



CHINESE ESTATES HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

**Interim Report
For The Six Months
Ended 30th June, 2003**

CORPORATE INFORMATION

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Joseph Lau, Luen-hung

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INDEPENDENT REVIEW REPORT

TO THE BOARD OF DIRECTORS OF CHINESE ESTATES HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 2 to 11.

Respective responsibilities of directors and auditors

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 Statement of Standard Accounting Practice No. 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.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Review work performed

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

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, 2003.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 2nd September, 2003

RESULTS

The Board of Directors of Chinese Estates Holdings Limited (the “Company”) announces the following unaudited consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30th June, 2003 together with the comparative figures for 2002:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June, 2003

	<i>Notes</i>	Six months ended 30th June, 2003 HK\$'000 (Unaudited)	2002 HK\$'000 (Unaudited and as restated)
Turnover		459,666	382,328
Cost of sales		(155,983)	(49,572)
Gross profit		303,683	332,756
Other operating income	4	17,963	18,619
Administrative expenses		(111,690)	(97,032)
Investment income		24,262	22,287
Other operating expenses		(663)	(2,391)
Gain on disposal of property and other fixed assets		18,217	370
Loss on disposal of investment properties		(5,930)	(14,211)
Impairment loss recognised in respect of properties under development		–	(355,771)
Profit (loss) from operations	5	245,842	(95,373)
Finance costs		(49,715)	(124,949)
Other income (losses), net	6	1,925	(7,003)
Share of results of associates		(12,328)	7,802
Profit (loss) before taxation		185,724	(219,523)
Taxation	7	(7,754)	(18,988)
Profit (loss) after taxation		177,970	(238,511)
Minority interests		(464)	55,200
Profit (loss) attributable to shareholders		177,506	(183,311)
Interim dividends declared after the interim period end	8	109,500	–
Basic earnings (loss) per share	9	7.9 cents	(7.7) cents

CONDENSED CONSOLIDATED BALANCE SHEET
At 30th June, 2003

	<i>Notes</i>	30th June, 2003 HK\$'000 (Unaudited)	31st December, 2002 HK\$'000 (Audited and as restated)
Non-current assets			
Investment properties	10	13,619,750	12,284,285
Property and other fixed assets		41,417	47,453
Properties under development	11	141,494	287,384
Property interests held for future development		71,323	71,373
Intangible assets		1,885	1,885
Negative goodwill		(242,785)	(247,366)
Interests in associates		1,478,126	1,463,493
Investments in securities		662,756	102,985
Advance to an investee company		106,562	104,725
Other assets		17,775	17,775
Loans receivable – due after one year		20,135	21,552
Deferred tax assets		111,622	104,194
Pledged deposits		72,224	43,235
		16,102,284	14,302,973
Current assets			
Investments in securities		23,146	124,731
Properties under development	11	680,495	248,450
Properties held for sale		45,000	45,000
Loans receivable – due within one year		22,769	223,774
Debtors, deposits and prepayments	12	157,970	265,590
Securities receivables and deposits		13,784	32,246
Taxation recoverable		3,758	4,474
Pledged deposits		51,188	9,157
Time deposits, bank balances and cash		579,849	1,007,116
		1,577,959	1,960,538
Current liabilities			
Creditors and accruals	13	52,698	76,677
Cash and margin payable		7,346	3,645
Deposits and receipts in advance		204,498	205,262
Taxation payable		60,927	55,132
Borrowings – due within one year	14	690,022	320,572
Provisions		16,017	16,017
		1,031,508	677,305
Net current assets		546,451	1,283,233
Total assets less current liabilities		16,648,735	15,586,206
Non-current liabilities			
Borrowings – due after one year	14	5,355,589	4,332,463
Amounts due to associates		19,735	20,169
Amounts due to minority shareholders		385,911	406,405
Deferred tax liabilities		25,569	21,014
		5,786,804	4,780,051
Minority interests		(295,943)	(296,407)
		11,157,874	11,102,562
Capital and reserves			
Share capital	15	219,090	229,415
Reserves		10,938,784	10,873,147
		11,157,874	11,102,562

