

Interim
Report 2003



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中國海外發展有限公司
CHINA OVERSEAS LAND & INVESTMENT LTD.

Results

The board of directors (the “**Directors**”) of China Overseas Land & Investment Limited (the “**Company**”) hereby announces the unaudited consolidated results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30th June, 2003. The consolidated profit after minority interests and tax amounted to HK\$212,022,000, representing an increase of 18% as compared to the corresponding period in 2002. The earnings per share is HK3.92 cents, representing an increase of 20% as compared to the corresponding period last year.

Consolidated Results

The unaudited consolidated results of the Group for the six months ended 30th June, 2003 and the comparative figures for the last corresponding period in 2002 are as follows:

Consolidated Income Statement

	Notes	Six months ended 30th June	
		2003 HK\$'000	2002 (restated) HK\$'000
Turnover		3,301,324	2,062,396
Cost of sales		(2,788,427)	(1,667,768)
Other revenue		14,692	55,490
Distribution expenses		(33,994)	(36,329)
Administrative expenses		(118,694)	(143,258)
Profit from operations	(3)	374,901	270,531
Finance costs		(27,649)	(31,796)
Share of results of associates		8,009	2,730
Profit before taxation		355,261	241,465
Taxation	(4)	(84,157)	(56,544)
Profit before minority interests		271,104	184,921
Minority interests		(59,082)	(5,838)
Profit for the period		212,022	179,083
Dividends	(5)	107,823	109,363
Earnings per share	(6)		
Basic		3.92 cents	3.28 cents
Diluted		3.90 cents	3.24 cents

Consolidated Balance Sheet

	Notes	30th June, 2003 (unaudited) <i>HK\$'000</i>	31st December, 2002 (restated) <i>HK\$'000</i>
NON-CURRENT ASSETS			
Investment properties		1,741,450	1,741,450
Property, plant & equipment		634,143	650,413
Properties for development		1,673,707	1,540,766
Interests in associates		974,396	885,962
Investments in infrastructure and syndicated property projects		1,382,197	1,188,210
Deferred tax assets		2,491	2,491
Instalments receivable		237,398	237,071
Pledged bank deposits		12,020	8,319
Negative goodwill		(25,878)	(26,065)
		<u>6,631,924</u>	<u>6,228,617</u>
CURRENT ASSETS			
Inventories		1,054	1,100
Properties for sale		4,293,097	4,472,285
Investments in infrastructure and syndicated property projects		50,008	19,425
Investments in securities		4,246	4,246
Trade and other receivables	(7)	1,390,697	1,575,026
Amounts due from customers for contract work		97,989	68,686
Deposits & prepayments		178,206	153,943
Tax prepaid		42,887	43,330
Bank balances and cash		2,506,279	1,912,724
		<u>8,564,463</u>	<u>8,250,765</u>

Consolidated Balance Sheet *(continued)*

	Notes	30th June, 2003 (unaudited) HK\$'000	31st December, 2002 (restated) HK\$'000
CURRENT LIABILITIES			
Trade and other payables	(8)	1,841,636	2,104,830
Sales and other deposits		1,197,443	976,848
Amounts due to customers for contract work		80,639	80,981
Amounts due to associates		193,276	197,760
Provision for taxation		264,618	220,074
Current portion of long-term borrowings		184,364	304,402
Bank Loans and overdrafts – unsecured		1,001,925	791,193
Bank Loans – secured		37,482	43,729
		4,801,383	4,719,817
NET CURRENT ASSETS			
		3,763,080	3,530,948
		10,395,004	9,759,565
CAPITAL AND RESERVES			
Share Capital		539,116	541,247
Reserves		7,176,064	7,033,127
		7,715,180	7,574,374
NON-CURRENT LIABILITIES			
Long-term borrowings		1,821,321	1,385,170
Amounts due to minority shareholders		731,166	666,822
Deferred taxation		127,337	133,199
		2,679,824	2,185,191
		10,395,004	9,759,565

Condensed Consolidated Cash Flow Statement

	Six months ended 30th June	
	2003 (unaudited) HK\$'000	2002 (unaudited) HK\$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	885,292	471,811
NET CASH (OUTFLOW) INFLOW FROM INVESTING ACTIVITIES	(757,358)	12,929
NET CASH INFLOW (OUTFLOW) FROM FINANCING	243,867	(279,993)
	371,801	204,747
INCREASE IN CASH AND CASH EQUIVALENTS CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	1,844,102	1,365,568
CASH AND CASH EQUIVALENTS AT END OF PERIOD	2,215,903	1,570,315
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	2,406,508	1,720,432
Bank loans and overdrafts	(190,605)	(150,117)
	2,215,903	1,570,315

