

# Interim Report 2003



天安中國投資有限公司

TIAN AN CHINA INVESTMENTS COMPANY LIMITED

## CONTENTS

Corporate Information	<u>1</u>
Condensed Consolidated Income Statement	<u>2</u>
Condensed Consolidated Balance Sheet	<u>3</u>
Condensed Consolidated Statement of Changes in Equity	<u>5</u>
Condensed Consolidated Cash Flow Statement	<u>6</u>
Notes to the Condensed Financial Statements	<u>7</u>
Interim Dividend	<u>22</u>
Management Discussion and Analysis	<u>22</u>
Directors' Interests in Securities	<u>26</u>
Share Options	<u>27</u>
Substantial Shareholders' Interests	<u>27</u>
Purchase, Sale or Redemption of Listed Securities	<u>29</u>
Code of Best Practice	<u>29</u>
Audit Committee	<u>29</u>

## CORPORATE INFORMATION

### BOARD OF DIRECTORS

#### *Executive Directors*

David Hui Yip Wing,  
*Managing Director*  
Patrick Lee Seng Wei  
Edwin Lo King Yau  
Ma Sun  
Ng Qing Hai

#### *Independent Non-Executive Directors*

Moses Cheng Mo Chi  
Lisa Yang Lai Sum

### AUDIT COMMITTEE

Moses Cheng Mo Chi, *Chairman*  
Lisa Yang Lai Sum

### REGISTERED OFFICE

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One Pacific Place  
88 Queensway  
Hong Kong  
Tel : 2533-3233  
Fax : 2845-3034  
E-mail: [info@tiananchina.com](mailto:info@tiananchina.com)  
Website: <http://www.tiananchina.com>

### REGISTRAR

Secretaries Limited  
G/F., Bank of East Asia Harbour  
View Centre  
56 Gloucester Road, Wanchai  
Hong Kong

### PRINCIPAL BANKERS

#### *In Hong Kong*

Bank of China (Hong Kong)  
Limited  
The Bank of East Asia, Limited  
CITIC Ka Wah Bank Limited  
The Hongkong and Shanghai  
Banking Corporation Limited  
Standard Chartered Bank

#### *In the PRC*

Agricultural Bank of China  
Bank of China  
Bank of Communications  
China Merchants Bank  
Dalian City Commercial Bank  
Industrial and Commercial  
Bank of China  
Shanghai Pudong Development  
Bank Co., Ltd.  
Shenzhen Development Bank  
Co., Ltd.

### SOLICITORS

Kwok & Yih  
P.C. Woo & Co.

### AUDITORS

Deloitte Touche Tohmatsu

### COMPANY SECRETARY

Ko Sing Ming

## CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2003

		(Unaudited)	
		Six months ended 30 June	
		2003	2002
	Notes	HK\$'000	HK\$'000
Turnover	(3)	415,968	468,231
Cost of sales		<u>(324,159)</u>	<u>(306,510)</u>
Gross profit		91,809	161,721
Net unrealised (loss) gain on trading securities		(36)	3,459
Other operating income	(4)	25,884	18,537
Marketing and distribution costs		(20,047)	(12,813)
Administration expenses		(57,908)	(54,318)
Other operating expenses		(3,181)	(3,048)
Share of results of jointly controlled entities		<u>26,060</u>	<u>9,373</u>
Profit from operations	(5)	62,581	122,911
Finance costs	(6)	(22,668)	(39,164)
Share of results of associates		<u>1,355</u>	<u>2,450</u>
Profit before taxation		41,268	86,197
Taxation	(7)	<u>(11,185)</u>	<u>(27,000)</u>
Profit before minority interests		30,083	59,197
Minority interests		<u>(16,923)</u>	<u>(31,122)</u>
Net profit for the period, retained		<u><u>13,160</u></u>	<u><u>28,075</u></u>
		<i>HK cents</i>	<i>HK cents</i>
Earnings per share	(8)		
Basic		<u><u>0.2</u></u>	<u><u>0.3</u></u>
Diluted		<u><u>0.2</u></u>	<u><u>0.3</u></u>

## CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2003

		(Unaudited) 30 June 2003	(Restated) (Audited) 31 December 2002
	Notes	HK\$'000	HK\$'000
<b>Non-Current Assets</b>			
Property, plant and equipment	(9)	252,095	255,700
Investment properties	(10)	319,153	316,340
Properties for development		2,492,672	2,166,159
Interests in associates		836,526	840,829
Interests in jointly controlled entities		828,795	858,749
Investments in securities		4,593	4,593
Amounts due from minority shareholders		6,468	7,335
Goodwill on consolidation		43,322	44,350
Instalments receivable		98,233	98,900
		<b>4,881,857</b>	<b>4,592,955</b>
<b>Current Assets</b>			
Inventories of properties in the PRC			
– under development		2,479,273	2,092,348
– completed		349,527	404,811
Other inventories		30,594	26,765
Loans receivable		51,225	50,282
Instalments receivable		17,102	18,131
Trade and other receivables, deposits and prepayments	(11)	560,925	643,970
Investments in securities		9,278	9,314
Prepaid tax		13,363	–
Pledged deposits		78,037	75,012
Bank balances and cash		579,086	428,179
		<b>4,168,410</b>	<b>3,748,812</b>
<b>Current Liabilities</b>			
Trade and other payables	(12)	528,641	637,773
Pre-sale deposits		585,195	214,516
Tax liabilities		25,064	46,299
Dividends payable to minority shareholders		827	18,871
Interest-bearing borrowings	(13)	2,004,621	1,766,316
Interest-free borrowings	(13)	19,582	6,671
		<b>3,163,930</b>	<b>2,690,446</b>
<b>Net Current Assets</b>		<b>1,004,480</b>	<b>1,058,366</b>
		<b>5,886,337</b>	<b>5,651,321</b>