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30th June, 2003

	Share capital HK\$'000	Share premium HK\$'000	Investment properties revaluation reserve HK\$'000	Hotel property revaluation reserve HK\$'000	Special reserve HK\$'000	Capital redemption reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st January, 2002								
– as originally stated	238,254	2,411,840	8,246,293	18,906	2,499,685	61,364	2,209,820	15,686,162
– prior year adjustment on adoption of SSAP 12 (Revised)	–	–	1,067	–	–	–	103,202	104,269
– as restated	238,254	2,411,840	8,247,360	18,906	2,499,685	61,364	2,313,022	15,790,431
Deferred tax on revaluation reserve	–	–	(110)	–	–	–	–	(110)
Exchange adjustments	–	–	–	–	–	–	(460)	(460)
Net losses not recognised in the consolidated income statement	–	–	(110)	–	–	–	(460)	(570)
Deficit realised on disposal of investment properties	–	–	10,401	–	–	–	–	10,401
Loss for the period	–	–	–	–	–	–	(183,311)	(183,311)
At 1st July, 2002	238,254	2,411,840	8,257,651	18,906	2,499,685	61,364	2,129,251	15,616,951
Deferred tax on revaluation reserve	–	–	2,647	(2,646)	–	–	–	1
Deficit on revaluation	–	–	(3,170,385)	–	–	–	–	(3,170,385)
Share of revaluation reserve by minority interest	–	–	2,117	–	–	–	–	2,117
Share of associates' reserves movements during the period	–	–	(834)	8,549	–	–	–	7,715
Exchange adjustments	–	–	–	–	–	–	120	120
Net gains (losses) not recognised in the consolidated income statement	–	–	(3,166,455)	5,903	–	–	120	(3,160,432)
Cancellation on repurchase of own shares	(8,839)	(84,744)	–	–	–	8,839	–	(84,744)
Deficit realised on disposal of investment properties	–	–	3,966	–	–	–	–	3,966
Deficit realised on disposal of subsidiaries	–	–	21,925	–	–	–	–	21,925
Loss for the period	–	–	–	–	–	–	(1,295,104)	(1,295,104)
At 31st December, 2002	229,415	2,327,096	5,117,087	24,809	2,499,685	70,203	834,267	11,102,562
Deferred tax on revaluation reserve	–	–	(397)	–	–	–	–	(397)
Share of associates' reserves movements during the period	–	–	(2,167)	–	–	–	–	(2,167)
Exchange adjustments	–	–	–	–	–	–	22	22
Net gains (losses) not recognised in the consolidated income statement	–	–	(2,564)	–	–	–	22	(2,542)
Cancellation on repurchase of own shares	(10,325)	(131,367)	–	–	–	10,325	–	(131,367)
Deficit realised on disposal of investment properties	–	–	11,715	–	–	–	–	11,715
Profit for the period	–	–	–	–	–	–	177,506	177,506
At 30th June, 2003	219,090	2,195,729	5,126,238	24,809	2,499,685	80,528	1,011,795	11,157,874

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
For the six months ended 30th June, 2003

	Six months ended 30th June,	
	2003	2002
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash from (used in) operating activities	266,087	(212,410)
Net cash used in investing activities	(1,954,151)	(183,745)
Net cash from (used in) financing activities	1,260,775	(71,415)
Net decrease in cash and cash equivalents	(427,289)	(467,570)
Cash and cash equivalents at beginning of the period	1,007,116	1,252,740
Effect of foreign exchange rate changes	22	(460)
Cash and cash equivalents at end of the period	<u>579,849</u>	<u>784,710</u>
Analysis of cash and cash equivalents		
Time deposits, bank balances and cash	<u>579,849</u>	<u>784,710</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
For the six months ended 30th June, 2003

1. Basis of preparation

The condensed financial statements have been prepared in accordance with the applicable requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Statement of Standard Accounting Practice (“SSAP”) No. 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 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, 2002, except that the Group has adopted SSAP 12 (Revised) “Income Taxes” in the current period.

Income taxes

The principal effect of the adoption of SSAP 12 (Revised) “Income Taxes” is in relation to deferred tax. In prior periods, partial provision was made for deferred tax using the income statement liability method in which a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the condensed financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts for 2002 have been restated accordingly. This change in accounting policy has resulted in an increase of retained profits and investment properties revaluation reserve of HK\$84,352,000 and HK\$958,000 respectively as at 31st December, 2002 (at 31st December, 2001: increase of retained profits of HK\$103,202,000 and investment properties revaluation reserve of HK\$1,067,000) and an increase of the net profit for the period ended 30th June, 2003 of HK\$854,000 (period ended 30th June, 2002: increase of net loss of HK\$5,507,000).

3. Segment information

Business segments

The Group’s primary format for reporting significant information is business segments.

For the six months ended 30th June, 2003

	Property development and trading HK\$’000	Property leasing HK\$’000	Money lending HK\$’000	Securities investment, investment holding and brokerage HK\$’000	Consolidated HK\$’000
Segment revenue	<u>–</u>	<u>325,066</u>	<u>5,064</u>	<u>129,536</u>	<u>459,666</u>
Segment result	<u>–</u>	<u>306,377</u>	<u>5,064</u>	<u>10,574</u>	322,015
Unallocated operating expenses					<u>(76,173)</u>
Profit from operations					<u>245,842</u>

3. Segment information (cont'd)

Business segments (cont'd)

For the six months ended 30th June, 2002

	Property development and trading <i>HK\$'000</i>	Property leasing <i>HK\$'000</i>	Money lending <i>HK\$'000</i>	Securities investment, investment holding and brokerage <i>HK\$'000</i>	Consolidated <i>HK\$'000</i> (As restated)
Segment revenue	<u>1,872</u>	<u>337,158</u>	<u>10,650</u>	<u>32,648</u>	<u>382,328</u>
Segment result	<u>(355,206)</u>	<u>306,860</u>	<u>10,650</u>	<u>22,757</u>	(14,939)
Unallocated operating expenses					<u>(80,434)</u>
Loss from operations					<u>(95,373)</u>

Geographical segments

Substantially all of the activities of the Group during the periods were carried out in Hong Kong. Accordingly, a geographical analysis is not included.

