits. No share options were granted or exercised during the period ended 30th June, 2002.

DIRECTORS' INTERESTS IN SHARES

As at 30th June, 2002, the interests of the directors in the share capital 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 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 ("Hong Kong Stock Exchange") pursuant to the Model Code (the "Model Code") for Securities Transactions by Directors of Listed Companies in the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules") were as follows:

	Number of Shares (Note 1)		
	Personal Interests	Family Interests	Corporate Interest
Chan Kwok Keung, Charles (Note 2)	—	—	80,440,000
Lien Kait Long	632	—	—

Notes:

1. Share(s) of HK\$0.10 each in the capital of the Company.
2. Dr. Chan Kwok Keung, Charles is deemed to be interested in the 80,440,000 shares in the Company held by Calisan Developments Limited ("Calisan") by virtue of his interest in Chinaview International Limited ("Chinaview") which owns more than one-third of the issued share capital of Calisan. Details of which are disclosed under the heading "Substantial Shareholders".

Save as disclosed above, as at 30th June, 2002, none of the Company's directors or their associates had any personal, family, corporate or other interests in any shares of the Company or any of its associated corporations, within the meaning of the SDI Ordinance or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

As at 30th June, 2002, the following directors of the Company had share options granted by the Company and its associated corporation to subscribe for ordinary shares as follows:—

(a) The Company

	Date of grant	Number of share options	Exercise price (HK\$)
Chan Ling, Eva	21/07/1997	9,750	6.06
	12/01/2000	50,000	3.44

During the period, no share option was granted to or exercised by any directors of the Company.

(b) Sing Pao Media Group Limited, an associated corporation of the Company

	Date of grant	Number of share options (Note)	Exercise price (HK\$)
Yap, Allan	26/05/2000	125,000	11.40
Chau Mei Wah, Rosanna	26/05/2000	250,000	11.40
Chan Kwok Hung	26/05/2000	125,000	11.40

Note:

The options are exercisable in accordance with the terms of the pre-IPO share option scheme of Sing Pao Media Group Limited at any time during the period commencing 1 year after the date of grant and ending 5 years after the date of grant in accordance with the following schedule:

Period since date of grant	Percentage of shares comprised in options which become exercisable
Year 1	zero
Year 2	up to 25%
Year 3	up to 50% (less the percentage of shares which arose upon the exercise of share options between the first anniversary and the second anniversary)
Year 4	up to 75% (less the percentage of shares which arose upon the exercise of share options between the first anniversary and the third anniversary)
Year 5	all shares in respect of which the share options have not been previously exercised

Save as disclosed above, at no time during the period was the Company or any of its associated corporations a party to any arrangements to enable the directors of the Company, or their spouse and children under the age of 18, to acquire benefits by means of the acquisition of shares, or debentures of the Company or any other body corporate or had exercised any such rights during the period.

SUBSTANTIAL SHAREHOLDERS

As at 30th June, 2002, the following persons were recorded in the register kept by the Company under Section 16(1) of the SDI Ordinance showed that, the following

shareholders had an interest of 10% or more of the issued share capital of the Company:

Name	Note	No. of shares	Approximate % of issued share capital
Calisan Developments Limited	1	80,440,000	14.55
Great Decision Limited	1	80,440,000	14.55
Paul Y. — ITC Investments Group Limited	1	80,440,000	14.55
Paul Y. — ITC Construction Holdings (B.V.I.) Limited	1	80,440,000	14.55
Paul Y. — ITC Construction Holdings Limited	1	80,440,000	14.55
Hollyfield Group Limited	1	80,440,000	14.55
ITC Investment Holdings Limited	1	80,440,000	14.55
ITC Corporation Limited	1	80,440,000	14.55
Galaxyway Investments Limited	1	80,440,000	14.55
Chinaview International Limited	1	80,440,000	14.55
Dr. Chan Kwok Keung, Charles	1	80,440,000	14.55
Well Orient Limited	2	80,440,000	14.55
Powervote Technology Limited	2	80,440,000	14.55
Hanny Magnetics (B.V.I.) Limited	2	80,440,000	14.55
Hanny Holdings Limited	2	80,440,000	14.55

Notes:

1. Dr. Chan Kwok Keung, Charles ("Dr. Chan") owns the entire interest of Chinaview International Limited ("Chinaview") which in turn owns the entire interest in Galaxyway Investments Limited ("Galaxyway"). Galaxyway owns more than one-third of the entire issued ordinary share capital of ITC Corporation Limited ("ITC"). ITC owns the entire interest of ITC Investment Holdings Limited ("ITC Investment"). ITC Investment owns the entire interest in Hollyfield Group Limited ("Hollyfield"). Hollyfield owns more than one-third of the entire issued share capital of Paul Y.. Paul Y. owns the entire interest of Paul Y. — ITC Construction Holdings (B.V.I.) Limited ("PYBVI") which in turn owns the entire interest in Paul Y. — ITC Investments Group Limited ("PYITCIG"). PYITCIG owns the entire interest of Great Decision Limited ("GDL") which in turn owns the entire interest in Calisan Developments Limited ("Calisan"). Accordingly, GDL, PYITCIG, PYBVI, Paul Y., Hollyfield, ITC Investment, ITC, Galaxyway, Chinaview and Dr. Chan were deemed to be interested in 80,440,000 shares of the Company which were held by Calisan.

2. Well Orient Limited ("WOL") is wholly-owned by Powervote Technology Limited ("PTL") which is in turn owned by Hanny Magnetics (B.V.I.) Limited ("Hanny Magnetics"). Hanny Magnetics is wholly-owned by Hanny Holdings Limited ("Hanny"). PTL, Hanny Magnetics and Hanny were deemed to be interested in 80,440,000 shares of the Company which were held by WOL.

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

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES

There was no purchase, sale or redemption of the listed shares of the Company by the Company or its subsidiaries during the period.

CODE OF BEST PRACTICE

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the accounting period covered by the interim report, except that the Independent Non-Executive Directors of the Company are not appointed for specific terms as subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's Articles of Association.

AUDIT COMMITTEE

The audit committee of the Company comprises Mr. David Edwin Bussmann and Ms. Choy Hok Man, Constance who are Independent Non-Executive Directors. The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussing auditing, internal control and financial reporting matters including the review of the unaudited interim financial report for the six months ended 30th June, 2002.

PUBLICATION OF DETAILED INTERIM RESULTS ANNOUNCEMENT ON THE WEBSITE OF THE STOCK EXCHANGE

A detailed interim results announcement containing all information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules will be published on the Stock Exchange's website (<http://www.hkex.com.hk>) in due course.

By Order of the Board
Dr. Chan Kwok Keung, Charles
Chairman

Hong Kong, 25th September, 2002