

INTERIM REPORT 2002



ALLIED GROUP LIMITED

Allied Group Limited

Interim Report

For the six months ended 30th June, 2002

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The Board of Directors of Allied Group 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 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 HK\$'000	Unaudited HK\$'000
Turnover	3	903,255	859,347
Other income		9,335	31,799
Total income		912,590	891,146
Cost of sales	4	(138,019)	(221,475)
Brokerage and commission expenses		(42,639)	(12,140)
Selling expenses		(40,679)	(26,066)
Administrative expenses		(181,075)	(116,794)
Bad and doubtful debts		(292,377)	(82,061)
Other operating expenses		(49,008)	(28,574)
Profit from operations	5	168,793	404,036
Other finance costs	4	(40,463)	(65,606)
Amortisation of goodwill		(3,571)	(645)
Release of negative goodwill		59,369	13,520
Amortisation of capital reserve		10,206	10,302
Share of results of associates		52,314	60,668
Share of results of jointly controlled entities		18,551	26,944
Profit before taxation		265,199	449,219
Taxation	6	(38,293)	(60,819)
Profit after taxation		226,906	388,400
Minority interests		(93,723)	(199,091)
Profit attributable to shareholders		133,183	189,309
Dividend		—	—
Earnings per share:	7		
Basic		3.9 cents	5.5 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
	<i>Notes</i>		
Non-current assets			
Fixed assets		2,472,538	2,473,586
Intangible assets		8,691	6,040
Goodwill		26,489	30,060
Negative goodwill		(481,661)	(438,073)
Properties under development		134,307	124,172
Interest in associates		2,107,099	2,137,524
Interest in jointly controlled entities		1,365,752	1,345,110
Investments	8	506,461	513,024
Loans and advances to consumer finance customers due after one year	9	313,084	380,768
Accounts receivable due after one year		–	167,453
		6,452,760	6,739,664
Current assets			
Properties under development for sale		–	917,896
Properties held for sale		981,779	36,599
Inventories		1,099	753
Investments	8	38,563	56,294
Loans and advances to consumer finance customers due within one year	9	1,587,486	1,776,014
Accounts receivable, deposits and prepayments	10	2,734,147	2,587,397
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		249,318	355,206
Bank balances and cash		353,196	299,592
		6,046,711	6,108,876

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

		At 30th June, 2002 Unaudited HK\$'000	At 31st December, 2001 Audited HK\$'000
	Notes		
Current liabilities			
Accounts payable and accrued charges	11	1,121,332	728,152
Amounts due to associates		27,419	31,557
Amount due to a jointly controlled entity		143,100	118,100
Taxation		32,546	19,477
Bank and other borrowings due within one year		1,235,157	2,338,389
Other liabilities due within one year	15	831	–
		<u>2,560,385</u>	<u>3,235,675</u>
Net current assets		<u>3,486,326</u>	<u>2,873,201</u>
		<u>9,939,086</u>	<u>9,612,865</u>
Capital and reserves			
Share capital	12	681,973	681,973
Revaluation reserves	13	30,721	27,721
Accumulated profits		1,466,689	1,333,506
Other reserves	14	2,229,793	2,230,827
		<u>4,409,176</u>	<u>4,274,027</u>
Minority interests		<u>4,346,925</u>	<u>4,447,482</u>
Non-current liabilities			
Bank and other borrowings due after one year		1,162,787	878,079
Deferred taxation		13,395	13,277
Other liabilities due after one year	15	6,803	–
		<u>1,182,985</u>	<u>891,356</u>
		<u>9,939,086</u>	<u>9,612,865</u>