4. Other operating income

	Six months ended 30th June,	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i> (As restated)
Included in other operating income are:		
Release of negative goodwill to income	4,581	4,628
Net building management fee income	<u>11,153</u>	<u>7,276</u>

5. Profit (loss) from operations

	Six months ended 30th June,	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Profit (loss) from operations has been arrived at after charging:		
Depreciation of property and equipment	4,819	4,867
Staff expenses including Directors' emoluments	<u>38,974</u>	<u>43,247</u>

6. Other income (losses), net

	Six months ended 30th June,	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Allowances for advances to associates	–	(8,521)
Profit on disposal of subsidiaries	–	1,638
Profit (loss) on disposal of associates	465	(120)
Release of negative goodwill arising on investment in an associate	<u>1,460</u>	<u>–</u>
	<u>1,925</u>	<u>(7,003)</u>

7. Taxation

	Six months ended 30th June,	
	2003	2002
	HK\$'000	HK\$'000
		(As restated)
The (charge) credit comprises:		
Current tax		
Company and subsidiaries		
Hong Kong profits tax	(8,601)	(12,576)
Other than Hong Kong	(1,491)	(1,238)
Associates		
Hong Kong profits tax	480	(555)
Other than Hong Kong	106	(10)
	<u>(9,506)</u>	<u>(14,379)</u>
Deferred tax		
Company and subsidiaries	3,270	(3,719)
Associates	(1,518)	(890)
	<u>1,752</u>	<u>(4,609)</u>
	<u>(7,754)</u>	<u>(18,988)</u>

Hong Kong profits tax have been provided for at the rate of 17.5% (period ended 30th June, 2002: 16%) on the estimated assessable profits of the individual companies comprising the Group for the period. Taxation on profits of subsidiaries and associates arising outside Hong Kong has been provided for in accordance with the relevant local jurisdictions.

Deferred tax has been provided for at the rate that is expected to apply in the period when the liability is settled or the asset is realised.

8. Interim dividends declared after the interim period end

The Directors have declared that an interim dividend of HK 5 cents per share (2002: Nil) should be paid to the shareholders of the Company whose names appear in the register of members on 25th September, 2003.

9. Basic earnings (loss) per share

The calculation of the basic earnings (loss) per share is based on the profit attributable to shareholders for the period of HK\$177,506,000 (period ended 30th June, 2002: loss attributable to shareholders of HK\$183,311,000 as restated) and on the weighted average number of 2,252,171,607 (period ended 30th June, 2002: 2,382,544,134) ordinary shares in issue throughout the period.

10. Investment properties

	<i>HK'000</i>
At 31st December, 2002	12,284,285
Additions	1,355,970
Disposals	<u>(20,505)</u>
At 30th June, 2003	<u><u>13,619,750</u></u>

In the opinion of the Directors, the carrying value of the investment properties at 30th June, 2003 approximates to that as at 31st December, 2002.

11. Properties under development

	<i>HK'000</i>
At 31st December, 2002	535,834
Additions	291,216
Disposals	<u>(5,061)</u>
At 30th June, 2003	821,989
Less: Amount shown under current assets	<u>(680,495)</u>
Amount shown under non-current assets	<u><u>141,494</u></u>

12. Debtors, deposits and prepayments

Included in debtors, deposits and prepayments are trade receivables of HK\$42,293,000 (at 31st December, 2002: HK\$31,659,000) comprising mainly of rental receivables which are billed in advance and settlements are expected upon receipts of billings.

The following is an aged analysis of trade receivables at the reporting date:

	30th June, 2003	31st December, 2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 30 days	11,648	7,792
31 – 60 days	5,100	2,340
61 – 90 days	2,997	1,806
Over 90 days	22,548	19,721
	<u>42,293</u>	<u>31,659</u>

13. Creditors and accruals

Included in creditors and accruals are trade payables of HK\$6,110,000 (at 31st December, 2002: HK\$15,219,000).

The following is an aged analysis of trade payables at the reporting date:

	30th June, 2003	31st December, 2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 90 days	3,764	14,540
Over 90 days	2,346	679
	<u>6,110</u>	<u>15,219</u>

14. Borrowings

	30th June, 2003 HK\$'000	31st December, 2002 HK\$'000
Bank loans	5,654,168	4,653,035
Other loans	391,443	–
	6,045,611	4,653,035
<i>Less: Amount due within one year and shown under current liabilities</i>	(690,022)	(320,572)
Amount due after one year	<u>5,355,589</u>	<u>4,332,463</u>

15. Share capital

Ordinary shares of HK\$0.10 each	Number of Shares '000	Share capital HK\$'000
Authorised: At 1st January, 2002, 31st December, 2002 and 30th June, 2003	<u>3,100,000</u>	<u>310,000</u>
Issued and fully paid: At 1st January, 2002 and 31st December, 2002	2,294,146	229,415
Shares repurchased and cancelled	<u>(103,244)</u>	<u>(10,325)</u>
At 30th June, 2003	<u>2,190,902</u>	<u>219,090</u>

16. Capital commitments and contingent liabilities

At the balance sheet date, the Group had the following commitments and contingent liabilities not provided for in the financial statements.

