



深圳控股有限公司
SHENZHEN INVESTMENT LIMITED



Interim Report 2003

Corporate Information

Executive Directors

Mr. HU Aimin, Chairman

Mr. LIU Zixian, President

Mr. ZHANG Luzheng

Mr. ZHU Qiyi

Mr. YANG Yefang

Mr. XU Ruxin

Mr. ZHU Huoyang

Independent Non-executive Directors

Mr. WONG Po Yan

Mr. LEE Yip Wah, Peter

Mr. WU Wai Chung, Michael

Company Secretary

Mr. CHEUNG Wing Yui, Edward

Authorised Representatives

Mr. HU Aimin

Mr. LIU Zixian

Auditors

Ernst & Young

Certified Public Accountants

Hong Kong

Legal Adviser

Woo, Kwan, Lee & Lo Solicitors & Notaries

Principal Bankers

The Hongkong & Shanghai Banking Corporation Ltd.

Nanyang Commercial Bank Ltd.

China Merchants Bank

(Shenzhen Branch)

The Industrial & Commercial Bank of China

(Shenzhen Branch)

Registered Office

8th Floor, New East Ocean Centre

9 Science Museum Road

Tsimshatsui, Kowloon

Hong Kong

Share Registrar and Transfer Office

Standard Registrars Ltd.

G/F Bank of East Asia Harbour View Centre

56 Gloucester Road

Wanchai

Hong Kong

Interim Results

The board of directors (the “Directors”) of Shenzhen Investment Limited (the “Company”) present the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2003 together with the comparative figures. These interim financial statements have not been audited, but have been reviewed by the Company’s audit committee and the auditors, Ernst & Young.

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Six months ended 30 June	
		2003 (Unaudited) HK\$'000	2002 (Unaudited and restated) HK\$'000
TURNOVER	2	804,684	589,862
Cost of sales		(542,376)	(327,580)
Gross profit		262,308	262,282
Other revenue and gains		78,434	38,386
Selling and distribution costs		(28,586)	(15,133)
Administrative expenses		(175,019)	(137,174)
Other operating expenses		(27,545)	(6,585)
PROFIT FROM OPERATING ACTIVITIES	3	109,592	141,776
Finance costs	4	(50,927)	(57,416)
Share of profits and losses of associates	5	128,190	226,825
PROFIT BEFORE TAX		186,855	311,185
Tax	6	(43,309)	(54,873)
PROFIT BEFORE MINORITY INTERESTS		143,546	256,312
Minority interests		(27,831)	(95,610)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		115,715	160,702
EARNINGS PER SHARE	7		
Basic		HK4.76 cents	HK7.40 cents
Diluted		HK4.72 cents	HK7.21 cents
INTERIM DIVIDEND PER SHARE		HK1.50 cents	HK1.50 cents

CONDENSED CONSOLIDATED BALANCE SHEET

		30 June 2003	31 December 2002
		(Unaudited)	(Audited and restated)
	Notes	HK\$'000	HK\$'000
NON-CURRENT ASSETS			
Fixed assets		664,931	656,180
Intangible assets		29,276	25,336
Negative goodwill		(133,763)	(109,147)
Properties under development		1,108,368	1,044,433
Investment properties		2,084,048	1,989,920
Interests in associates		2,271,399	2,255,378
Long term investments		32,251	68,501
Other receivable		14,339	29,054
Deposit paid for the acquisition of subsidiaries		50,240	61,540
Deferred tax assets	1	1,183	1,183
		6,122,272	6,022,378
CURRENT ASSETS			
Inventories		515,021	325,515
Properties under development for sale		291,347	549,559
Accounts receivable	8	87,778	69,569
Prepayments and other receivables		411,490	372,298
Short term investments		1,264	278
Cash and cash equivalents		2,182,181	2,012,296
		3,489,081	3,329,515
CURRENT LIABILITIES			
Interest-bearing bank loans	10	2,071,589	1,876,125
Accounts payable	9	429,156	420,671
Other payables and accruals		946,393	905,818
Tax payable		2,880	4,575
		3,450,018	3,207,189
NET CURRENT ASSETS			
		39,063	122,326