# CONDENSED CONSOLIDATED BALANCE SHEET *(continued)*

AS AT 30 JUNE 2003

		(Unaudited) 30 June 2003	(Restated) (Audited) 31 December 2002
	Notes	HK\$'000	HK\$'000
<b>Capital and Reserves</b>			
Share capital		1,698,141	1,698,141
Reserves	(14)	<u>2,540,352</u>	<u>2,544,259</u>
		<u>4,238,493</u>	<u>4,242,400</u>
<b>Minority Interests</b>			
		<u>348,636</u>	<u>349,163</u>
<b>Non-Current Liabilities</b>			
Interest-bearing borrowings	(13)	446,071	323,374
Interest-free borrowings	(13)	128,883	93,349
Deferred taxation		<u>724,254</u>	<u>643,035</u>
		<u>1,299,208</u>	<u>1,059,758</u>
		<u><u>5,886,337</u></u>	<u><u>5,651,321</u></u>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
*FOR THE SIX MONTHS ENDED 30 JUNE 2003*

	(Unaudited)	
	Six months ended 30 June	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Total equity at beginning of the period		
– as originally stated	4,219,098	4,076,222
– prior period adjustment ( <i>Note 2</i> )	<u>23,302</u>	<u>31,875</u>
– as restated	<u>4,242,400</u>	<u>4,108,097</u>
Surplus on revaluation of investment properties	4,259	–
Exchange differences arising on translation of financial statements of subsidiaries, associates and jointly controlled entities	<u>(124)</u>	<u>14,049</u>
Net gains not recognised in the income statement	<u>4,135</u>	<u>14,049</u>
Net profit for the period	13,160	28,075
Investment property revaluation reserve realised on disposal of investment properties	<u>(21,202)</u>	<u>–</u>
Total equity at end of the period	<u><u>4,238,493</u></u>	<u><u>4,150,221</u></u>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2003

	(Unaudited)	
	Six months ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
Net cash from (used in) operating activities	7,886	(125,902)
Net cash (used in) from investing activities	(189,466)	47,587
Net cash from financing activities	<u>276,746</u>	<u>242,141</u>
Increase in cash and cash equivalents	95,166	163,826
Cash and cash equivalents at beginning of the period	415,165	298,841
Effect of foreign exchange rates changes	<u>(124)</u>	<u>13,885</u>
Cash and cash equivalents at end of the period	<u><u>510,207</u></u>	<u><u>476,552</u></u>
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	579,086	514,185
Bank overdrafts	<u>(63,219)</u>	<u>(31,973)</u>
	515,867	482,212
Bank deposits with maturity of more than three months	<u>(5,660)</u>	<u>(5,660)</u>
	<u><u>510,207</u></u>	<u><u>476,552</u></u>



# **NOTES TO THE CONDENSED FINANCIAL STATEMENTS**

*FOR THE SIX MONTHS ENDED 30 JUNE 2003*

## **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 and Statement of Standard Accounting Practice (“SSAP”) 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants (“HKSA”).

## **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 31 December 2002, except as described below.

In the current period, the Group has adopted SSAP 12 (Revised) “Income Taxes” issued by the HKSA. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. 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 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.

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

The financial effect of the adoption of SSAP 12 (Revised) is summarised below:

	Properties for development	Interests in associates	Interests in jointly controlled entities	Goodwill on consolidation	Properties under development	Investment property revaluation reserve	Accumulated profits	Minority interests	Deferred taxation
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2003									
- As previously stated	1,916,755	835,159	855,042	45,070	2,014,871	165,805	663,043	323,694	356,268
- Arising from the adoption of SSAP12 (Revised)	249,404	5,670	3,707	(720)	77,477	22,381	921	25,469	286,767
- As restated	<u>2,166,159</u>	<u>840,829</u>	<u>858,749</u>	<u>44,350</u>	<u>2,092,348</u>	<u>188,186</u>	<u>663,964</u>	<u>349,163</u>	<u>643,035</u>
Balance at 1 January 2002									
- As previously stated	1,883,925	819,121	956,568	55,085	1,944,342	132,221	561,443	197,199	338,219
- Arising from the adoption of SSAP12 (Revised)	230,403	7,461	11,546	-	77,477	30,643	1,232	24,533	270,479
- As restated	<u>2,114,328</u>	<u>826,582</u>	<u>968,114</u>	<u>55,085</u>	<u>2,021,819</u>	<u>162,864</u>	<u>562,675</u>	<u>221,732</u>	<u>608,698</u>

The adoption of SSAP 12 (Revised) resulted in an increase in the profit for the six months ended 30 June 2003 of HK\$6,959,000 but has not had any material effect on the results for the six months ended 30 June 2002.