Consolidated statement of changes in equity

	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Investment property revaluation reserve HK\$'000	Other property revaluation reserve HK\$'000	Exchange equalisation reserve HK\$'000	Goodwill on con- solidation HK\$'000	PRC statutory reserve HK\$'000	Dividend reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st January 2002											
As previously reported	546,402	5,190,171	1,784	217,331	395,810	(43,301)	(393,451)	—	109,286	1,987,138	8,011,170
Prior period adjustments	—	—	—	(7,837)	(5,102)	—	—	—	—	(89,585)	(102,524)
As restated	546,402	5,190,171	1,784	209,494	390,708	(43,301)	(393,451)	—	109,286	1,897,553	7,908,646
Exchange differences on translation of financial statements	—	—	—	—	—	24,376	—	—	—	—	24,376
Issue of shares upon exercise of share options	373	858	—	—	—	—	—	—	—	—	1,231
Realised on partial disposal of a subsidiary	—	—	—	(292)	(6,935)	—	—	—	—	—	(7,227)
Realised when properties were used and depreciated	—	—	—	—	(3,775)	—	—	—	—	3,775	—
Net profit for the period	—	—	—	—	—	—	—	—	—	181,873	181,873
Amounts set aside for dividend payments	—	—	—	—	—	—	—	—	109,363	(109,363)	—
Final dividend for 2001 paid	—	—	—	—	—	—	—	—	(109,286)	—	(109,286)
At 30th June 2002	546,775	5,191,029	1,784	209,202	379,998	(18,925)	(393,451)	—	109,363	1,973,838	7,999,613
Prior period adjustments	—	—	—	—	—	—	—	—	—	(2,790)	(2,790)

Consolidated statement of changes in equity (continued)

	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Investment property revaluation reserve HK\$'000	Other property revaluation reserve HK\$'000	Exchange equalisation reserve HK\$'000	Goodwill on con- solidation HK\$'000	PRC statutory reserve HK\$'000	Dividend reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
As restated	546,775	5,191,029	1,784	209,202	379,998	(18,925)	(393,451)	—	109,363	1,971,048	7,996,823
Exchange differences on translation of financial statements	—	—	—	—	—	(4,406)	—	—	—	—	(4,406)
Repurchase of own shares	(5,812)	—	5,812	—	—	—	—	—	—	(45,147)	(45,147)
Issue of shares upon exercise of share options	284	2,087	—	—	—	—	—	—	—	—	2,371
Share of associates' reserve movements	—	—	—	(21,000)	—	1,940	—	—	—	—	(19,060)
Decrease on revaluation of properties, adjusted for minority interests	—	—	—	(105,665)	—	—	—	—	—	—	(105,665)
Realised on partial disposal of a subsidiary	—	—	—	—	—	—	—	—	—	6,935	6,935
Realised on disposal of properties	—	—	—	(774)	4	—	—	—	—	(4)	(774)
Realised when properties were used and depreciated	—	—	—	—	(3,144)	—	—	—	—	3,144	—
Net loss for the period	—	—	—	—	—	—	—	—	—	(120,911)	(120,911)
Amounts set aside for dividend payments	—	—	—	—	—	—	—	—	54,048	(54,048)	—
Interim dividend for 2002 paid	—	—	—	—	—	—	—	—	(109,286)	—	(109,286)
Transfer to PRC statutory reserve	—	—	—	—	—	—	—	11,497	—	(11,497)	—
At 1st January 2003	541,247	5,193,116	7,596	81,763	376,858	(21,391)	(393,451)	11,497	54,125	1,749,520	7,600,880
Prior period adjustments	—	—	—	(2,117)	(1)	—	—	—	—	(24,388)	(26,506)
As restated	541,247	5,193,116	7,596	79,646	376,857	(21,391)	(393,451)	11,497	54,125	1,725,132	7,574,374
Exchange differences on translation of financial statements	—	—	—	—	—	(1,359)	—	—	—	—	(1,359)
Repurchase of own shares	(2,334)	—	2,334	—	—	—	—	—	—	(15,094)	(15,094)
Issue of shares upon exercise of share options	203	923	—	—	—	—	—	—	—	—	1,126
Share of associates' reserve movements	—	—	—	(2,100)	—	—	—	—	—	—	(2,100)
Realised when properties were used and depreciated	—	—	—	—	(3,395)	—	—	—	—	3,395	—
Premium on investments	—	—	—	—	—	—	336	—	—	—	336
Net profit for the period	—	—	—	—	—	—	—	—	—	212,022	212,022
Amounts set aside for dividend payments	—	—	—	—	—	—	—	—	107,823	(107,823)	—
Final dividend for 2002 paid	—	—	—	—	—	—	—	—	(54,125)	—	(54,125)
At 30th June 2003	539,116	5,194,039	9,930	77,546	373,462	(22,750)	(393,115)	11,497	107,823	1,817,632	7,715,180

Notes to the Financial Statements

For the six months ended 30th June, 2003

(1) Principal accounting policies and basis of presentation

The unaudited consolidated condensed accounts have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants (“HKSA”). These condensed accounts should be read in conjunction with the 2002 annual financial statements. The accounting policies and methods of computation used in the preparation of these condensed accounts are consistent with those used in the annual accounts for the year ended 31st December, 2002.