	30th June, 2003 HK\$'000	31st December, 2002 HK\$'000
Authorised and contracted for:		
Development expenditure of properties in Hong Kong	316,591	316,226
Acquisition of properties in the PRC	23,440	23,440
Acquisition of properties and other assets	1,900	1,088,420
	<u>341,931</u>	<u>1,428,086</u>
Authorised but not contracted for:		
Development expenditure of properties in Hong Kong	<u>1,073,047</u>	<u>1,419,819</u>
Contingent liabilities:		
Guarantees given to banks in respect of banking facilities utilised by associates and an investee company	<u>799,679</u>	<u>632,302</u>

17. Related party transactions

During the period, the Group entered into the following transactions with related parties:

	Six months ended 30th June,	
	2003	2002
	HK\$'000	HK\$'000
Income received from associates		
Office and shop rental	229	250
Building management fee	85	–
Interest income	3,853	2,980
Management fee	152	1,217
Accountancy fee	60	–
Rental expenses paid to an associate	166	5
Income received from a private company partially owned by two Directors		
Retail rental	20,018	20,144
Building management fee	<u>1,788</u>	<u>–</u>

Rental income and building management fee were determined on terms similar to those applicable to transactions with unrelated parties.

18. Post balance sheet event

On 15th July, 2003, Million Point Limited (“Million Point”), a wholly-owned subsidiary of the Company, entered into a restructuring agreement with G-Prop (Holdings) Limited (“G-Prop”), pursuant to which G-Prop agreed to allot and issue, and Million Point agreed to subscribe for 170,000,000 new shares of G-Prop (“New Share”) at an issue price of approximately HK\$0.1059 per New Share, representing approximately 57.7% of the enlarged issued share capital of G-Prop.

The restructuring proposal is subject to a number of conditions. If any of the conditions is not fulfilled or waived, the restructuring proposal may lapse.

Details of the arrangement are set out in the joint announcement of the Company and G-Prop dated 15th July, 2003.

INTERIM DIVIDEND

The Directors have declared an interim dividend of HK 5 cents per share (2002: Nil) for the six months ended 30th June, 2003, payable to the shareholders whose names appear in the Company's register of members on 25th September, 2003.

The register of members will be closed from 18th September, 2003 to 25th September, 2003 both days inclusive. To qualify for the interim dividend, transfers should be lodged with the Company's Branch Registrars in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on 17th September, 2003.

It is expected that the relevant dividend will be payable to those entitled on or about 26th September, 2003.

FINANCIAL OPERATION REVIEW

Turnover for the period ended 30th June, 2003 (the "Period") amounted to HK\$459.7 million, a 20.2% increase from the previous period. It was mainly due to the increase in turnover of share dealing. Gross profit for the Period amounted to HK\$303.7 million, a 8.7% decrease as compared with the same period last year. Profit for the Period was HK\$177.5 million as compared to a loss of HK\$183.3 million for the same period last year. The loss for last year was mainly attributable to a provision of HK\$355.8 million for impairment loss recognised in respect of properties under development, however such provision was not required for the Period. Earnings per share was HK 7.9 cents (30th June, 2002: loss per share HK 7.7 cents).

Other operating income recorded a decrease of 3.5% to HK\$18.0 million when compared with last year. Administrative expenses increased by 15.1% to HK\$111.7 million as compared with last year.

Net Asset Value

As at 30th June, 2003, the Group's total net assets, after deducting negative goodwill of HK\$243 million, amounted to approximately HK\$11,158 million (31st December, 2002: HK\$11,103 million), an increase of HK\$55 million or 0.5% when compared with 31st December, 2002. With the total number of ordinary shares in issue of 2,190,902,212 as at 30th June, 2003, the net asset value per share was HK\$5.1, an increase of 6.25% over 31st December, 2002 (HK\$4.8). The increase in net asset value per share was mainly due to the profit retained for the Period and the effect of repurchase of shares of the Company.

Equity

The number of issued ordinary shares as at 30th June, 2003 and 31st December, 2002 were 2,190,902,212 and 2,294,146,212 respectively.

Debt and Gearing

As at 30th June, 2003, the Group's bank and other borrowings amounted to HK\$6,046 million (31st December, 2002: HK\$4,653 million). Cash and deposit at bank amounted to HK\$703 million (31st December, 2002: HK\$1,060 million) and net borrowings amounted to HK\$5,343 million (31st December, 2002: HK\$3,593 million).

Total debt to equity ratio was 54.2% (31st December, 2002: 41.9%) and net debt to equity ratio was 47.9% (31st December, 2002: 32.4%), which are expressed as a percentage of bank and other borrowings, and net borrowings respectively, over the total net assets of HK\$11,158 million (31st December, 2002: HK\$11,103 million).