CONDENSED CONSOLIDATED BALANCE SHEET *(continued)*

		30 June 2003	31 December 2002 (Audited and restated)
	Notes	(Unaudited) HK\$'000	HK\$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		6,161,335	6,144,704
NON-CURRENT LIABILITIES			
Interest-bearing bank loans	10	1,468,587	1,480,277
Deferred tax	1	93,812	96,847
		1,562,399	1,577,124
MINORITY INTERESTS		1,332,290	1,366,775
		3,266,646	3,200,805
CAPITAL AND RESERVES			
Issued capital		121,715	120,715
Reserves	11	3,108,417	3,019,733
Proposed dividend		36,514	60,357
		3,266,646	3,200,805

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Notes	Six months ended 30 June	
		2003 (Unaudited) HK\$'000	2002 (Unaudited and restated) HK\$'000
Total shareholders' equity at 1 January, as previously reported		3,257,699	2,750,649
Effect of adopting SSAP 12	1	(56,894)	(25,381)
Total shareholders' equity at 1 January, as restated		3,200,805	2,725,268
Surplus/(deficit) on revaluation of investments in securities	11	949	(758)
Under accrual of 2002 final dividend	11	(500)	–
Exchange difference on translation of the financial statements of foreign entities, net	11	(2,275)	(10,719)
Net loss not recognised in the income statement		(1,826)	(11,477)
Net profit for the period attributable to shareholders		115,715	160,702
Dividends paid		(60,357)	(57,315)
Issue of new shares		12,309	7,061
Total shareholders' equity at 30 June		3,266,646	2,824,239

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June	
	2003	2002
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	163,499	(63,393)
NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES	(190,763)	364,775
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES	197,149	(12,672)
INCREASE IN CASH AND CASH EQUIVALENTS	169,885	288,710
Cash and cash equivalents at beginning of period	2,012,296	1,808,561
CASH AND CASH EQUIVALENTS AT END OF PERIOD	2,182,181	2,097,271

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation and accounting policies

The unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) No. 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants and Appendix 16 of the Rules Governing the Listing Securities on The Stock Exchange of Hong Kong Limited. The accounting policies and basis of preparation used in the preparation of the interim financial statements are the same as those used in the preparation of the audited financial statements ended 31 December 2002 except for the adoption of SSAP12 (Revised) “Income Taxes”.

SSAP12 (Revised) principally prescribes the accounting treatment and disclosures for deferred tax. In prior year, deferred tax is provided using the income statement liability method on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt. SSAP 12 (Revised) requires the adoption of the 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.

This change in accounting policy has been applied retrospectively. As a result, the prior year adjustments with the retained profits as at 1 January 2002 and 1 January 2003 restated by a reduction of HK\$13,515,000 and HK\$19,450,000, respectively, and with investment property revaluation reserve, asset revaluation reserve and investment revaluation reserve as at 1 January 2003 restated by a reduction of HK\$30,920,000, HK\$7,707,000 and by an increase of HK\$1,183,000, respectively. The comparative amount in respect of deferred tax assets, deferred tax liabilities and negative goodwill as at 31 December 2002 has also been restated by an increase of HK\$1,183,000, HK\$68,775,000 and by a reduction of HK\$10,698,000, respectively. As a consequence, the Group’s net profit attributable to shareholders for the period ended 30 June 2003 has been decreased by HK\$3,415,000 and the net profit attributable to shareholders for the period ended 30 June 2002 has been decreased by HK\$2,457,000.

2. Segmental information

The Company is an investment holding company and the following tables present revenue, profit/(loss) and expenditure information for the Group's business segments. Substantially, all of the Group's operating businesses are with customers based in the PRC. Accordingly, no segment analysis by geographical area of operations is provided.