The Group has also adopted SSAP 12 (revised) “Income Taxes” issued by the HKSA which are effective for accounting periods commencing on or after 1st January, 2003.

In prior years, deferred tax liabilities were provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which were expected with reasonable probability to crystallise in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt. With effect from 1st January, 2003, in order to comply with SSAP 12 (revised) issued by the HKSA, the Group adopted a new accounting policy for deferred tax.

Under the revised SSAP 12, deferred tax liabilities are provided in full on all taxable temporary differences while deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary difference can be utilised.

The new accounting policy has been applied retrospectively, resulting in prior period adjustments with the opening balances of the retained profits as at 1st January, 2002 and 1st January, 2003 restated by reduction of HK\$89,585,000 and HK\$24,388,000 respectively. The comparative figure in respect of taxation for the prior period has also been restated by an increase of HK\$2,790,000 accordingly.

(2) Business segments

The businesses based upon which the Group reports its primary segment information are as follows:

Property development	— development and sale of properties
Property investment	— property letting
Construction	— building and civil construction, foundation engineering and project management
Infrastructure project investment	— investments in entities undertaking infrastructure projects

(2) **Business segments** (continued)

Segment information about revenue and contribution to results and the net profit for the period are listed in the following table:

Period Ended 30th June, 2003

	Property development HK\$'000	Property investment HK\$'000	Construction HK\$'000	Infrastructure project investment HK\$'000	Other operations HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
REVENUE							
External	1,555,917	81,542	1,604,683	28,318	24,544	—	3,295,004
Inter-segment	—	3,000	67,665	—	—	(70,665)	—
	<u>1,555,917</u>	<u>84,542</u>	<u>1,672,348</u>	<u>28,318</u>	<u>24,544</u>	<u>(70,665)</u>	<u>3,295,004</u>
RESULTS							
Segment results	<u>256,024</u>	<u>66,456</u>	<u>62,420</u>	<u>28,093</u>	<u>12,774</u>	<u>(3,000)</u>	422,767
Interest and other income							20,120
Unallocated corporate expenses							(67,986)
Profit from operations							374,901
Finance costs							(27,649)
Share of results of associates	(1,092)	—	6,554	3,898	(1,351)	—	8,009
Profit before taxation							355,261
Taxation							(84,157)
Profit before minority interests							271,104
Minority interests							(59,082)
Net profit for the period							<u>212,022</u>

(2) Business segments (continued)

Period Ended 30th June, 2002

	Property development HK\$'000	Property investment HK\$'000	Construction HK\$'000	Infrastructure project investment HK\$'000	Other operations HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
REVENUE							
External	717,044	92,401	1,188,632	29,681	25,631	—	2,053,389
Inter-segment	—	4,536	315,046	—	—	(319,582)	—
	<u>717,044</u>	<u>96,937</u>	<u>1,503,678</u>	<u>29,681</u>	<u>25,631</u>	<u>(319,582)</u>	<u>2,053,389</u>
RESULTS							
Segment results	<u>133,734</u>	<u>71,324</u>	<u>89,487</u>	<u>29,347</u>	<u>12,574</u>	<u>(3,159)</u>	333,307
Interest and other income							30,817
Unallocated corporate expenses							<u>(93,593)</u>
Profit from operations							270,531
Finance costs							<u>(31,796)</u>
Share of results of associates	(1,816)	—	2,483	—	2,063	—	<u>2,730</u>
Profit before taxation							241,465
Taxation							<u>(56,544)</u>
Profit before minority interests							184,921
Minority interests							<u>(5,838)</u>
Net profit for the period							<u>179,083</u>

(3) Profit from operations

	Six months ended 30th June	
	2003 HK\$'000	2002 HK\$'000
Profit from operations has been arrived at after charging (crediting):		
Depreciation	39,296	48,357
Amortisation of negative goodwill	(187)	(2,555)
Interest income	(6,320)	(9,008)

(4) Taxation

	Six months ended 30th June	
	2003 HK\$'000	2002 HK\$'000
The charge (credit) comprises:		
Company and subsidiaries		
Hong Kong profits tax	3,316	2,527
PRC income tax	72,731	50,475
	76,047	53,002
Associates		
Hong Kong profits tax	520	914
PRC income tax		
– current	2,367	275
– overprovision in prior years	–	(437)
	2,887	752
Deferred Taxation		
– current	(499)	2,790
– attributable to increase in tax rate	5,722	–
	5,223	2,790
	84,157	56,544

Hong Kong profits tax is calculated at 17.5% (2002: 16%) on the estimated assessable profit for the period.