### 3. SEGMENTAL INFORMATION

The Group's turnover for the period was derived mainly from activities carried out in the People's Republic of China (the "PRC") other than Hong Kong. An analysis of the Group's turnover and segment results by business segment is as follows:

#### *Income statement for the six months ended 30 June 2003*

	Property development <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Sale of construction materials <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE	<u>250,708</u>	<u>9,999</u>	<u>145,043</u>	<u>10,218</u>	<u>415,968</u>
RESULTS					
Segment results	14,282	5,427	22,631	(920)	41,420
Net unrealised loss on trading securities					(36)
Other operating income	–	568	12,667	12,649	25,884
Share of results of jointly controlled entities	7,628	21,586	–	(3,154)	26,060
Unallocated corporate expenses					<u>(30,747)</u>
Profit from operations					62,581
Finance costs					(22,668)
Share of results of associates	(2,541)	3,475	–	421	1,355
Profit before taxation					41,268
Taxation					<u>(11,185)</u>
Profit after taxation					<u><u>30,083</u></u>

### 3. SEGMENTAL INFORMATION *(Continued)*

#### *Income statement for the six months ended 30 June 2002*

	Property development <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Sale of construction materials <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE	<u>366,888</u>	<u>6,357</u>	<u>90,151</u>	<u>4,835</u>	<u>468,231</u>
RESULTS					
Segment results	113,490	(1,431)	14,387	(4,003)	122,443
Net unrealised gain on trading securities					3,459
Other operating income	346	-	11,604	6,587	18,537
Share of results of jointly controlled entities	4,771	2,510	3,483	(1,391)	9,373
Unallocated corporate expenses					<u>(30,901)</u>
Profit from operations					122,911
Finance costs					<u>(39,164)</u>
Share of results of associates	(1,897)	4,227	-	120	<u>2,450</u>
Profit before taxation					86,197
Taxation					<u>(27,000)</u>
Profit after taxation					<u><u>59,197</u></u>

4. OTHER OPERATING INCOME

	(Unaudited)	
	Six months ended 30 June	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Dividend income from		
– listed shares	4,420	–
– unlisted shares	–	234
Interest income on bank deposits and loans receivable	1,962	2,813
Refund of PRC value-added tax	9,451	11,112
Net realised gain on disposal of investment properties	568	–
Net realised gain on disposal of subsidiaries	3,520	–
Other income	5,963	4,378
	<u>25,884</u>	<u>18,537</u>

5. PROFIT FROM OPERATIONS

	(Unaudited)	
	Six months ended 30 June	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit from operations has been arrived at after charging:		
Depreciation of property, plant and equipment		
Owned assets	8,181	6,494
Assets held under finance leases	4	4
Less: amount capitalised on property under development	(578)	(477)
	7,607	6,021
Amortisation of:		
Goodwill on consolidation	1,028	765
Goodwill on acquisition of associates and jointly controlled entities	116	185
	<u>8,751</u>	<u>6,971</u>

## 6. FINANCE COSTS

	(Unaudited)	
	Six months ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
Interest on		
Bank loans and overdrafts	38,966	35,493
Convertible loan notes	–	633
Promissory notes	9,908	8,347
Obligations under finance lease	2	3
Other loans wholly repayable within five years	5,892	4,697
	<u>54,768</u>	<u>49,173</u>
<i>Less:</i> amount capitalised on properties under development	<u>(32,100)</u>	<u>(10,009)</u>
	<u><u>22,668</u></u>	<u><u>39,164</u></u>

## 7. TAXATION

	(Unaudited)	
	Six months ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
The charge (credit) comprises:		
PRC income tax		
Company and subsidiaries		
– current period provision	10,239	4,498
– over-provision in prior years	(2,711)	(8,742)
Share of tax of associates	1,232	202
Share of tax of jointly controlled entities	1,762	1,684
	<u>10,522</u>	<u>(2,358)</u>
Deferred tax	<u>663</u>	<u>29,358</u>
	<u><u>11,185</u></u>	<u><u>27,000</u></u>

No provision for Hong Kong Profits Tax is made as the Group companies operating in Hong Kong do not have any assessable profit for both periods. Certain of the Group's subsidiaries operating in the PRC are eligible for tax exemptions and concessions. The PRC income tax is calculated at the rates applicable to respective subsidiaries.

**7. TAXATION** *(Continued)*

In addition to the amount charged to the income statement, deferred tax of HK\$632,000 (six months ended 30 June 2002: nil) relating to the revaluation of the Group's investment properties during the period has been charged directly to equity.

**8. EARNINGS PER SHARE**

The calculation of the basic and diluted earnings per share is based on the net profit for the period of HK\$13,160,000 (six months ended 30 June 2002: HK\$28,075,000) and on 8,490,704,582 (six months ended 30 June 2002: weighted average of 8,490,704,365) ordinary shares in issue during the period.

The computation of diluted earnings per share for both periods does not assume the exercise of the Company's outstanding warrants as the exercise price is higher than the average market price per share.

The computation of diluted earnings per share for the six months ended 30 June 2002 does not assume the conversion of the Company's outstanding convertible loan notes since their exercise would result in an increase in earnings per share.

The computation of diluted earnings per share for the six months ended 30 June 2002 does not assume the exercise of the Company's outstanding share options as the exercise price is higher than the average market price per share.

**9. PROPERTY, PLANT AND EQUIPMENT**

During the six months ended 30 June 2003, the Group acquired leasehold improvements, furniture and fixtures and equipment and motor vehicles at a cost of HK\$5,475,000.