	For the six months ended 30 June 2003								Total HK\$'000
	Property development HK\$'000	Property investment HK\$'000	Property management HK\$'000	Transportation service HK\$'000	Manufacturing HK\$'000	Infrastructure investment HK\$'000	Information technology HK\$'000	Others HK\$'000	
	Segment revenue:								
Sales to external Customers	367,467	107,639	101,148	66,629	149,044	-	-	12,757	804,684
Segment results	64,591	59,033	7,101	11,098	(27,403)	-	-	(8,411)	106,009
Investment income									27,966
Unallocated expenses									(24,383)
Finance costs									(50,927)
Share of profit and losses of associates	25,469	-	-	282	6,249	87,671	8,465	54	128,190
Profit before tax									186,855
Tax									(43,309)
Profit before minority interests									143,546
Minority interests									(27,831)
Net profit from ordinary activities attributable to shareholders									115,715

2. Segmental information (continued)

	For the six months ended 30 June 2002								
	Property development	Property investment	Property management	Transportation service	Manufacturing	Infrastructure investment	Information technology	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:									
Sales to external									
Customers	275,569	93,287	64,482	70,148	67,002	–	–	19,374	589,862
Segment results	61,733	54,769	5,815	9,648	7,154	–	–	(6,487)	132,632
Investment income									25,610
Unallocated expenses									(16,466)
Finance costs									(57,416)
Share of profit and losses of associates	20,075	2,580	4,024	4,792	12,692	175,514	6,914	234	226,825
Profit before tax									311,185
Tax									(54,873)
Profit before minority interests									256,312
Minority interests									(95,610)
Net profit from ordinary activities attributable to shareholders									160,702

3. Profit from operating activities

The Group's profit from operating activities is arrived at after charging/(crediting):

	Six months ended 30 June	
	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Depreciation	34,937	40,831
Amortisation of intangible assets	768	1,144
Amortisation of infrastructure project investment	–	2,186
Investment income	(144)	(96)

4. Finance Costs

	Six months ended 30 June	
	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Interest on:		
Bank loans	58,272	29,610
Convertible bonds	–	4,096
Accretion of convertible bond premium on redemption	–	24,247
Amortisation of convertible bond issue expenses	–	1,893
Total finance costs	58,272	59,846
Less: Amounts capitalised under properties development projects	(7,345)	(2,430)
	50,927	57,416

5. Share of profits and losses of associates

During the current period, Shenzhen Mawan Power Company Limited (“Mawan”), an associate company of the Group, changed its accounting estimate for the useful life of plant and machinery. As a result, the depreciation charge has decreased by HK\$92,872,000 in the current period. As the Group effectively holds 19% interest in Mawan, the net effect after tax from the change of accounting estimate to the Group is HK\$14,998,000 (2002: nil).

6. Tax

No Hong Kong Profits tax has been provided in the financial statements as the Group did not derive any assessable profit during the period. Taxes on profits assessable elsewhere in the PRC are calculated at the rates of tax prevailing in the locations in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Six months ended 30 June	
	2003	2002
	(Unaudited)	(Unaudited and restated)
	HK\$'000	HK\$'000
Provision for tax:		
Hong Kong, PRC	–	236
Elsewhere, PRC	27,652	27,625
Deferred PRC Enterprise Income Tax	(6,450)	(2,790)
	21,202	25,071
Associates	22,107	29,802
Tax charge for the period	43,309	54,873

7. Earnings per share

The calculation of basic earnings per share was based on the net profit attributable to shareholders of HK\$115,715,000 (2002: HK\$160,702,000 (restated)) and the weighted average number of 2,429,929,325 (2002: 2,170,619,726) shares in issue during the period.

The calculation of diluted earnings per share was based on the net profit attributable to shareholders of HK\$115,715,000 (2002: HK\$160,702,000 (restated)). The weighted average number of ordinary shares used in the calculation is the 2,429,929,325 (2002: 2,170,619,726) shares in issue during the period, as used in basic earnings per share calculation; and the weighted average number of 20,987,233 (2002: 57,710,652) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the period.