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

	Six months ended 30th June, 2002	2001
	Unaudited HK\$'000	Unaudited HK\$'000
Opening balance – total equity	4,274,027	4,312,656
Revaluation increase in investments in securities	1,016	3,252
Exchange difference arising on translation of operations outside Hong Kong	34	199
Share of reserves of associates	2,455	2,207
Share of reserves of jointly controlled entities	3,110	(16,927)
Translation reserve released on reclassification of an associate to a subsidiary	–	144
Capital reserve released on reclassification of an associate to a subsidiary	–	(111)
Net gains (losses) not recognised in the income statement	6,615	(11,236)
Profit attributable to shareholders	133,183	189,309
Investment revaluation reserve released to income statement on impairment of non-trading securities	1,775	–
Translation reserve released on disposal of associates	3	–
Goodwill reserve released on disposal of an associate	11,813	–
Capital reserve released to income statement on amortisation	(18,240)	(16,200)
Adjustment in property revaluation reserve on reclassification of an associate to a subsidiary	–	10,318
Investment revaluation reserve released on disposal of non-trading securities	–	(6,773)
Translation reserve released on disposal of non-trading securities	–	2,193
Translation reserve released on winding up of subsidiaries	–	(22)
Goodwill reserve released on disposal of non-trading securities	–	4,385
Goodwill reserve released on winding up of subsidiaries	–	418
	128,534	183,628
Share repurchased	–	(18,638)
Closing balance – total equity	4,409,176	4,466,410

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30th June, 2002

	Six months ended 30th June, 2002 Unaudited HK\$'000	2001 Unaudited HK\$'000
	<u> </u>	<u> </u>
Net cash inflow from operating activities	817,520	198,758
Net cash from (used in) investing activities	5,980	(619,722)
Net cash (used in) from financing activities	<u>(846,998)</u>	<u>853,165</u>
Net (decrease) increase in cash and cash equivalent	(23,498)	432,201
Exchange adjustments	598	205
Cash and cash equivalents at 1st January	<u>552,451</u>	<u>211,242</u>
Cash and cash equivalents at 30th June	<u>529,551</u>	<u>643,648</u>
Analysis of the balances of cash and cash equivalents:		
Short-term bank deposits	249,318	333,525
Bank balances and cash	353,196	350,531
Bank overdrafts	<u>(72,963)</u>	<u>(40,408)</u>
	<u>529,551</u>	<u>643,648</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.

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.

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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.

3. SEGMENTAL INFORMATION

Analysis of the Group's turnover and contribution to profit from operations by business segments is as follows:

	Six months ended 30th June, 2002				Total HK\$'000
	Investment, broking and finance HK\$'000	Consumer finance HK\$'000	Property development and investment HK\$'000	Corporate and other operations HK\$'000	
Turnover	341,613	467,404	101,722	19,049	929,788
Less: inter-segment turnover	(5,566)	-	(2,576)	(18,391)	(26,533)
	<u>336,047</u>	<u>467,404</u>	<u>99,146</u>	<u>658</u>	<u>903,255</u>
Profit from operations	87,988	58,183	18,775	3,847	168,793
Other finance costs					(40,463)
Amortisation of goodwill					(3,571)
Release of negative goodwill					59,369
Amortisation of capital reserve					10,206
Share of results of associates					52,314
Share of results of jointly controlled entities	-	-	18,551	-	18,551
Profit before taxation					265,199
Taxation					(38,293)
Profit after taxation					<u>226,906</u>

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				Total HK\$'000
	Investment, broking and finance HK\$'000	Consumer finance HK\$'000	Property development and investment HK\$'000	Corporate and other operations HK\$'000	
Turnover	224,259	482,722	157,153	29,064	893,198
Less: inter-segment turnover	(3,070)	–	(4,606)	(26,175)	(33,851)
	<u>221,189</u>	<u>482,722</u>	<u>152,547</u>	<u>2,889</u>	<u>859,347</u>
Profit from operations	119,150	252,543	21,461	10,882	404,036
Other finance costs					(65,606)
Amortisation of goodwill					(645)
Release of negative goodwill					13,520
Amortisation of capital reserve					10,302
Share of results of associates					60,668
Share of results of jointly controlled entities	28	–	26,916	–	26,944
Profit before taxation					449,219
Taxation					(60,819)
Profit after taxation					<u>388,400</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. FINANCE COSTS