**10. INVESTMENT PROPERTIES**

During the six months ended 30 June 2003, investment properties of HK\$14,323,000 were disposed of. The investment properties were revalued at 30 April, 2003 by Messrs. Norton Appraisals Limited, a firm of Chartered Surveyors, on an open market existing use basis. This valuation gave rise to a revaluation surplus of HK\$5,483,000.

## 11. TRADE RECEIVABLES

The Group allows credit periods ranging from 30 to 120 days to its trade customers.

The following is an aged analysis of trade receivables, which are included in trade and other receivables, deposits and prepayments, at the reporting date:

	(Unaudited) 30 June 2003 HK\$'000	(Audited) 31 December 2002 HK\$'000
Not yet due	54,163	40,048
Overdue within 3 months	100,883	114,520
Overdue between 4 and 6 months	32,924	129,502
Overdue between 7 and 12 months	29,362	17,269
Overdue over 12 months	35,412	34,019
	<u>252,744</u>	<u>335,358</u>

## 12. TRADE PAYABLES

The following is an aged analysis of trade payables, which are included in trade and other payables, at the reporting date:

	(Unaudited) 30 June 2003 HK\$'000	(Audited) 31 December 2002 HK\$'000
Not yet due	116,021	180,467
Overdue within 3 months	43,531	105,801
Overdue between 4 and 6 months	47,287	14,619
Overdue between 7 and 12 months	30,965	20,372
Overdue over 12 months	89,591	105,277
	<u>327,395</u>	<u>426,536</u>

Included in trade payables is a secured trade payable of HK\$43,011,000 (31 December 2002: HK\$43,011,000).



### 13. BORROWINGS

During the six months ended 30 June 2003, the net increase in borrowings amounted to HK\$409,447,000. The loans are repayable within 5 years and the majority of which bear interest at market rates. The proceeds were used to finance the payment of land use rights, progress payments for properties under development and the acquisition of new property projects in the PRC.

### 14. RESERVES

	Share premium account HK\$'000	Special capital reserve HK\$'000	Exchange equalisation reserve HK\$'000	Investment		Other reserves HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
				property revaluation reserve HK\$'000	Investment revaluation reserve HK\$'000			
At 1 January 2002								
- as originally stated	198,839	1,544,171	(44,584)	132,221	(18,411)	4,402	561,443	2,378,081
- prior period adjustment (Note 2)	-	-	-	30,643	-	-	1,232	31,875
- as restated	198,839	1,544,171	(44,584)	162,864	(18,411)	4,402	562,675	2,409,956
Translation of financial statements of overseas operations	-	-	14,049	-	-	-	-	14,049
Profit for the period	-	-	-	-	-	-	28,075	28,075
At 30 June 2002	198,839	1,544,171	(30,535)	162,864	(18,411)	4,402	590,750	2,452,080
Surplus (deficit) on revaluation	-	-	-	26,380	(4,589)	-	-	21,791
Realised on disposal of investment properties	-	-	-	(1,058)	-	-	-	(1,058)
Realised on disposal of a jointly controlled entity	-	-	1,751	-	-	-	-	1,751
Translation of financial statements of overseas operations	-	-	883	-	-	-	-	883
Profit for the period	-	-	-	-	-	-	68,812	68,812
Transfer from other reserves	-	-	-	-	-	(4,402)	4,402	-
At 31 December 2002 and 1 January 2003	198,839	1,544,171	(27,901)	188,186	(23,000)	-	663,964	2,544,259
Surplus on revaluation	-	-	-	4,259	-	-	-	4,259
Realised on disposal of investment properties	-	-	-	(21,202)	-	-	-	(21,202)
Translation of financial statements of overseas operations	-	-	(124)	-	-	-	-	(124)
Profit for the period	-	-	-	-	-	-	13,160	13,160
Transfer to other reserves	-	-	-	-	-	451	(451)	-
At 30 June 2003	198,839	1,544,171	(28,025)	171,243	(23,000)	451	676,673	2,540,352

## 15. CONTINGENT LIABILITIES

At 30 June 2003, the Group had the following contingent liabilities:

	(Unaudited) 30 June 2003 HK\$'000	(Audited) 31 December 2002 HK\$'000
Guarantees given to banks in respect of banking facilities utilised by jointly controlled entities	113,334	155,981
Guarantees given to banks in respect of mortgage loans granted to property purchasers	479,713	244,906
Guarantees given to banks in respect of banking facilities granted to third parties	40,000	89,150
Guarantee given to a bank in respect of a banking facility granted to a vendor of land use rights to a property development subsidiary	12,790	11,132
Guarantee given to a bank in respect of a performance bond given to a vendor of land use rights	18,868	–
Commercial bills discounted with recourse	<u>37,690</u>	<u>35,577</u>

During the year ended 31 December 2002, the National Tax Bureau in the PRC issued a notice to all local tax bureaux requiring them to impose land appreciation tax on property developers. In the opinion of the directors, after consulting the tax consultants and the tax bureaux of certain relevant cities, land appreciation tax will not be made in respect of properties already completed in those cities up to and including 2002. Accordingly, no provisions for land appreciation tax have been made in the financial statements. The Company has not, however, been able to secure written confirmation of those individual city policies, and the directors consider that there is a small possibility that land appreciation tax might be levied. Should such levies take place, then land appreciation tax of a subsidiary attributable to the Group amounts to HK\$24,680,000 (31 December 2002: HK\$24,680,000) and share of land appreciation tax of a jointly controlled entity attributable to the Group amounts to HK\$44,010,000 (31 December 2002: HK\$41,779,000).