8. Accounts receivable

The ageing analysis of accounts receivable was as follows:

	30 June 2003 (Unaudited) HK\$'000	31 December 2002 (Audited) HK\$'000
Within 1 year	79,008	61,786
1 to 2 years	12,343	23,255
2 to 3 years	11,767	2,073
Over 3 years	2,454	347
Total	105,572	87,461
Less: Provisions for bad and doubtful debts	(17,794)	(17,892)
	87,778	69,569

Under normal circumstances, the Group grants a credit period ranging from 30 days to 90 days to its trade customers. The Group seeks to maintain strict control over its outstanding receivables and to minimise credit risk. Overdue balance are regularly reviewed by management.

9. Accounts payable

The ageing analysis of accounts payable was as follows:

	30 June 2003 (Unaudited) HK\$'000	31 December 2002 (Audited) HK\$'000
Within 1 year	299,620	307,473
1 to 2 years	43,294	13,525
2 to 3 years	13,573	16,843
Over 3 years	72,669	82,830
	<hr/>	<hr/>
Total	429,156	420,671

10. Interest-bearing bank loans

	30 June 2003 (Unaudited) HK\$'000	31 December 2002 (Audited) HK\$'000
Bank loans:		
Secured	92,051	305,817
Unsecured	3,448,125	3,050,585
	<hr/>	<hr/>
	3,540,176	3,356,402
	<hr/>	<hr/>
Bank loans repayable:		
Within one year	2,071,589	1,876,125
In the second year	56,502	302,192
In the third to fifth years, inclusive	1,412,085	1,178,085
	<hr/>	<hr/>
	3,540,176	3,356,402
Portion classified as current liabilities	(2,071,589)	(1,876,125)
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Long term portion	1,468,587	1,480,277

11. Reserves

	Share premium account HK\$'000	Investment property revaluation reserve HK\$'000	Assets revaluation reserve HK\$'000	Investment revaluation reserve HK\$'000	Capital reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Statutory reserves HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2003									
As previously reported	1,456,153	206,134	51,372	(7,884)	156,885	10,669	432,500	770,798	3,076,627
Prior year adjustment:									
SSAP 12 "Income Taxes" – note 1	-	(30,920)	(7,707)	1,183	-	-	-	(19,450)	(56,894)
As restated	1,456,153	175,214	43,665	(6,701)	156,885	10,669	432,500	751,348	3,019,733
Shares issued at premium	11,309	-	-	-	-	-	-	-	11,309
Exchange realignments	-	-	-	-	-	(2,275)	-	-	(2,275)
Surplus on revaluation	-	-	-	949	-	-	-	-	949
Net profit for the period	-	-	-	-	-	-	-	115,715	115,715
Under accrual of 2002 final dividend	-	-	-	-	-	-	-	(500)	(500)
Proposed interim 2003 dividend	-	-	-	-	-	-	-	(36,514)	(36,514)
Transfer from retained profits	-	-	-	-	-	-	15,245	(15,245)	-
At 30 June 2003	1,467,462	175,214	43,665	(5,752)	156,885	8,394	447,745	814,804	3,108,417

12. Commitments

Commitments in respect of acquisition of land and buildings, and development costs attributable to properties under development:

– Contracted, but not provided for

30 June 2003 (Unaudited) HK\$'000	31 December 2002 (Audited) HK\$'000
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141,479	106,509
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13. Contingent liabilities

	30 June 2003 (Unaudited) HK\$'000	31 December 2002 (Audited) HK\$'000
Maximum extent of guarantees given to banks for housing loans extended by the banks to the purchasers of the Group's properties	1,097,807	1,352,500

14. Related party transactions

	Six months ended 30 June	
	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Acquisition of the remaining equity interest in an associate from ultimate holding company	–	313,545
Acquisition of 90% interest in a subsidiary from ultimate holding company	15,720	–
	15,720	313,545

The consideration was arrived at based on the discounted estimated net asset value acquired.

15. Pledge of assets

Certain of the Group's bank loans outstanding as at 30 June 2003 were secured by certain of the Group's land and buildings which have an aggregate net book value of approximately HK\$63,450,000 (31 December 2002: HK\$217,890,000), and investment properties of the Group with an aggregate value of approximately HK\$180,852,000 (31 December 2002: HK\$57,859,000).