The increase of the total and net debt to equity ratio was mainly due to an increase in the bank and other borrowings on acquisition of investment properties during the Period.

At the balance sheet date, the Group's bank and other borrowings are denominated mainly in Hong Kong dollars and partly in Japanese Yen. Of the Group's total bank and other borrowings HK\$6,046 million, 11.4%, 18.8%, 68.3% and 1.5% are repayable within 1 year, 1 to 2 years, 2 to 5 years and over 5 years respectively. The Group's bank borrowings carry interest rates calculated mainly with reference to HIBOR and LIBOR. The Japanese securities held were fully hedged by Japanese borrowing. No hedging for interest rate was subsisted at the end of the Period.

Pledge of Assets

As at 30th June, 2003, the Group's investment properties, development properties, land and building, other investment and time deposits with their respective book value of approximately HK\$13,108.5 million (31st December, 2002: HK\$11,550.7 million), HK\$804.5 million (31st December, 2002: HK\$360.0 million), HK\$12.8 million (31st December, 2002: HK\$13.0 million), HK\$559.8 million (31st December, 2002: HK\$ Nil) and HK\$123.4 million (31st December, 2002: HK\$52.4 million) were pledged to secure general banking facilities of the Group.

Financial and Interest Income/Expenses

Interest income was included in turnover and investment income. Finance cost included interest expenses on bank and other loans, arrangement, facility and commitment fee expenses. Interest income for the Period was HK\$15.1 million, representing a decrease of 20.9% from that of 30th June, 2002 (HK\$19.1 million). A decrease of interest income was mainly attributable to decrease on interest generated from loan. Interest capitalised for the Period was HK\$13.0 million as compared to HK\$2.5 million for the last period. Interest expenses charged to income statement for the Period amounted to HK\$46.5 million, representing a 58.1% decrease over the interest expenses of HK\$110.9 million recorded for last year. The decrease in interest expenses was due to decrease in interest rate during the Period.

Remuneration Policies and Share Option Scheme

During the period under review, the Group employed a total of 213 (period ended 30th June, 2002: 220) staff (excluding about a total of 183 (period ended 30th June, 2002: 167) estate management staff employed under the Group's estate management company, Perfect World Company Limited). Remuneration packages comprised salary and year-end bonus based on individual merits. No share option scheme was adopted for the Period. Details of share option scheme will be disclosed in the Group's annual report for the year ended 31st December, 2003.

The Kwong Sang Hong International Limited

During the Period, the Group has an effective interest 34.36% in the listed shares of The Kwong Sang Hong International Limited ("Kwong Sang Hong").

Kwong Sang Hong had total assets and net assets of HK\$1,949.4 million and HK\$1,261.8 million respectively at 31st May, 2003.

BUSINESS REVIEW

Despite the outbreak of Severe Acute Respiratory Syndrome ("SARS") in March which has impacted the Hong Kong economy in general, the overall occupancy levels of Group's properties remained high during the period under review. The Group's gross rental income from its investment properties was HK\$325 million for the period under review, representing a slight decrease of 3.6% compared to the corresponding period in 2002.

On 11th February, 2003, the Company entered into an agreement with Chi Cheung Investment Company, Limited (“Chi Cheung”) and Jumbo Legend Limited (a wholly-owned subsidiary of Chi Cheung) for an exchange of certain properties between the Company and Chi Cheung with an aim to re-focus the property business of the Group and the Chi Cheung Group. The transaction constitutes a connected transaction of the Company and has been approved by its shareholders on 28th March, 2003. Completion is subject to other conditions precedent being fulfilled and is still in the process.

Hong Kong Investment Properties

The Group’s retail portfolio continued to be one of the main sources of rental income. Our retail properties are mainly located in the major shopping districts in Hong Kong, namely Causeway Bay, Wanchai, Tsim Sha Tsui and Mong Kok. Prime retail space is still in demand. The occupancy levels for the Group’s retail properties still maintain high. The Group’s investment property portfolio is further enhanced by the completion of the acquisition of Tung Ying Building and Tung Sang Building in April and in June 2003 respectively. Tung Ying Building has a gross area of about 389,000 square feet in which about 133,000 square feet is retail. Tung Sang Building in Wan Chai is a commercial/residential property with gross floor area of about 91,216 square feet.

Demand for office space remains weak for the period under review, the occupancy rates of Harcourt House and Windsor House declined to 93% and 94% as compared with 97% and 96% for corresponding period last year. The shrinkage of leasing demand is due to corporate downsizing amid of the sluggish economy and the abundant supply of office space in the market. We managed to improve the occupancy rate of MassMutual Tower from 84% to 89%, as some tenants expanded their leasing spaces in consideration of the lower renewal rental costs.

Hong Kong Development Properties

In general, progresses of the Group’s major development projects have been satisfactory and are on schedules.