## 16. LITIGATION

At 30 June 2003,

- (a) Certain property purchasers have taken legal action against a subsidiary of the Group and are claiming for compensation totaling approximately HK\$1,400,000 as a result of alleged late issue of title deeds of properties sold to them. The Group assesses the claims and considers that the final outcome of the claims has no material effect on the financial statements.
- (b) A former construction contractor has obtained arbitration awards in its favour in prior years in respect of claims against a subsidiary of the Group, for unsettled construction costs of approximately HK\$8,100,000. The minority shareholder, which is also the former major shareholder, of this subsidiary has agreed to bear any liability arising from this claim. The Group assesses the claims and considers that the final outcome of the claims has no material effect on the financial statements.
- (c) A former tenant has taken legal action against a jointly controlled entity of the Group and is claiming for resettlement compensation amounting to approximately HK\$14,000,000 due to the repossession of the property's land use rights by the local government. The case is under trial by the courts in the PRC. The Group believes that it is too early to assess the range of possible liability at this stage, if any, and no amount has been provided for such case in the financial statements.

## 17. PLEDGED ASSETS

At 30 June 2003,

- (a) The Group's 54.7% (31 December 2002: 50%) interest in Shanghai Allied Cement Limited with a carrying value of HK\$138,350,000 (31 December 2002: HK\$130,142,000), was pledged against a banking facility granted to the Group.
- (b) The Group's interest in Jack Rock Development Limited with a carrying value of HK\$500,754,000 (31 December 2002: HK\$500,757,000) was pledged against a bank overdraft facility granted to the Company.

17. PLEDGED ASSETS *(Continued)*

- (c) Bank deposits, properties under development, properties for sale and investment properties of certain subsidiaries with an aggregate carrying value of HK\$78,037,000 (31 December 2002: HK\$75,012,000), HK\$1,632,975,000 (31 December 2002: HK\$821,056,000), HK\$113,454,000 (31 December 2002: HK\$74,284,000) and HK\$61,772,000 (31 December 2002: HK\$127,489,000) respectively were pledged to banks for banking facilities granted to the Group.
- (d) Investment properties with an aggregate carrying value of HK\$56,900,000 (31 December 2002: HK\$59,000,000) were pledged to a bank for a banking facility granted to a jointly controlled entity.
- (e) Properties under development with a carrying value of HK\$113,329,000 (31 December 2002: nil) were pledged against other borrowings.
- (f) Properties for development with a carrying value of HK\$109,468,000 (31 December 2002: HK\$109,230,000) were pledged against a trade payable of HK\$43,011,000 (31 December 2002: HK\$43,011,000).

At 31 December 2002, properties for development with a carrying value of HK\$93,636,000 were pledged to banks for banking facilities granted to the Group.

## 18. ACQUISITION OF SUBSIDIARIES

During the six months ended 30 June 2003, the Group acquired a 73.74% interest in Strait Investment (Shanghai) Limited which holds a 95% interest in 上海海峽思泉房地產有限公司, a company established in the PRC and engaged in property development, for a consideration of HK\$241,332,000 which was satisfied by the cash.

The effect of the above acquisition is summarised as follows:

	(Unaudited)	
	Six months ended 30 June 2003	2002
	HK\$'000	(Restated) HK\$'000
Property, plant and equipment	733	79,058
Other assets	388,591	137,109
Liabilities	<u>(147,990)</u>	<u>(165,020)</u>
	241,334	51,147
<i>Less: Interest acquired in previous years as interest in a jointly controlled entity</i>	–	(4,868)
<i>Amount attributable to minority interests</i>	<u>(2)</u>	<u>–</u>
Net assets acquired	<u><u>241,332</u></u>	<u><u>46,279</u></u>
Satisfied by:		
Cash consideration	241,332	–
Outstanding cash consideration	–	7,321
Property for development	<u>–</u>	<u>38,958</u>
	<u><u>241,332</u></u>	<u><u>46,279</u></u>
Net cash inflow (outflow) arising on acquisition		
Bank balances and cash acquired	1,096	641
Cash consideration	<u>(241,332)</u>	<u>–</u>
	<u><u>(240,236)</u></u>	<u><u>641</u></u>

## 19. RELATED PARTY TRANSACTIONS AND BALANCES

During the six months ended 30 June 2003, Sun Hung Kai & Co. Limited ("SHK"), a substantial shareholder of the Company, extended the maturity date of a promissory note of HK\$40,419,000 to 2 June 2004. Also, the Group had the following material transactions and balances with related parties:

	(Unaudited)	
	Six months ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
(a) SHK		
– Rent, property management and air-conditioning fees paid	468	622
– Interest on convertible loan notes	–	633
– Interest on promissory notes	6,436	5,258
(b) Allied Properties (H.K.) Limited ("APL"), a controlling shareholder of SHK (and which has a common director with the Company)		
– Rent, property management and air-conditioning fees paid	408	254
– Rent, property management and air-conditioning fees paid to a jointly controlled entity of APL	154	492
– Interest on promissory notes	1,771	1,700
(c) Jointly controlled entities of the Group		
– Interest income	–	1,698
– Sale of construction materials	–	4,646
(d) Minority shareholders		
– Rental expenses for cement production facilities	2,625	2,357
	<u>2,625</u>	<u>2,357</u>

19. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

	(Unaudited) 30 June 2003 HK\$'000	(Audited) 31 December 2002 HK\$'000
(e) SHK		
– Outstanding promissory notes payable	185,419	185,419
– Amounts payable	35,788	29,994
(f) APL		
– Outstanding promissory notes payable	57,144	79,044
– Amounts payable	7,569	6,095
(g) Jointly controlled entities of the Group		
– Guarantees provided by jointly controlled entities to banks for banking facilities granted to the Group	102,830	112,264
– Pledge of investment properties by a jointly controlled entity to banks for banking facilities amounting to HK\$47.2 million (31 December 2002: HK\$75.5 million) granted to the Group	58,342	113,787
– Pledge of investment properties of the Group to a bank for a banking facility granted to a jointly controlled entity	<u>56,900</u>	<u>59,000</u>

20. POST BALANCE SHEET EVENT

Pursuant to an ordinary resolution passed in an Extraordinary General Meeting held on 6 August 2003, an offer by the Company to its shareholders to repurchase up to 1,100,000,000 shares of HK\$0.20 each in the issued capital of the Company at HK\$0.15 per share as to HK\$0.03 in cash and HK\$0.12 in loan note was approved by the Company's shareholders. The loan notes carry interest at 2.5% per annum, are unsecured and repayable on 29 August 2008. Shareholders of the Company holding 653,372,654 shares accepted the offer and accordingly, loan notes of HK\$78,405,000 have been issued.

## INTERIM DIVIDEND

The Directors consider that it is prudent to retain an appropriate level of funds to take advantage of business opportunities as and when they arise, and therefore do not intend to declare an interim dividend (2002: nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### INTERIM BUSINESS REVIEW

The PRC recorded a 8.2% GDP growth during the first half of the year, despite the GDP growth rate in the second quarter dropped by 3.2% points from the first quarter's 9.9% to 6.7%. This decrease was largely caused by the SARS epidemic which hit the services sector, especially in retail, transportation and construction areas. The relatively fast-pace economic development in the first half year was mainly due to the rapid growth in fixed assets investment and exports. Statistics show that fixed assets investments and foreign direct investment rose by 31.1% and 34.3% respectively. Exports grew by 34% but retail sales of consumer goods were 8% up only, evincing only a gradual increase in domestic consumption.

With respect to the construction industry, insufficient labour supply, delay in delivery of construction materials and intermittent suspension of construction works caused by the SARS epidemic resulted in the delay in the completion of certain projects of the Group. This together with the slow-down of the speed of sales during the same period, greatly undermined the Group's turnover in the second quarter.

The Group's net profit attributable to shareholders for the period under review was HK\$13,160,000 (2002: HK\$28,075,000), representing a 53% decrease over the previous period. The main reason for the decrease in net profit was that the projects completed in the first half year amounted to 26,070 m<sup>2</sup> Gross Floor Area ("GFA") (2002: 40,470 m<sup>2</sup>) only. The segment result for property development was HK\$14,282,000 (2002: HK\$113,490,000), representing a 87% decrease. Certain projects (including those held by subsidiaries and jointly controlled entities) are scheduled to be completed in the second half of the year and the first quarter of year 2004. During the period under review, total sales attributable to the Group of 146,920 m<sup>2</sup> GFA from residential/commercial properties was recorded (2002: 68,140 m<sup>2</sup>), whereas 481,000 m<sup>2</sup> GFA were under construction (2002: 629,840 m<sup>2</sup>).

Compared with the corresponding period of last year, the segment result of construction materials brought a greater contribution to the Group, amounting to HK\$22,631,000 (2002: HK\$14,387,000), representing an increase of 57%. Whereas, the share of results of jointly controlled entities



from property investment was HK\$21,586,000 (2002: HK\$2,510,000), representing a 760% increase.

Earnings per share was HK0.2 cents (2002: HK0.3 cents), representing a decrease of 33% compared to the corresponding period of last year.

## **FINANCIAL POSITION**

### *Liquidity and Financing*

As at 30 June 2003, the Group maintained its liquidity at a healthy level with a well-balanced portfolio of financial resources. The total bank balances and cash reserves of the Group were maintained at HK\$657 million, providing sufficient working capital for the daily operations of the Group.

As at 30 June 2003, the total borrowings of the Group amounted to approximately HK\$2,599 million (31 December 2002: HK\$2,190 million), including current liabilities and non-current liabilities of HK\$2,024 million (31 December 2002: HK\$1,773 million) and HK\$575 million (31 December 2002: HK\$417 million), respectively. The gearing ratio (net debt over shareholder's equity) of the Group was approximately 46% (31 December 2002: 40%). The increase in borrowings was used to finance the payment of landbank and costs for properties under construction.

Approximately 81% of outstanding debt will expire within 2 years. As the investments of the Group are located in the PRC, most of the bank borrowings are obtained from PRC banks in Renminbi. Around 92% of the Group's bank borrowings bear interest at fixed rates while the remaining is at floating rates.

### *Charges on Assets*

As at 30 June 2003, the Group's interest in an associate with a carrying value of HK\$500,754,000 was pledged against a bank overdraft facility granted to the Company. Additionally, bank deposits of HK\$78,037,000, aggregate carrying values of development properties and investment properties of approximately HK\$1,746,429,000 and HK\$118,672,000 respectively, and the Group's interest in certain subsidiaries with aggregate

carrying values of approximately HK\$138,350,000 were pledged to banks for banking facilities granted to those subsidiaries and to a jointly controlled entity. Further development properties with an aggregate carrying value of approximately HK\$222,797,000 were pledged against a trade payable of HK\$43,011,000 and other borrowings.