16. Post Balance Sheet Event

On 27 June 2003, the Group has entered into sale and purchase agreements to dispose its entire interest of 26.08% in Goldfield Industries Inc., an associate company of the Group, to independent third parties at a total consideration of amount equivalent to approximately HK\$338,364,000. On 28 July 2003, the above share transfers were approved by the Shenzhen Municipal State-Owned Asset Administrative Office. The loss on disposal before tax is expected to be approximately HK\$62,845,000.

17. Comparative amounts

As explained in note 1 to the condensed consolidated financial statements, due to the adoption of revised SSAP during the current period, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been reclassified to conform with the current period's presentation.

18. Approval of interim financial statements

These condensed interim financial statements were approved and authorised for issue by the Board of the Company on 19 September 2003.

Independent Auditors' Review Report



To the Board of Directors of Shenzhen Investment Limited

INTRODUCTION

We have been instructed by the Company to review the interim financial report set out on pages 2 to 16.

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 SSAP 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants ("HKSA") 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 HKSA. A review consists principally of making enquiries of Group's 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 Group's interim financial report for the six months ended 30 June 2003.

Ernst & Young

Certified Public Accountants

Hong Kong, 19 September 2003

Business Review

During the first half of 2003, the economies of Mainland China, Hong Kong and Macau weathered the sweeping attack of the Severe Acute Respiratory Syndrome (“SARS”). By the joint efforts of our staff, however, the Group was able to minimise economic loss resulting from SARS and sustained stable operations. The Group achieved turnover of HK\$804.7 million for the period under review, representing an increase of 36% over that of the corresponding period of last year. Profit from operating activities amounted to HK\$109.6 million, a 23% decrease as compared to that of the corresponding period of last year. Net profit attributable to shareholders was HK\$115.7 million, 28% down from the corresponding period of last year.

PROPERTY OPERATIONS

During the first half of the year, the property operations of the Group made satisfactory progress. Notwithstanding the head-on punch of SARS on the Shenzhen property market, the property operations sustained stable performance and recorded further sales growth, registering encouraging sales figures in its key projects. Turnover from property development and investment recorded HK\$475.1 million, up 29% from the corresponding period of last year. A gross floor area of 157,000 square meters were sold, with an attributable portion of 86,000 square meters. Due to the change in market positioning and targeted purchaser groups in contrast to prior years, property sales contributed operating profit similar to that of last year to the Group.

During the period, property under development and on sale primarily comprised premium projects including Pengxing Garden Phase VI, Fairy Spring Mountain Villa, Pengsheng Garden, Green Legend and Azure Mangrove Garden Phase I. Newly-commenced constructions included mainly Azure Mangrove Garden Phase II and Wonder Peak Court, both being residential estates, IT Square Phase II, being a high-tech tower for commercial/industrial use, and Cloud Pine Building and Sea Pine Building, both being commercial premises. It is anticipated that the property operations of the Group will sustain steady growth in the latter half of the year.

Property rental business of the Group recorded substantial growth during the first half of the year, with its rental income growing at 15% as compared to the corresponding period of last year. An overall occupancy rate exceeding 88% was recorded.

During the period, the Group successfully sold its stakes in Goldfield Industries Inc., an associate, thereby centralising resources to focus on the property operations and other core business activities of the Group’s subsidiaries.

PROPERTY MANAGEMENT

Taking advantage of its prestige as the country's well-known property management brands and recognition for its stringent management and quality services, the Group's professional property management companies have expanded their presence to numerous cities in the PRC, including Zhuhai, Suzhou, Jinan, Nanning, Zhenjiang and Kunshan, adding a gross floor area of nearly one million square meters to their management portfolio. The property management operations contributed revenue of HK\$101.1 million for the period, representing a substantial rise of 57% from the corresponding period of last year.