	Six months ended 30th June,	
	2002	2001
	<u>HK\$'000</u>	<u>HK\$'000</u>
Finance costs included in:		
Cost of sales	15,214	29,179
Other finance costs	40,463	65,606
Total finance costs	<u>55,677</u>	<u>94,785</u>

5. 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	20,213	11,492
Amortisation of intangible assets	299	17
Net realised loss on trading securities	582	10,574
Net unrealised loss on trading securities	6,513	–
Realised loss on derivatives	482	–
Impairment losses of non-trading securities	4,760	–
and after crediting:		
Interest income	622,359	551,184
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	–	5,690
Profit on disposal of land and building	–	685
Profit on disposal of non-trading securities	–	12,998
Realised profit on derivatives	–	2,806
Net unrealised profit on trading securities	<u>–</u>	<u>43,202</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)

for the six months ended 30th June, 2002

6. TAXATION

	Six months ended 30th June,	
	2002	2001
	<u>HK\$'000</u>	<u>HK\$'000</u>
The charge comprises:		
Hong Kong Profits Tax	23,006	45,389
Taxation outside Hong Kong	576	182
Deferred taxation	121	–
Share of taxation attributable to associates	(531)	11,955
Share of deferred taxation attributable to associates	12,703	1,047
Share of taxation attributable to jointly controlled entities	2,418	2,246
	<u>38,293</u>	<u>60,819</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.

7. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit attributable to shareholders of HK\$133,183,000 (2001: HK\$189,309,000) and on the weighted average number of 3,409,866,308 (2001: 3,431,080,231) 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

8. INVESTMENTS

	Investments in securities							
	Non-trading securities		Trading securities		Other investments		Total	
	At 31st December, 2001		At 31st December, 2001		At 31st December, 2001		At 31st December, 2001	
	At 30th June, 2002	2001	At 30th June, 2002	2001	At 30th June, 2002	2001	At 30th June, 2002	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	23,868	36,947	-	-	289,034	297,402
Outside Hong Kong	1,295	1,383	1,839	6,010	-	-	3,134	7,393
	266,461	261,838	25,707	42,957	-	-	292,168	304,795
Unlisted equity securities, issued by corporate entities								
Hong Kong	58,153	59,431	248	509	-	-	58,401	59,940
Outside Hong Kong	69,694	70,473	-	-	-	-	69,694	70,473
	127,847	129,904	248	509	-	-	128,095	130,413
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
	-	-	12,608	12,828	-	-	12,608	12,828
Unlisted financial derivative issued by banks	918	946	-	-	-	-	918	946
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
	-	-	-	-	111,235	120,336	111,235	120,336
	395,226	392,688	38,563	56,294	111,235	120,336	545,024	569,318
Carrying amount analysed for reporting purposes as:								
Non-current	395,226	392,688	-	-	111,235	120,336	506,461	513,024
Current	-	-	38,563	56,294	-	-	38,563	56,294
	395,226	392,688	38,563	56,294	111,235	120,336	545,024	569,318

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

9. LOANS AND ADVANCES TO CONSUMER FINANCE CUSTOMERS

	At 30th June, 2002 <i>HK\$'000</i>	At 31st December, 2001 <i>HK\$'000</i>
Loans and advances to consumer finance customers	2,071,595	2,293,107
Allowance for doubtful debts	<u>(171,025)</u>	<u>(136,325)</u>
	1,900,570	2,156,782
Less: Due within one year	<u>(1,587,486)</u>	<u>(1,776,014)</u>
Due after one year	<u>313,084</u>	<u>380,768</u>