### *Contingent Liabilities*

As at 30 June 2003, guarantees given to banks by the Group in respect of banking facilities granted to jointly controlled entities, third parties and a vendor of land use rights to a property development subsidiary were approximately HK\$113,334,000, HK\$40,000,000 and HK\$12,790,000 respectively. Guarantees given to banks in respect of mortgage loans granted to property purchasers amounted to approximately HK\$479,713,000 and a guarantee given to a bank in respect of a performance bond given to a vendor of land use rights amounted to approximately HK\$18,868,000. All the guarantees provided by the Group were requested by banks and are granted under normal commercial terms. Commercial bills discounted with recourse amounted to approximately HK\$37,690,000. The contingent PRC land appreciation tax of a subsidiary attributable to the Group amounted to approximately HK\$24,680,000 and the share of contingent land appreciation tax of a jointly controlled entity amounted to approximately HK\$44,010,000.

### *Employees*

As at 30 June 2003, the Group, including its subsidiaries but excluding associates and jointly controlled entities, employed approximately 1,582 persons. Total staff costs for the period under review amounted to approximately HK\$33,629,000. The Group ensures that the remuneration packages for employees are competitive and employees are rewarded on a performance related basis including salary and bonus.

## **OUTLOOK**

It is pleasing that various economic statistics indicate that the impact of SARS seems to have been temporary, regional and limited. In the PRC, the market forces founded upon the economic reforms and opening-up process have begun to play a leading role in economic recovery from the SARS and its further development. It is believed that the PRC economy will continue its upward trend in the long run as the fundamental and basic factors underpinning long-term economic growth, including the mass market potential, cheap labour resources, improving infrastructure and steady supply of materials, remain unchanged. It is widely predicted that the annual GDP growth of the PRC will reach 8%.

Property prices have continued to soar at a record-setting rate in some major cities. For example, housing prices in Shanghai surged 18% during the first seven months. It is envisaged that the spreading of urbanization, together with rising in income levels and increasing demand for quality living will continue to boost the residential property market. Coupled with the accession to the WTO and the hosting of 2008 Olympic Games and 2010 World Expo, the reduction in constraints for overseas investors in some special areas such as banking and services sectors will attract more foreign direct investment into the PRC market, which in turn, will raise demand for office buildings and luxury homes. The PRC's domestic consumption ratio is 20% less than the world average. It is expected that the government will adopt various new policies to stimulate domestic consumption to become an increasingly important part in the country's economic development. However, worries from economists about the property bubble in some cities are on the rise.

Other than the property bubble, the sluggish global economy, increasing competition from foreign companies for local industries development, slow pace in legal system reforms and considerable upwards pressure on the currency will pose negative influences on economic growth and hence could affect the property market's future performance.

Nevertheless, the central bank's new policy on further tightening of financing to property developers, together with the constricting land supply and the newly introduced land auction system will eventually lead to a consolidation in the property industry which may be the most economic way for those financially sound and strong developers to increase their landbank. In the long run, such policies will help maintain a healthy development of the property market. The Group will benefit from such development.

In the second half of the year, the Group will make strong efforts and devote resources to catch up the delay on construction progress caused by the SARS outbreak so as to minimize its negative effects. In September, Shanghai Tian An Centre, an office building, will be offered for sale. In addition, pre-sales on 4 residential projects including Fu Wah Building in Beijing, New City Garden in Changzhou, Tian An Garden in Nantong and Redhill Peninsula in Wuxi will be launched soon. These projects are expected to add significant turnover and gross profit to the Group upon completion. Apart from this, the Group will also increase its strategic landbank in major cities at the right time.

## DIRECTORS' INTERESTS IN SECURITIES

Save as disclosed below, as at 30 June 2003, none of the Directors or chief executives of the Company has any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies:

### (a) The Company

Name of Director	Nature of interests	Number of Shares and Underlying Shares held	Percentage to the relevant issued share capital
Ma Sun	Personal	625,500 <i>(Note)</i>	0.01

*Note:* The interests held by Mr. Ma Sun as beneficial owner include the holding of 521,250 shares (representing approximately 0.01% of the relevant issued share capital) and 104,250 listed physically settled warrants of the Company giving rise to an interest in 104,250 underlying shares (representing 0.001% of the relevant issued share capital) of the Company. The warrants are exercisable at any time during the period from 5 December 2001 to 3 December 2004 at an exercise price of HK\$0.20 per share.

### (b) Associated Corporation - Shanghai Allied Cement Limited ("SAC")

Name of Director	Nature of interests	Number of Shares held	Percentage to the relevant issued share capital
Ma Sun	Personal	100,000 <i>(Note)</i>	0.01

*Note:* The interests held by Mr. Ma Sun as beneficial owner are all interests in shares.

All the interests stated above represent long positions. As at 30 June 2003, no short positions were recorded in the register required to be kept under section 352 of the SFO.

## SHARE OPTIONS

### (a) The Company

The Company's share option scheme was adopted pursuant to a resolution passed on 27 January 1999. No option was granted under the share option scheme of the Company during the six months ended 30 June 2003 nor was there any option outstanding as at 1 January 2003 and 30 June 2003.