PRC income tax is calculated at the applicable PRC tax rates on the estimated assessable profit for the period.

(5) Dividends

The Directors declared the payment of an interim dividend for 2003 of HK2 cents per share (2002: HK2 cents per share).

(6) Earnings per share

The calculation of the basic earnings per share is based on the profit for the period attributable to shareholders of HK\$212,022,000 (2002: HK\$179,083,000) and on the weighted average number of 5,403,990,382 (2002: 5,465,485,101) ordinary shares in issue during the period.

The calculation of the diluted earnings per share is based on the profit for the period attributable to shareholders of HK\$212,022,000 (2002: HK\$179,083,000) and on the weighted average number of 5,434,830,736 (2002: 5,524,492,475) ordinary shares in issue and issuable after adjusting for the weighted average number of dilutive potential ordinary shares of 30,840,354 (2002: 59,007,375) ordinary shares on the assumption that all share options were exercised during the period.

(7) Trade and other receivables

Except for revenue from property sales and infrastructure project investments which are payable in accordance with the terms of the relevant agreements, generally the Group allows a credit period of not exceeding 60 days to its customers.

The following is an analysis of trade and other receivables at the balance sheet date:

	30th June, 2003	31st December, 2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Receivables, aged		
0-30 days	656,686	558,350
31-90 days	153,267	409,968
Over 90 days	236,299	310,831
Retentions receivable	344,445	295,877
	1,390,697	1,575,026

(8) Trade and other payables

The following is an analysis of trade and other payables at the balance sheet date:

	30th June, 2003	31st December, 2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Payables, aged		
0-30 days	980,043	1,360,583
31-90 days	184,796	190,259
Over 90 days	359,546	267,365
Retentions payable	317,251	286,623
	1,841,636	2,104,830

(9) Contingent liabilities

At 30th June, 2003, guarantees given and indemnities provided by the Group in respect of credit facilities granted to associates were HK\$1,000 million (31st December, 2002: HK\$1,000 million). Outstanding counter indemnities for surety bonds issued in respect of construction projects amounted to HK\$1,114 million (31st December, 2002: HK\$1,345 million). In addition, mortgage bank loans repayment guarantee granted to purchasers of the Group's properties amounted to HK\$2,981 million (31st December, 2002: HK\$1,575 million).

(10) Pledge of assets

At the balance sheet date:

- (a) Banking facilities granted to the Group were secured, inter alia, by the following:
 - (i) pledge of shares in certain subsidiaries; and
 - (ii) fixed charges on the Group's development properties with an aggregate carrying value of approximately HK\$481 million (31st December, 2002: HK\$517 million).
- (b) Banking facilities granted to an associate were secured by pledge of shares in and subordination of advances to this company with an aggregate carrying value of approximately HK\$231 million (31st December, 2002: HK\$216 million).
- (c) Mortgage bank loans granted to purchasers of the Group's properties were secured by the Group's bank deposits amounting to approximately HK\$12 million (31st December, 2002: HK\$8 million).

Interim Dividends

The Directors declared the payment of an interim dividend of HK2 cents per share (2002: HK2 cents per share) to shareholders whose names appear in the register of members of the Company on 9th October, 2003. The interim dividend will be payable on 7th November, 2003.

Closure of Register of Members

The register of members of the Company will be closed from 3rd October, 2003 (Friday) to 9th October, 2003 (Thursday), both days inclusive, during which period no transfer of shares will be registered.

In order to qualify for the interim dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's registrars, Standard Registrars Limited at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, no later than 4:00 p.m. on 2nd October, 2003 (Thursday).

Review of Operations

During the first half of 2003, investment sentiment was dampened by the slow growth in the dominant global economies such as Europe and the USA, and political instability in certain regions. Under the impact of the outbreak of SARS, the Hong Kong economy suffered from prolonged recession as well as high unemployment rate. Following the implementation of the Closer Economic Partnership Arrangement (CEPA), there are signs showing that the economy of Hong Kong has started to recover. The political situation in the PRC remained steady while the economy continues its trend of rapid growth. The PRC State Council and The People's Bank of China have lately implemented new measures to better regulate and direct the financial market as well as the real estate market. This indeed provides promising opportunities to those enterprises with financial strength and reputable brandname.

Under a complex and ever-changing market environment, the Group actively restructured its organisation structure, strengthened competitive edges of its three core businesses and continued its prudent policy in financial planning which lead to satisfactory operating results from its major businesses. Robust sale of properties in various districts in the PRC continued. In response to market demands, the Group focuses more on the strategy of brandname expansion and also established branch office in Changchun and Nanjing. The construction and contracting business in Hong Kong maintained its remarkable business achievement in both newly awarded contract sums and turnover. Moreover, the infrastructure investments in the PRC succeeded in making a breakthrough.