LOGISTICS

During the period under review, Shum Yip Logistics Group Holdings Co., Ltd. ("Shum Yip Logistics"), the logistics arm of the Group, furnished refinement and supplemental information to the documentation regarding its listing application at the request of China Securities Regulatory Commission ("CSRC") and was awaiting the green light from CSRC.

Building on the steady growth in its warehousing business and automobile exhibition business, the Group actively developed its third party logistics business such as logistics distribution during the period under review.

TRANSPORTATION OPERATIONS

The Group's transportation business was heavily hit by SARS during the first half of the year. Except for the relatively stable revenue sustained by its taxi operations, this segment was vastly affected in its cross-border transportation, inter-city shuttle bus service within Guangdong Province and urban commuter bus service, registering a deep dive in operating profit contribution. Despite the adoption of various remedial measures, the period under review witnessed a shrink in both turnover and operating profit contribution due to market downturn and the failure to cut direct costs for the period. In light of the anticipated improvement in the economy, it is expected that the transportation operations will rebound during the second half of the year to par the full-year target.

INFRASTRUCTURE INVESTMENT

During the period, Shenzhen Mawan Power, an investment entity of the Group, contributed net profit of HK\$42.9 million to the Group, 50% down from the corresponding period of last year. Both on-grid electricity and profit contribution decreased from the corresponding period of last year due to the suspension of operations in low season for maintenance purposes and the downward adjustment in electricity tariffs commencing the second half of last year. In addition, due to the change in accounting estimate for the useful life of plant and machinery of Shenzhen Mawan Power, the depreciation charge for the period decreased, thereby contributing an additional HK\$14,998,000 to the Group's net profit. It is expected that efficient operations of the power plant will resume in the coming peak season of electricity consumption to recoup stable return to the Group.

Consideration for the disposal of the Group's investment in Panzhihua Hydro-Electric Power Project has been received by instalments according to the contractual arrangement entered into in October last year.

INFORMATION TECHNOLOGY

Shenzhen Topway Video Communication Co., Ltd., in which the Group held a stake, recorded stable growth in operations during the first half of the year and contributed net profit of HK\$7.2 million, an increase of 22% over the corresponding period of last year. New businesses such as digital TV and internet broadband connection launched during the year will become new sources of profit growth in its future development.

INDUSTRIAL MANUFACTURING

During the period under review, operating revenue of HK\$149.0 million was derived from the Group's industrial manufacturing arm, profitability of which was vastly undermined by the increasingly ferocious competition in the manufacturing sector of the PRC. A series of stringent measures adopted by the Group to solidify cost control and product structure realignment has been effective to a certain extent but solutions are urgently required to resolve the overall low economic return of this segment.

Financial Position

As at 30 June 2003, the Group maintained a sound financial position, with its net assets amounting to HK\$3,266.6 million, cash on hand amounting to HK\$2,182.2 million and total borrowings amounting to HK\$3,540.2 million, among which HK\$1,468.6 million was long-term borrowings. The ratio of net borrowings to net assets was 41.6%.

The majority of the Group's revenues, expenses and cashflow are denominated in RMB as all of the Group's operating businesses are located in the PRC. Assets and liabilities of the Group are mostly denominated in RMB and US Dollars. As such, the Group has limited foreign exchange exposure. No instrument has been applied for hedging purposes during the period under review.

Liquidity

On 19 August 2003, arrangement was entered into between the Company and five leading bankers in respect of a US\$105 million fixed-term syndicated loan. The loan is for a term of five years, repayable on a one-off basis on the maturity date and is interest-bearing at LIBOR plus 63 basis points, representing a record low lending rate for the Company. Very positive feedback was received from banks in the fund-raising process. The loan will be used as general working capital. The financings will not only reduce the finance costs of the Company, but will also improve its loan structure.

Purchase, Sale or Redemption of the Company's Listed Securities

During the period under review, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

Capital Structure

During the period, a total of 20,000,000 share options were exercised at a price of HK\$0.595 or HK\$0.665 each.

Accordingly, the issued share capital of the Company increased from 2,414,293,966 Shares as at the beginning of the period to 2,434,293,966 Shares as at 30 June 2003.