### (b) SAC

The 2002 Share Option Scheme of SAC ("SAC Scheme") was adopted on 23 May 2002 for the participants (including directors and consultants) of SAC and any of its subsidiaries.

No option was granted under the SAC Scheme during the six months ended 30 June 2003 nor was there any option outstanding as at 1 January 2003 and 30 June 2003.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS

Set out below are the interests or short positions of persons in the shares or underlying shares of the Company as at 30 June 2003 as recorded in the register required to be kept under section 336 of the SFO:

### (a) Substantial Shareholders

Name of Shareholders	Number of Shares and Underlying Shares held				Percentage of total interests to the relevant issued share capital
	Personal Interests (held as beneficial owner)	Corporate Interests (interest of controlled corporation)	Security Interests (held by way of security)	Total Interests	
Sun Hung Kai & Co. Limited ("SHK")	3,578,254,767	830,640,486 <i>(Note 1)</i>	770,000,000	5,178,895,253 <i>(Note 2)</i>	60.99
Allied Properties (H.K.) Limited ("APL")	-	5,178,895,253 <i>(Note 3)</i>	-	5,178,895,253 <i>(Note 4)</i>	60.99
Allied Group Limited ("AGL")	-	5,178,895,253 <i>(Note 5)</i>	-	5,178,895,253 <i>(Note 4)</i>	60.99

**(b) Other Persons**

Name of Shareholders	Number of Shares and Underlying Shares held			Percentage of total interests to the relevant issued share capital
	Personal Interests (held as beneficial owner)	Corporate Interests (interest of controlled corporation)	Total Interests	
Sun Hung Kai Securities Capital Markets Limited ("SHKSCM")	450,503,880	-	450,503,880 (Note 6)	5.31
Shipsshape Investments Limited ("SIL")	-	453,863,880 (Note 7)	453,863,880 (Note 8)	5.35
Honest Opportunity Limited ("HOL")	1,018,800,000	-	1,018,800,000 (Note 9)	11.99
Classic Fortune Limited ("CFL")	-	1,018,800,000 (Note 10)	1,018,800,000 (Note 11)	11.99
China Online (Bermuda) Limited ("COBL")	-	1,018,800,000 (Note 12)	1,018,800,000 (Note 11)	11.99

*Notes:*

1. SHK owned 100% interest in the issued share capital of SIL and was therefore deemed to have an interest in the 453,863,880 shares and underlying shares in which SIL was interested. The corporate interests held by SHK also include an interest of its another indirect wholly-owned subsidiary, Sun Hung Kai International Limited, in a total of 376,776,606 shares and underlying shares of the Company.
2. The interests include the holding of 4,444,079,379 shares (representing approximately 52.34% of the relevant issued share capital) and 734,815,874 listed physically settled warrants of the Company giving rise to an interest in 734,815,874 underlying shares (representing approximately 8.65% of the relevant issued share capital) of the Company.
3. Through AP Jade Limited and AP Emerald Limited, direct and indirect wholly-owned subsidiaries of APL respectively, APL owned approximately 74.27% interest in the issued share capital of SHK and was therefore deemed to have an interest in the shares and underlying shares in which SHK was interested.
4. The figure refers to the same interest of SHK in 5,178,895,253 shares and underlying shares.
5. AGL owned approximately 74.08% interest in the issued share capital of APL and was therefore deemed to have the same interest held by APL.
6. The interests include the holding of 375,419,900 shares (representing approximately 4.42% of the relevant issued share capital) and 75,083,980 listed physically settled warrants of the Company giving rise to an interest in 75,083,980 underlying shares (representing approximately 0.89% of the relevant issued share capital) of the Company.
7. SIL owned 100% interest in the issued share capital of SHKSCM and was therefore deemed to have an interest in the 450,503,880 shares and underlying shares in which SHKSCM was interested. The corporate

interests held by SIL also include the interest of China Direction Investments Limited, which was approximately 66.67% indirectly owned by SIL, in 3,360,000 shares and underlying shares of the Company.

8. The interests include the holding of 378,219,900 shares (representing approximately 4.46% of the relevant issued share capital) and 75,643,980 listed physically settled warrants of the Company giving rise to an interest in 75,643,980 underlying shares (representing approximately 0.89% of the relevant issued share capital) of the Company.
9. The interests include the holding of 849,000,000 shares (representing approximately 9.99% of the relevant issued share capital) and 169,800,000 listed physically settled warrants of the Company giving rise to an interest in 169,800,000 underlying shares (representing approximately 2% of the relevant issued share capital) of the Company.
10. CFL owned 100% interest in the issued share capital of HOL and was therefore deemed to have an interest in the shares and underlying shares in which HOL was interested.
11. The figure refers to the same interest of HOL in 1,018,800,000 shares and underlying shares.
12. COBL owned 100% interest in the issued share capital of CFL and was therefore deemed to have the same interest held by CFL.

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

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2003.

## **CODE OF BEST PRACTICE**

None of the Directors is aware of any information that would reasonably indicate that the Company was not for any part of the six months ended 30 June 2003, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

## **AUDIT COMMITTEE**

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 for the six months ended 30 June 2003. In carrying out this review, the Audit Committee has relied on the review conducted by the Group's external auditors in accordance with the Statement of Auditing Standards 700 issued by the Hong Kong Society of Accountants as well as obtaining reports from management. The Audit Committee has not undertaken detailed independent audit checks.

By Order of the Board  
**David Hui Yip Wing**  
*Managing Director*