As for the joint-venture redevelopment project undertaken with the Urban Renewal Authority at Tai Yuen Street/Wanchai Road (75% direct interest), basement works for Phase 1 Site A are in progress and are expected to complete in November 2003. Foundation works for Phase 1 Site B were completed in August 2003. Superstructure works for Site A will start in December 2003, while the superstructure work for Site B has commenced in August 2003. Following the agreement reached with the Lands Department in March 2003, land grant documents were executed in June 2003. Upon completion, Phase 1 of the project will comprise three high-rise residential towers with about 652 residential units and gross floor area of about 510,000 square feet. It is planned that Phase 2 will comprise a high-rise office building with gross floor area of about 240,000 square feet. Phase 1 and Phase 2 are scheduled to complete in mid-2005 and 2008 respectively.

Site formation and foundation works for the development project at the junction of Cornwall Street and Tat Chee Avenue (33 $\frac{1}{3}$ % interest) commenced in January 2003. The project will consist of 5 medium-rise towers with about 240 high-end residential units and 23 luxury villas of a total area of around 301,200 square feet. This development is scheduled for completion in 2005.

The superstructure construction for the development at Shiu Fai Terrace, Stubbs Road (50% interest) commenced in May 2002. It will consist of a residential area of around 107,600 square feet. The whole project is scheduled for completion in the 4th quarter of 2003.

Site formation and foundation works for the development at 55 Conduit Road (70% interest) commenced in February 2003. The project will consist of 87,780 square feet of residential space and is scheduled to complete by 2005.

Superstructure works for the development at King's Park, Kowloon (10% interest) commenced in September 2002. Completion of the project is scheduled in mid-2004. It consists of 904,000 square feet residential space. Pre-sale consent for the whole project was issued, selling and marketing work commenced in August 2003.

Superstructure works for the development at Kau Pui Lung Road (100% interest) commenced in August 2002. It comprises approximately 45,564 square feet residential space and completion is scheduled in late 2003.

Superstructure works for the development at 31 Barker Road at the Peak (100% interest) will be completed in third quarter of 2003. It will comprise 4 luxury houses with gross area of approximately 13,600 square feet.

PRC Properties

The Hong Kong New World Tower, Shanghai (34.65% interest) comprising approximately 1,470,000 square feet of office and retail space. The office section was completed in July 2003, and the retail section is expected to be completed in November 2003. Leasing activities are in progress and the office section is about 53% let as of June 2003.

The Hilton Hotel, Beijing (50% interest) reported a record low of an average occupancy rate of 48% due to SARS outbreak and a gross operating profit of HK\$5.08 million for the period under review. Beijing Municipal Commission of Urban Planning has approved the application for redevelopment of the adjoining multi-functional complex into a hotel extension with 116 rooms and other ancillary hotel facilities.

The Oriental Place (50% interest), a 10-storey office building next to Hilton Beijing, is 70% let as of June 2003.

The Winson Plaza, Tianjin (50% interest) comprises a 26-storey residential tower and a 29-storey office tower with a total gross floor area of approximately 600,000 square feet. As of June 2003, approximately 93% of the total gross floor area were sold, and sales of the remaining units continue.

The co-operative joint venture company of Lot E of Huangsha Station in Guangzhou (33 $\frac{1}{3}$ % interest) is under liquidation due to project termination.

The Lowu Commercial Plaza, Shenzhen (100% interest), comprising 79 retail outlets with approximately 29,000 square feet, was fully let as of June 2003.

PROSPECTS

Local market sentiment has gradually recovered since the containment of the SARS outbreak. The Group believes that the recent signing of the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) will help to speed up the local economy. The relaxation of travel restraints for people in the various provinces of the Mainland will help the tourist industry, which in turn will boost demand in properties.

Though demand for Hong Kong office space remains weak, both rental and occupancy levels would continue to be under pressure; retail sector looks encouraging. As investment income from retail properties is the Group's significant income source and most of our retail properties are located in prime and preferred locations; and with the additional rental income generated from the newly acquired Tung Ying Building and Tung Sang Building, in the absence of unforeseeable circumstances, it is expected that rental income for the second half of 2003 would be better than the period under review.

It is the intention of the Group to continue to look for investments with reasonable return by acquiring quality properties in Hong Kong or the Mainland for development or for long term investment.

DIRECTORS' INTERESTS IN THE SECURITIES OF THE COMPANY AND ASSOCIATED CORPORATIONS

As at 30th June, 2003, the interests and short positions of the Directors of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register kept by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by the Directors of Listed Companies contained in the Rules Governing the listing of securities on the Stock Exchange were as follows:–

I The Company

Name of Director	Number of Shares (ordinary share)	Note	Capacity	Percentage of Issued Share Capital (%)
Joseph Lau, Luen-hung	402,025,668		Beneficial Owner	
	<u>1,000,000,000</u>	(1)	Other Interests	
	<u>1,402,025,668</u>			63.99
Thomas Lau, Luen-hung	11,508,000	(2)	Interested in Controlled Corporation	
	<u>206,379,187</u>	(3)	Other Interests	
	<u>217,887,187</u>			9.95

Notes:

- (1) The 1,000,000,000 Shares were held by a unit trust of which Mr. Joseph Lau, Luen-hung was a unit holder. The said Shares were indirectly owned by a discretionary trust of which Mr. Joseph Lau, Luen-hung was the founder and certain family members of Mr. Joseph Lau, Luen-hung were eligible beneficiaries.
- (2) Cosco Limited was wholly owned by Mr. Thomas Lau, Luen-hung. By virtue of the SFO, Mr. Thomas Lau, Luen-hung was deemed to be interested in the 11,508,000 Shares held by Cosco Limited.
- (3) The 206,379,187 Shares were indirectly owned by a discretionary trust of which certain family members of Mr. Thomas Lau, Luen-hung were eligible beneficiaries.