Headcount and Remuneration

As at 30 June 2003, the Group had a total of 9,108 employees, 22 of whom, mainly administration and finance staff, are based in Hong Kong whilst 9,086 are stationed in the PRC.

Employees of the Group are remunerated based on their individual performance, professional qualifications, experience in the industry and relevant market trends. The management regularly reviews the Group's remuneration policy and appraises work performance of its staff.

Employee remunerations include salaries, allowances, medical benefits and mandatory provident fund. Depending on the performances of individual staff members and the Group's operations, employees may be granted bonus in monetary terms or granted share options under the Group's share option scheme.

Prospects

The signing of the Closer Economic Partnership Arrangement (“CEPA”), convention of the sixth meeting of the Hong Kong/Guangdong Co-operation Joint Conference and implementation of the preferential policies regarding individual visitors to Hong Kong from various cities in the Mainland, will fortify the economic cooperation between Hong Kong and Shenzhen more comprehensively and closely and further accelerate the economic integration of the two places. Increasing frequent exchanges between the people of Hong Kong and the Mainland will bring forth more opportunities for the Group’s development of its core businesses encompassing the property, transportation and logistics segments.

The property sector is the Group’s focal point of development and resources are being steered towards this segment. The Group will endeavour to enhance its competitive edge in the industry by consolidating its property companies as a move to boost their core strengths and by taking full advantage of its brand-name recognition in the property sector.

The large-scale residential development located on the waterfront of the new central area of Baoan District, Shenzhen acquired through the Group’s property arm is a key project for the Group in recent years. Tender invitation for design proposals has been completed and the development is proceeding as scheduled. In light of the commencement of construction of the Hong Kong-Shenzhen Western Corridor, it is anticipated that the value for investment of the region will see gradual appreciation, which will further solidify the competitive strengths of the Group’s core property segment.

B & Q, a world-renowned construction materials chain store, has formally signed an agreement with the Group’s Tairan Golden Valley to establish its presence in the area within this year. This will help boost the value of investment property in the Tairan area and set the scene for further development of the Group’s property operations. At present, discussions with various leading enterprises are underway for setting up their establishments in the Tairan area.

Shum Yip Logistics, the logistics arm of the Group, has been seeking cooperation with world-renowned logistics enterprises for the development of its logistics plaza. Currently, renovation works of infrastructure amenities within the logistics zone have been substantially completed, creating favourable conditions for the overall development of the zone.

The Group will continue to increase its investment in land bank, energy infrastructure, communications and logistics distribution, and will actively explore investment projects of water, electricity and road constructions both in and outside of Guangdong Province, in an attempt to better optimise and rationalise its industry structure.

Directors' Interests

As at 30 June 2003, the interests and short positions of each director and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (as defined in Part XV of the Securities and Futures Ordinance (“SFO”)) as recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:–

Name of director	Capacity	Interests in shares	Interests in underlying shares pursuant to share options	Aggregate interests	Percentage of shares of the Company in issue
LIU Zixian	Beneficial owner	–	2,400,000	2,400,000	0.10
SONG Zhiwang	Beneficial owner	–	6,400,000	6,400,000	0.26
ZHANG Luzheng	Beneficial owner	–	2,000,000	2,000,000	0.08
ZHU Qiyi	Beneficial owner	–	2,400,000	2,400,000	0.10
YANG Yefang	Beneficial owner	–	2,000,000	2,000,000	0.08
XU Ruxin	Beneficial owner	–	2,000,000	2,000,000	0.08
ZHU Huoyang	Beneficial owner	–	2,000,000	2,000,000	0.08
WONG Po Yan	Beneficial owner	–	2,000,000	2,000,000	0.08
LEE Yip Wah, Peter	Beneficial owner	–	2,000,000	2,000,000	0.08
WU Wai Chung, Michael	Beneficial owner	–	1,200,000	1,200,000	0.05

Details of the directors' interests in share options granted by the Company are set out under the heading “Share Option Scheme”.