Property Development

Property sales

During the six months ended 30th June, 2003, the gross property sales of the Group was about HK\$1.55 billion, representing an increase of 116% as compared to the corresponding period of 2002. The sales in Hong Kong during the first half of the year decreased slightly to HK\$45,000,000. The turnover of property sales in the PRC was about HK\$1.5 billion, representing a large increase of 126% as compared to the corresponding period of last year. The corresponding gross floor area of properties sold was 2,770,000 sq. ft.. In addition, pre-sale gross floor area amounted to 1,400,000 sq. ft. was secured.

About 70% of property sales income from the PRC was contributed by The Seaview in Shenzhen and Zhonghai Fuyuan in Beijing, both of which were completed for occupation in the first half of the year. The other 30% income was mainly contributed by the properties held for sale under Phase I of Cannes Garden in Guangzhou and Phase I of Grandeur Vista in Chengdu. By the end of June, the gross floor area of the Group's properties held for sale amounted to approximately 2,400,000 sq. ft. (including residential property of 1,650,000 sq. ft.).

Land acquired during the period

During the first half of 2003, the Group acquired 3 pieces of land in the major cities of the PRC which provided additional 5,250,000 sq. ft. gross floor area for development in the near future. As at 30th June, 2003, gross floor area owned by the Group in respect of the properties to be developed and under development amounted to 40,000,000 sq. ft..

City	Name of Project	Intended usage	Percentage of interest attributable to the Group	Total Gross Floor Area ('000 sq.ft.)
Guangzhou	Luoxi land parcel	Residential	80%	1,070
Chengdu	Wanjiang Haoting project	Residential	100%	2,110
Changchun	Jingyuetan land parcel	Residential	84%	2,070

The Group actively adopts a policy of acquiring quality land banks in the PRC for short, medium and long term purposes. Agreements or letters of intent have been signed for several pieces of land held for long term development purpose, some of them are already at the stage of land requisition. As at 31st August, 2003, the newly acquired land banks for medium and long term development are set out below:

Changchun A "Real Estate Project Development Contract" was entered into early this year. The land use rights of 200,000 sq. metre of land was obtained from the government in May. The acquisitions of the remaining lands are still in progress. The entire project has development area of 1,000,000 sq. metre and is expected to last for 10 years.

- Nanjing A “Land Purchase Agreement” was made with the government early this year. The process of land acquisitions is undergoing.
- Shanghai An “Old Town Redevelopment Agreement” was made with the Luwan District Government in the middle of this year. The entire project has development area of 400,000 sq. metre and is expected to last for 7 years.

Construction and Contracting Business

During the first half of 2003, the Group was awarded 13 new projects with total contract sum of HK\$5.3 billion in which 5 projects with total contract sum of HK\$3.3 billion were management contracts for China State Construction Engineering Corporation and China State Construction Engineering (Hong Kong) Limited. The Group was awarded 8 new projects with total contract sum of HK\$2 billion.

At the end of June, the Group had 87 projects in progress with total contract sum of HK\$31.1 billion (HK\$15.0 billion to be completed). Among which, 46 projects with total contract sum of HK\$9.3 billion (HK\$4.2 billion to be completed) were operated by the Group, and 41 projects with total contract sum of HK\$21.8 billion (HK\$10.8 billion to be completed) were management contracts.

The works of all the contracting projects on hand were progressing smoothly. Regarding the works undertaken for Villa Pinada and The Aegean of the Gold Face Group, the Group has taken legal claims against each of the developer and its guarantor. As legal actions are undergoing, specific details are not to be disclosed. However, it is estimated by the Directors that the outcome will not have material adverse impact on the results of the contracting business.

Infrastructure Investments

During the period, the infrastructure investment projects in the PRC made a breakthrough. The Group invested US\$40.08 million to own 55.24% equity interest in the Nanchang Bridge and this project has just started to provide revenue. The Guangxi infrastructure project continued to contribute steady profit to the Group.

Property Rentals

During the period, rentals of the leasing properties in Hong Kong decreased slightly. The Group's properties in Hong Kong including The China Overseas Building and the shopping arcade of Horae Place remained a high occupancy rate, whereas Shanghai Plaza in Shanghai and Dongshan Square in Guangzhou recorded a satisfactory occupancy rate. Mainly due to the disposal of The China Overseas Building in Shanghai last year, the Group's rental income in the first half of the year decreased approximately 12% amounted to HK\$81 million, of which 53% was generated from the PRC.

Other Investments

The Group's investments in the related business of Hong Kong Concrete Company Limited and Shenzhen Hailong Cement Co. Ltd. continued to bring revenue to the Group.