II Associated Corporations of the Company

1. Chi Cheung Investment Company, Limited (“Chi Cheung”)

Name of Director	Number of Shares (ordinary share)	Number of Underlying Shares (ordinary share)	Capacity	Note	Percentage of Issued Share Capital (%)
Joseph Lau, Luen-hung	13,534,788,778	383,527,348	Interest in Controlled Corporation	(a)	468.42

2. The Kwong Sang Hong International Limited (“Kwong Sang Hong”)

Name of Director	Number of Shares (ordinary share)	Capacity	Note	Percentage of Issued Share Capital (%)
Joseph Lau, Luen-hung	586,672,047	Interest in Controlled Corporation	(b)	61.12

Notes:

- (a) Mr. Joseph Lau, Luen-hung by virtue of his 63.99% interest in the share capital of the Company as disclosed in paragraph I above, was deemed to be interested in the shares and the underlying shares of Chi Cheung under the SFO. The Company was interested in 13,534,788,778 shares of Chi Cheung of which 2,159,475,904 shares were issued shares held by Billion Up Limited, a wholly owned subsidiary of Lucky Years Ltd. which in turn was a wholly owned subsidiary of the Company and 11,375,312,874 shares would be issued to the Company upon completion of a conditional sale and purchase agreement dated 11th February, 2003 to satisfy part of the consideration payable by Chi Cheung to the Company for an asset transaction. The 383,527,348 underlying shares were in respect of the warrants which were held by Billion Up Limited and are listed physically settled options and exercisable at any time during the period from 21st November, 2000 to 20th November, 2003 at a subscription price of HK\$0.10 per share (subject to adjustment).
- (b) Mr. Joseph Lau, Luen-hung by virtue of his 63.99% interest in the share capital of the Company as disclosed in paragraph I above, was deemed to be interested in the 586,672,047 shares in Kwong Sang Hong held indirectly by the Company. The Company was interested in 586,672,047 shares of Kwong Sang Hong of which 72,926,000 shares were held by Good System Investment Limited, a wholly owned subsidiary of the Company. The other 513,746,047 shares were held by Power Jade Capital Limited which was 50% owned by Gold Castle Capital Ltd., a wholly owned subsidiary of the Company.

All the interests stated above represent long positions. The percentage shown was the number of shares and underlying shares the relevant director was interested expressed as a percentage of the number of issued shares as at 30th June, 2003.

Saved as disclosed above, none of the other Directors of the Company had or were deemed under the SFO to have any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as at 30th June, 2003.

During the six months ended 30th June, 2003, none of the Directors of the Company nor their spouses or children under 18 years of age were granted or had exercised any right to subscribe for any securities of the Company or any of its associated corporations.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE COMPANY

As at 30th June, 2003, so far as are known to the directors, the following parties (other than a director or chief executive of the Company) were recorded in the register kept by the Company under section 336 of the SFO as being directly or indirectly interested or deemed to be interested in 5% or more of the issued share capital of the Company:

Name	Number of Shares (ordinary share)	Capacity	Percentage of Issued Share Capital (%)
Credit Suisse Trust Limited	1,000,000,000 (note 1)	Trustee and Beneficiary	45.64
Global King Ltd.	1,000,000,000 (note 1)	Trustee	45.64
Ip, Sok-wun	206,379,187 (note 2)	Founder of Discretionary Trust	9.42
J.P. Morgan Trust Company (Bahamas) Limited	206,379,187 (note 3)	Trustee and Interest in Controlled Corporation	9.42
Sunny Trend Limited	206,379,187	Beneficial owner	9.42
Li Ka-Shing	191,040,000 (notes 4 & 5)	Founder of Discretionary Trusts and Interest of Controlled Corporations	8.72
Li Ka-Shing Unity Trustcorp Limited	191,040,000 (notes 4 & 5)	Trustee and Beneficiary of a Trust	8.72
Li Ka-Shing Unity Trustee Corporation Limited	191,040,000 (notes 4 & 5)	Trustee and Beneficiary of a Trust	8.72
Li Ka-Shing Unity Trustee Company Limited	191,040,000 (notes 4 & 5)	Trustee	8.72
Cheung Kong (Holdings) Limited	191,040,000 (notes 4 & 5)	Interest of Controlled Corporations	8.72
Hutchison Whampoa Limited	191,040,000 (note 4)	Interest of Controlled Corporations	8.72
Hutchison International Limited	191,040,000 (note 4)	Interest of a Controlled Corporation	8.72
Primetek Holdings Limited	191,040,000 (note 4)	Beneficial Owner	8.72