Loans made to consumer finance customers are approved by officers or the credit committee as appropriate according to the size of loan amounts. The average credit terms of such loans range from six to eighteen months.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)

for the six months ended 30th June, 2002

10. 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 to 180 days. Included in accounts receivable, deposits and prepayments are trade receivables totalling HK\$2,580,745,000 (at 31st December, 2001: HK\$2,461,870,000), 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	94,215	256,133
181 to 365 days	50,263	457,290
over 365 days	558,843	578,806
	2,993,998	2,873,803
Allowance for doubtful debts	(413,253)	(411,933)
	<u>2,580,745</u>	<u>2,461,870</u>

Included in the above balance of HK\$2,993,998,000 (at 31st December, 2001: HK\$2,873,803,000) are term loans totaling HK\$1,047,150,000 (at 31st December, 2001: HK\$1,310,576,000), the maturity profile of which is shown in note 21.

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\$6,578,704,000 (at 31st December, 2001: HK\$7,752,136,000).

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)

for the six months ended 30th June, 2002

10. 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

11. ACCOUNTS PAYABLE AND ACCRUED CHARGES

Included in accounts payable and accrued charges are trade payable 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
	<u>838,146</u>	<u>421,225</u>

12. 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	<u>6,500,000,000</u>	<u>1,300,000</u>
Issued and fully paid:		
At 31st December, 2001 and 30th June, 2002	<u>3,409,866,308</u>	<u>681,973</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)*for the six months ended 30th June, 2002***13. REVALUATION RESERVES**

	At 30th June, 2002 <i>HK\$'000</i>	At 31st December, 2001 <i>HK\$'000</i>
Property revaluation reserve	14,199	15,784
Investment revaluation reserve	16,522	11,937
	<u>30,721</u>	<u>27,721</u>

14. OTHER RESERVES

	At 30th June, 2002 <i>HK\$'000</i>	At 31st December, 2001 <i>HK\$'000</i>
Share premium	1,894,481	1,894,481
Capital redemption reserve	20,175	20,175
Translation reserve	(105,029)	(110,422)
Non-distributable reserve	55,226	55,226
Capital (goodwill) reserve	364,940	371,367
	<u>2,229,793</u>	<u>2,230,827</u>

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

15. 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	–
	<u>7,634</u>	–
Less: Amount classified under current liabilities	<u>(831)</u>	–
Amount due after one year	<u><u>6,803</u></u>	<u><u>–</u></u>

16. 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 indirectly 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.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)*for the six months ended 30th June, 2002***17. CAPITAL COMMITMENTS**

	At 30th June, 2002 <i>HK\$'000</i>	At 31st December, 2001 <i>HK\$'000</i>
Capital expenditure contracted for but not provided in the financial statements:		
For property development projects	36,474	37,512
Others	175	1,209
	<u>36,649</u>	<u>38,721</u>
Other capital expenditure authorised but not contracted for	<u>3,159</u>	<u>–</u>

18. 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 building <i>HK\$'000</i>	Others <i>HK\$'000</i>	Land and building <i>HK\$'000</i>	Others <i>HK\$'000</i>
Within one year	56,761	14,307	58,859	12,372
In the second to fifth years inclusive	48,270	3,765	64,717	8,980
After the fifth year	–	240	–	–
	<u>105,031</u>	<u>18,312</u>	<u>123,576</u>	<u>21,352</u>

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

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)

for the six months ended 30th June, 2002

19. PLEDGE OF ASSETS

At 30th June, 2002, certain of the Group's investment properties, hotel property, land and buildings, properties under development and properties held for sale with an aggregate carrying value of HK\$3,396,373,000 (at 31st December, 2001: HK\$3,363,979,000), consumer loan portfolio, bank balances and deposits of HK\$188,600,000 (at 31st December, 2001: HK\$488,516,000), listed investments belonging to the Group and margin clients with a carrying value of HK\$1,537,002,000 (at 31st December, 2001: HK\$3,798,857,000) together with certain securities in respect of listed subsidiaries held by the Company and its subsidiaries, the net book value of which in their respective accounts totalling HK\$3,703,275,000 (at 31st December, 2001: HK\$3,695,815,000) were pledged to secure loans and general banking facilities to the extent of HK\$4,674,412,000 (at 31st December, 2001: HK\$4,980,675,000) granted to the Group. Facilities amounting to HK\$2,203,747,000 (at 31st December, 2001: HK\$2,962,427,000) were utilised at 30th June, 2002.