Prospects

The Group will continue its corporate reform and business development for its three core businesses within the framework of the Group's strategic management. The Group will further concentrate its capital and management capability for the enhancement of the property development business in the PRC and expansion of profit source. The specific measures include paying extra effort on brandname expansion, increasing land banks, improving the planning and design in property development and sales and marketing. Furthermore, appreciation of assets and expansion of capital by way of integrating and restructuring internal resources is aimed.

During the second half of the year, it is expected that the Group will have 5 property projects available for occupation in the PRC (including Phase II of Sunny Palm in Shenzhen, Phase III of Elegant Town and Phase II of Cannes Garden in Guangzhou, Phase II of GrandeurVista in Chengdu and some units of Haiyu Garden in Shanghai) with total saleable gross floor area of approximately 4,000,000 sq. ft.. In 2004, it is expected that the Group will have 9 property projects in the PRC available for occupation (including the remaining units of Haiyu Garden in Shanghai and Phase II of Cannes Garden in Guangzhou) with total saleable gross floor area of approximately 9,000,000 sq. ft., most of which have been offered for pre-sale or will be pre-sale before the end of this year. It is expected that the area of newly acquired lands for short term development for the whole year will exceed 15,000,000 sq. ft.. The Group will strive to make an annual sale of not less than 10,000,000 sq. ft. gross floor area after 2005.

China Overseas Property Group Co., Ltd. ("**COP**"), in which the Group has 79% interest, ended its pre-listing nurture period on 28th August, 2003. At present, the Group is undergoing the guidance inspection work on the nurture. The Group endeavours to proceed with the spin-off of COP by way of listing of A shares according to the procedures and requirements in the PRC. The final timetable of listing and other commercial considerations are yet to be determined. As soon as the spin-off application for listing of COP is made, the Group will publish further announcement in accordance with the Listing Rules.

The Group continues to implement effective cost control measures and broaden sources of income to improve the profit margin on contracting business.

The Group continues to look for prosperous infrastructure investment projects to enlarge the scale of infrastructure investments.

There are signs showing that the economy and property market in Hong Kong has started to recover. The sales of luxury residential properties have become relatively active recently, which is favourable to the sales of "Regalia Bay" in Stanley.

At present, the Group has sufficient cash on hand. The relatively low gearing ratio and strong financial resources will be able to support the rapid growth of its business.

Management Discussion and Analysis

Overall Performance

During the period reported, the turnover of the Group was HK\$3,301,324,000 (2002: HK\$2,062,396,000), representing an increase of 60% as compared to the corresponding period last year. The operating profit was HK\$347,252,000 (2002: HK\$238,735,000), representing an increase of 45% as compared to the corresponding period last year. Profit attributable to shareholders was HK\$212,022,000 (2002: HK\$179,083,000). Basic earnings per share was HK3.92 cents (2002: HK3.28 cents) while diluted earnings per share was HK3.90 cents (2002: HK3.24 cents). The Group's total shareholders' funds amounted to HK\$7,715,181,000 (2002: HK\$7,574,376,000). As at 30th June, 2003, the net asset value per share was HK\$1.43 (2002: HK\$1.38).

Income

The operating income from property development business was HK\$1,556,000,000, accounted for 47% of the total turnover and representing an increase of 116% as compared to the corresponding period last year. This is mainly due to satisfactory property sales in the PRC with sales income increased substantially to HK\$1,510,000,000.

The turnover of the contracting business was HK\$1,605,000,000, accounted for 48.6% of the total turnover and representing an increase of 35% as compared to the corresponding period last year.

Rental income of properties was HK\$81,000,000, representing a decrease of 12% as compared to the corresponding period last year. This is mainly due to continuous drop in rental in Hong Kong and the disposal of The China Overseas Building in Shanghai last year.

Infrastructure investments revenue was HK\$28,300,000, representing a decrease of 4.7% as compared to the corresponding period last year. This is mainly due to increase in amortisation expenses.

Turnover from other operations amounted to HK\$31,000,000.

Profit from Operations

During the period reported, profit from operations was HK\$347,252,000 (2002: HK\$238,735,000), representing an increase of 45% as compared to the corresponding period last year, in which the PRC property development business contributed about HK\$267,000,000. The Hong Kong property sector recorded a loss of HK\$10 million. The profit from the PRC property sector mainly consisted of sales in stock of properties and completion of two projects during the period. The overall sales margin of property business in the PRC in the first half of 2003 was 18% which was slightly lower as compared to the first half of 2002.

As the competition in the Hong Kong construction market was fierce which lead to decrease in profit margin in the construction business. With the implementation of various cost reduction measures, the gross profit margin of the contracting business was 4.4%. The Hong Kong contracting business contributed about HK\$70,000,000 while the PRC construction business recorded a loss of HK\$8 million.

Rental from investment properties continued to provide a stable source of income to the Group which contributed operating profit of about HK\$63,000,000.