Notes:

1. Credit Suisse Trust Limited as trustee of a discretionary trust held units in a unit trust of which Global King Ltd. was the trustee and therefore was regarded as interested in the same parcel of Shares held by Global King Ltd. These Shares were the same parcel of Shares referred to in “Other Interests” of Mr. Joseph Lau, Luen-hung under “Directors’ Interests in the securities of the Company and Associated Corporations” as disclosed in paragraph I above.
2. The 206,379,187 Shares were indirectly owned by a discretionary trust of which Ms. Ip, Sok-wun was the founder. These Shares were the same parcel of Shares referred to in “Other Interests” of Mr. Thomas Lau, Luen-hung under “Directors’ Interests in the securities of the Company and Associated Corporations” as disclosed in paragraph I above.
3. J. P. Morgan Trust Company (Bahamas) Limited as trustee of a discretionary trust owned the entire issued share capital of Sunny Trend Limited. By virtue of the SFO, J. P. Morgan Trust Company (Bahamas) Limited was deemed to have interest in the 206,379,187 Shares held by Sunny Trend Limited. These Shares were the same parcel of Shares referred to in “Other Interests” of Mr. Thomas Lau, Luen-hung under “Directors’ Interests in the securities of the Company and Associated Corporations” as disclosed in paragraph I above and in the above note 2.
4. Primetek Holdings Limited (“Primetek”) is a wholly owned subsidiary of Hutchison International Limited (“HIL”), which in turn is a wholly-owned subsidiary of Hutchison Whampoa Limited (“HWL”). By virtue of the SFO, HWL and HIL are deemed to be interested in the 191,040,000 Shares held by Primetek.
5. Li Ka-Shing Unity Holdings Limited, of which each of Mr. Li Ka-Shing, Mr. Li Tzar Kuoi, Victor and Mr. Li Tzar Kai, Richard is interested in one-third of the entire issued share capital, owns the entire issued share capital of Li Ka-Shing Unity Trustee Company Limited (“TUT1”). TUT1 as trustee of The Li Ka-Shing Unity Trust (“UT1”), together with certain companies which TUT1 as trustee of UT1 is entitled to exercise or control the exercise of more than one-third of the voting power at their general meetings, hold more than one-third of the issued share capital of Cheung Kong (Holdings) Limited (“CKH”). Subsidiaries of CKH are entitled to exercise or control the exercise of more than one-third of the voting power at the general meetings of HWL.

In addition, Li Ka-Shing Unity Holdings Limited also owns the entire issued share capital of Li Ka-Shing Unity Trustee Corporation Limited (“TDT1”) as trustee of The Li Ka-Shing Unity Discretionary Trust (“DT1”) and Li Ka-Shing Unity Trustcorp Limited (“TDT2”) as trustee of another discretionary trust (“DT2”). Each of TDT1 and TDT2 holds units in the UT1.

By virtue of the SFO, each of Mr. Li Ka-Shing being the settlor and may being regarded as a founder of DT1 and DT2 for the purpose of the SFO, TDT1, TDT2, TUT1 and CKH was deemed to be interested in the 191,040,000 shares of the Company held by Primetek.

All the interests stated above represent long positions. As at 30th June, 2003, no short positions were recorded in the register kept by the Company under section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30th June, 2003, the Company had purchased a total of 103,244,000 shares of the Company at an aggregate consideration of HK\$130,686,520 on The Stock Exchange of Hong Kong Limited (“the Stock Exchange”) and all of these shares were cancelled, details of which were as follows:–

Method of Purchase	Month of Purchase	Number of Share Purchased	Highest Price/Share HK\$	Lowest Price/Share HK\$	Aggregate Consideration HK\$
On the Stock Exchange	January 2003	8,632,000	1.18	1.02	9,768,640
	February 2003	11,200,000	1.19	1.07	12,856,960
	March 2003	15,408,000	1.19	1.14	18,085,000
	April 2003	20,180,000	1.24	0.95	21,778,520
	May 2003	23,700,000	1.49	1.37	33,368,000
	June 2003	24,124,000	1.49	1.42	34,829,400
Total		<u>103,244,000</u>			<u>130,686,520</u>

The Directors considered that the aforesaid Shares were purchased at a discount to the net asset value per Share and resulted in an increase in the net asset value per Share then in issue. Save as disclosed herein, neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company’s listed securities during the period under review.

CODE OF BEST PRACTICE

The Audit Committee comprising two Independent Non-executive Directors of the Company has reviewed the details of the interim report for the period ended 30th June, 2003.

None of the Directors of the Company 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, 2003 in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules.

APPRECIATION

I take this opportunity to thank our shareholders for their continued support and my fellow directors and our staff for their hard work during the period.

On behalf of the Board
Thomas Lau, Luen-hung
Chairman

2nd September, 2003