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

20. 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)/Expense	
	Six months ended 30th June,	
	2002	2001
	HK\$'000	HK\$'000
	<u> </u>	<u> </u>
Dividend income from an associate	(2,000)	(7,344)
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	6,314	4,970
Rent, property management and air-conditioning fees from an associate	(876)	(631)
Interest income from an associate	(7,591)	(3,650)
Management fee from an associate	-	(751)
	<u> </u>	<u> </u>

- (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).

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)

for the six months ended 30th June, 2002

20. RELATED PARTY TRANSACTIONS (CONT'D)

- (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 the jointly controlled entity. The guarantee provided was in proportion to the Group's 50% 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.

21. 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.

	On demand	Within 3 months	3 months to 1 year	1 year to 5 years	After 5 years	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets						
Fixed deposits with banks	-	250,318	-	-	-	250,318
Loans and advances to consumer finance customers	225,688	495,670	1,009,559	340,678	-	2,071,595
Promissory notes of a listed associate	-	-	40,419	145,000	-	185,419
Term loans	273,885	295,912	477,353	-	-	1,047,150
Marketable debts 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 other borrowings	-	819,154	416,003	830,435	332,352	2,397,944
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

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

	On demand <i>HK\$'000</i>	Within 3 months <i>HK\$'000</i>	At 31st December, 2001			Total <i>HK\$'000</i>
			3 months to 1 year <i>HK\$'000</i>	1 year to 5 years <i>HK\$'000</i>	After 5 years <i>HK\$'000</i>	
Assets						
Fixed deposits with banks	-	356,206	-	-	-	356,206
Loans and advances to consumer finance customers	173,687	547,441	1,167,814	404,165	-	2,293,107
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	443,132	590,566	-	-	1,310,576
Marketable debts securities	-	12,828	-	-	-	12,828
	<u>-</u>	<u>1,067,941</u>	<u>1,270,448</u>	<u>383,701</u>	<u>494,378</u>	<u>3,216,468</u>
Liabilities						
Bank loans and other borrowings	-	1,067,941	1,270,448	383,701	494,378	3,216,468
	<u>-</u>	<u>1,067,941</u>	<u>1,270,448</u>	<u>383,701</u>	<u>494,378</u>	<u>3,216,468</u>

22. 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 compared to the net asset values of Allied Properties (H.K.) Limited ("Allied Properties")'s shares and increased its shareholding in Allied Properties during the period from 67.74% to 69.25%. It is further noted that the Group has, subsequent to the period end increased its shareholding in Allied Properties to the present level of 71.96%

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

FINANCIAL REVIEW

The Group reported a profit attributable to shareholders for the period of approximately HK\$133.2 million, decreasing by 29.6% compared to the profit of approximately HK\$189.3 million for the corresponding period of last year. This decrease was mainly due to a lower contribution from the Group's consumer finance business.

The Group's financial statements have since May 2001 been consolidated with 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

At 30th June, 2002, the net assets of the Group amounted to HK\$4,409.2 million, representing an increase of HK\$135.1 million or approximately 3.2% from that of 31st December, 2001. The Group's short-term bank deposits, bank balances and cash amounted to HK\$603.5 million (at 31st December, 2001: HK\$655.8 million). The Group's bank loans, overdrafts and other borrowings totalled HK\$2,397.9 million (at 31st December, 2001: HK\$3,216.5 million) of which the portion due on demand or within one year was HK\$1,235.1 million (at 31st December, 2001: HK\$2,338.4 million), and the remaining long-term portion was HK\$1,162.8 million (at 31st December, 2001: HK\$878.1 million). The liquidity of the Group as evidenced by the current ratio (current assets / current liabilities) was 2.36 times (at 31st December, 2001: 1.89 times). The Group's gearing ratio (net bank and other borrowings/ net assets) was 40.7% (at 31st December, 2001: 59.9%). The decrease in gearing ratio was mainly due to repayment of bank loans funded by the Group's net cash inflow generated from operating activities.