Unallocated Administrative Expenses

The unallocated administrative expenses of the Group for the first half of 2003 was HK\$68,000,000, representing a decrease of 27% as compared to the corresponding period last year. This is mainly due to the adoption of new accounting policy of the corresponding period of last year and an extra provision of HK\$15 million for staff annual leave allowances was made.

It is expected that the expenses in the second half of the year will be controlled within the budget.

Liquidity, Financial Resources and Gearing

The Group adopted a prudent financial policy and strictly monitored its payments and receipts. While the investments in real estate in the PRC was on the increase, the overall gearing ratio was actually lowered. As the interest rate remained low, the Group's finance cost in the first half of 2003 was significantly decreased to HK\$56,100,000. Excluding interests capitalised to property projects in the PRC, the unallocated finance costs was reduced to HK\$27,700,000, representing a decrease of 12.9% as compared to the corresponding period last year.

As at 30th June, 2003, the consolidated bank debts of the Group amounted to HK\$3,045,000,000 (2002: HK\$3,196,810,000), of which 61% was denominated in Hong Kong dollars, 2% was denominated in US dollars and 37% was denominated in Renminbi.

The net gearing ratio was 7% (2002: 16%) (basis: total bank debts net of bank balances and cash, and divided by shareholders' funds).

In June 2003, the Group had unutilised banking credit facility amounted to approximately HK\$3.4 billion.

As at 30th June, 2003, the Group had cash and bank balances amounted to approximately HK\$2.5 billion.

Except for HK\$900 million out of a HK\$1.8 billion syndicated loan, all the above bank borrowings were made on floating rates. The Group entered into an interest swap arrangement in February (commencing on 23rd April, 2003 and expiring on 23rd July, 2007) pursuant to which the interest rate of a HK\$600 million loan was fixed at about 4.3%. In July this year, another interest swap arrangement was made (commencing on 23rd October, 2003 and expiring on 23rd July, 2007) pursuant to which the interest rate of a HK\$300 million loan was fixed at about 4.0%. The Group has no other derivative exposure either for hedging or speculative purpose.

Employees

As at 30th June, 2003, the Group has 5,900 employees in which 3,133 of them were based in Hong Kong and 2,767 in the PRC. During the period ended 30th June, 2003, the Group laid down a target responsibility system for each department in order to reduce costs and improve efficiency. With respect to project management, the Group fully implemented a responsibility system and performance appraisal. In order to enable the Group facing the fierce competition in the present environment, the Group continued to bring out the best of staff members. Apart from undergoing filtering process, the Group also emphasised on training to enhance the staff's quality in terms of their professionalism, team spirit and corporate culture.

Others

As there was no material change in the aspects of the Group's taxation, segmental information and charges on assets, exposure to fluctuations in exchange rates and related hedges and contingent liabilities compare with those disclosed in the Company's Annual Report for the year ended 31st December, 2002, no detailed disclosures are made herein.

Share Capital

The Company's total issued share capital as at 30th June, 2003 was 5,391,165,609 ordinary shares of HK\$0.10 each (the "Shares").

Share Option Scheme

During the six months ended 30th June, 2003, options to subscribe for a total of 2,030,000 Shares of the Company were exercised in which:

- (i) on 10th June, 2003, options to subscribe for 170,000 Shares at an exercise price of HK\$0.52 per Share were exercised and 190,000 Shares at an exercise price of HK\$0.58 per Share were exercised. The weighted average market price immediately before the exercises of such options was HK\$0.71.
- (ii) on 26th June, 2003, options to subscribe for 690,000 Shares at an exercise price of HK\$0.52 per Share were exercised and 980,000 Shares at an exercise price of HK\$0.58 per Share were exercised. The weighted average market price immediately before the exercises of such options was HK\$0.73.

During the six months ended 30th June, 2003, none of the Directors of the Company has exercised any options to subscribe for Shares of the Company.

No options have been granted to any eligible employees (including the directors and independent non-executive directors of the Company) to subscribe for Shares of the Company.

Options to subscribe for 10,650,000 Shares have been lapsed during the six months ended 30th June, 2003.

Directors' and Chief Executive's Interests and Short Positions

As at 30th June, 2003, the Directors, the Chief Executive of the Company and their respective associates had the following interests in the Shares and underlying Shares of the Company as recorded in the register maintained by the Company pursuant to section 352 of the Securities and Futures Ordinance (the "SFO"):

(i) Personal Interests in the Shares

Name of Director	Number of Shares held	Percentage of issued share capital
Mr. Kong Qingping	460,000	0.01%
Mr. Yao Peifu	500,000	0.01%
Mr. Yao Xiancheng	500,000	0.01%
Mr. Cui Duosheng	5,360,000	0.10%
Mr. Yip Chung Nam	1,200,000	0.02%
Dr. Li Kwok Po, David	200,000	0.00%
Mr. Luo Weikang (resigned on 18th February, 2003)	220,000	0.00%

(ii) Underlying Shares

As at 30th June, 2003, the outstanding number of Shares issuable under the share options granted pursuant to the Share Option Scheme to the Directors and the Chief Executive of the Company was 113,930,000 Shares (2002: 122,210,000), representing approximately 2.11% of the issued share capital of the Company.