Most of the bank and other borrowings of the Group are subject to floating interest rates. There was no change in the share capital of the Company during the period.

FINANCIAL REVIEW (CONT'D)

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 16 to the condensed financial statements on page 18.

Pledge of Assets

Details regarding the pledge of assets are set out in note 19 to the condensed financial statements on page 20.

OPERATIONAL REVIEW

Financial Services

Consumer finance

The continuing downturn in the Hong Kong economy leading to increases in personal bankruptcies during the period has reduced the profit of United Asia Finance Limited ("UAF"). The performance of SHK Finance Limited has been likewise adversely affected. In view of the difficult operating environment, the managements of both companies have implemented stricter lending policies. The launch of a common positive credit database proposed for 2003 is expected to enable more comprehensive evaluation of credit risk.

Broking and finance

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)

Properties

Hong Kong and overseas

Allied Properties reported a decrease of 1.3% in profit attributable to its shareholders for the period. In addition to retaining its diversified portfolio of mainly investment properties in Hong Kong, it commenced marketing for sale its St. George Apartments on Waterloo Road around the middle of the year and the response was satisfactory. Piling for phase two of Ibis North Point, the hotel at Java Road, has been completed.

Allied Kajima Limited is 50% indirectly owned by Allied Properties. The core properties of that group include Allied Kajima Building, Novotel Century Hong Kong hotel and the Westin Philippine Plaza Hotel ("Westin Hotel"). The group 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.

Employees

The total number of staff of the Group at 30th June, 2002 was 1,836 (at 31st December, 2001: 1,816). 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 financing businesses is primarily conducted by UAF and Sun Hung Kai. There have not been any significant changes in the management of such risks from that described in the Company's annual report for 2001.

BUSINESS OUTLOOK

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

SHARE OPTIONS

- (a) At the annual general meeting of the Company held on 3rd June, 2002, the shareholders of the Company approved the termination of the share option scheme of the Company adopted pursuant to a shareholders' resolution passed on 29th June, 1992 (the "1992 Share Option Scheme") and the adoption of a new share option scheme (the "2002 Share Option Scheme").

No option was granted under the 1992 Share Option Scheme and the 2002 Share Option Scheme during the six months ended 30th June, 2002, nor was there any option outstanding at 31st December, 2001 and 30th June, 2002.

- (b) No option was granted under the share option scheme of the Company's subsidiary, Allied Properties, 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 SHARES

At 30th June, 2002, the following beneficial interests in the shares of the Company and its associated corporations, within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), were held by Directors and their associates as recorded in the register required to be kept by the Company under Section 29 of the SDI Ordinance:

Name of Director	Number of shares	Nature of interest
Lee Seng Hui	1,019,066,142 shares in the Company	Personal interest in 229,216 shares and other interest in 1,018,836,926 shares (<i>Note</i>)
Lee Su Hwei	1,018,836,926 shares in the Company	Other interest (<i>Note</i>)

Note: Mr. Lee Seng Hui and Ms. Lee Su Hwei are trustees of Lee and Lee Trust, being a discretionary trust which indirectly held 1,018,836,926 shares 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 1992 Share Option Scheme and the 2002 Share Option Scheme.

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 only shareholder who was interested in 10% or more of the issued share capital of the Company was as follows:

Name of Shareholder	Number of shares held	%
Lee and Lee Trust	1,018,836,926	29.88

Note: Mr. Lee Seng Hui and Ms. Lee Su Hwei, Directors of the Company, are trustees of Lee and Lee Trust, being a discretionary trust.

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.

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 SHARES

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

By Order of the Board
Sir Gordon Macwhinnie
Chairman

16th September, 2002