Name of Director	Number of Shares under options granted on			
	17th July, 1997 (Note 1)	14th February, 1998 (Note 2)	30th September, 1998 (Note 3)	4th January, 2000 (Note 4)
Mr. Sun Wen Jie	6,880,000	20,000,000	3,800,000	2,500,000
Mr. Kong Qingping	1,000,000	11,000,000	1,840,000	2,000,000
Mr. Yao Peifu	3,800,000	15,000,000	2,000,000	2,000,000
Mr. Yao Xiancheng	3,800,000	15,000,000	2,000,000	2,000,000
Mr. Cui Duosheng	1,000,000	9,000,000	1,440,000	1,700,000
Mr. Cheung Shiu Kit	1,000,000	—	—	—
Mr. Wu Jianbin	550,000	800,000	720,000	1,300,000
Mr. Yip Chung Nam	800,000	1,000,000	—	—
Mr. Luo Weikang (Note 5)	900,000	5,000,000	880,000	1,500,000

Notes:

- (1) The share options were granted at an exercise price of HK\$4.06 per Share, exercisable for the period from 17th July, 1998 to 16th July, 2007 (both days inclusive).
- (2) The share options were granted at an exercise price of HK\$1.08 per Share, exercisable for the period from 14th February, 1999 to 13th February, 2008 (both days inclusive).
- (3) The share options were granted at an exercise price of HK\$0.52 per Share, exercisable for the period from 30th September, 1999 to 29th September, 2008 (both days inclusive).
- (4) The share options were granted at an exercise price of HK\$0.58 per Share, exercisable for the period from 4th January, 2001 to 3rd January, 2010 (both days inclusive).
- (5) Mr. Luo Weikang resigned as director of the Company on 18th February, 2003.

Save as disclosed above, no interests and short positions were held or deemed or taken to be held under Part XV of the SFO by any Director or Chief Executive of the Company or their respective associates in the Shares and underlying Shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) pursuant to Part XV of the SFO or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies or which are required pursuant to Section 352 of the SFO to be entered in the register referred to therein. Nor any of the Directors and Chief Executive of the Company (including their spouses and children under the age of 18) had, as at 30th June, 2003, any interest in, or had been granted any right to subscribe for the Shares and options of the Company and its associated corporations within the meaning of the SFO, or had exercised any such rights.

■ Interests of Substantial Shareholder

At 30th June, 2003, the following parties (other than Directors or the Chief Executive of the Company) were substantial shareholders of the Company (as defined in the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”)) and had interests in the Shares and underlying Shares of the Company as recorded in the register maintained by the Company pursuant to Section 336 of the SFO:

Name of shareholder	Number of Shares held	Percentage of issued share capital
China Overseas Holdings Limited (“COHL”)	3,164,626,800	58.70%
China State Construction Engineering Corporation (“CSCEC”)	3,164,626,800	58.70%

COHL is a direct wholly owned subsidiary of CSCEC, thus CSCEC is deemed by the SFO to be interested in 3,164,626,800 Shares directly owned by COHL.

Save as disclosed above, the Company had not been notified of any other person (other than Directors or the Chief Executive of the Company) who had an interest in the Shares and underlying Shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO as at 30th June, 2003.

■ Corporate Governance

None of the Directors is aware of 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 Appendix 14 of the Listing Rules of the Stock Exchange.

■ Purchase, Sale or Redemption of the Company’s Listed Securities

During the period, the Directors of the Company have exercised powers of the Company to make repurchases of its own shares for a total of 23,342,000 Shares on the Stock Exchange as follows, all of which were cancelled:

	Number of Shares	Highest Price Paid <i>HK\$</i>	Lowest Price Paid <i>HK\$</i>	Total Consideration <i>HK\$</i>
April, 2003	17,682,000	0.64	0.59	10,993,540
May, 2003	4,808,000	0.80	0.62	3,308,020
June, 2003	852,000	0.86	0.80	709,140
	<u>23,342,000</u>			<u>15,010,700</u>

Review of Interim Report

The unaudited interim report of the Group for the six months ended 30th June, 2003 was reviewed by the members of the Audit Committee of the Company.

I would like to take this opportunity to express our most sincere thanks to the trust and support extended to the Group by various sectors of the community, our shareholders and our staff.

By order of the Board

Kong Qingping

Vice Chairman and Chief Executive

Hong Kong, 4th September, 2003