All the interests stated above represent long positions. Save as disclosed above, no other interests or short positions of the Directors and chief executive of the Company in any shares, underlying shares or debentures of the Company or any associated corporations were recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Share Option Scheme

The Company has adopted a share option scheme (the “1997 Share Option Scheme”) pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company held on 12 February 1997. Owing to the recent changes of the Listing Rules in relation to share option schemes, the Company has adopted a new share option scheme (the “2002 Share Option Scheme”) and terminated the 1997 Share Option Scheme pursuant to the ordinary resolutions passed at an extraordinary general meeting of the Company held on 5 June 2002. Upon termination of the 1997 Share Option Scheme, no further options may be offered but in respect of the outstanding options, the provisions of the 1997 Share Option Scheme shall remain in force. Any outstanding options under the 1997 Share Option Scheme shall continue to be subject to the provisions of the 1997 Share Option Scheme and the adoption of the 2002 Share Option Scheme will not in any event affect the terms of the grant of such outstanding options. The 2002 Share Option Scheme shall remain in force for a period of 10 years commencing on 5 June 2002 after which period no further options may be granted thereunder.

During the period, movements of share options granted to the directors and employees under the 1997 Share Option Scheme and 2002 Share Option Scheme are as follows:–

Name or category of participant	Date of grant of share options	Exercise period of share options	Exercise price of share options HK\$	Number of share options			
				At 1 January 2003	Exercised during the period	Lapsed during the period	At 30 June 2003
Directors							
LIU Zixian	27/6/2002	27/6/2002-26/6/2007	1.265	2,400,000	–	–	2,400,000
SONG Zhiwang (Note 2)	15/6/2000	15/12/2000-14/12/2003	0.680	4,000,000	–	–	4,000,000
	27/6/2002	27/6/2002-26/6/2007	1.265	2,400,000	–	–	2,400,000
SUN Juyi (Note 1)	27/6/2002	27/6/2002-26/6/2007	1.265	2,000,000	–	2,000,000 (Note 7)	–
ZHANG Luzheng	27/6/2002	27/6/2002-26/6/2007	1.265	2,000,000	–	–	2,000,000
ZHU Qiyi	27/6/2002	27/6/2002-26/6/2007	1.265	2,400,000	–	–	2,400,000

Share Option Scheme

Name or category of participant	Date of grant of share options	Exercise period of share options	Exercise price of share options HK\$	Number of share options			At 30 June 2003
				At 1 January 2003	Exercised during the period	Lapsed during the period	
YANG Yefang	9/7/2002	9/7/2002-8/7/2007	1.265	2,000,000	–	–	2,000,000
XU Ruxin	27/6/2002	27/6/2002-26/6/2007	1.265	2,000,000	–	–	2,000,000
ZHU Huoyang	27/6/2002	27/6/2002-26/6/2007	1.265	2,000,000	–	–	2,000,000
WONG Po Yan	27/6/2002	27/6/2002-26/6/2007	1.265	2,000,000	–	–	2,000,000
LEE Yip Wah, Peter	27/6/2002	27/6/2002-26/6/2007	1.265	2,000,000	–	–	2,000,000
WU Wai Chung, Michael	5/7/2002	5/7/2002-4/7/2007	1.265	1,200,000	–	–	1,200,000
				26,400,000	–	2,000,000	24,400,000
Other employees In aggregate	29/9/2000	29/3/2001-28/3/2004	0.665	30,120,000	6,000,000 (Notes 3&5)	–	24,120,000
	8/1/2001	8/7/2001-7/7/2004	0.595	38,000,000	14,000,000 (Notes 4&6)	–	24,000,000
	3/7/2002	3/7/2002-2/7/2007	1.265	16,400,000	–	–	16,400,000
	5/7/2002	5/7/2002-4/7/2007	1.265	22,000,000	–	–	22,000,000
	8/7/2002	8/7/2002-7/7/2007	1.265	1,000,000	–	–	1,000,000
				107,520,000	20,000,000	–	87,520,000
				133,920,000	20,000,000	2,000,000	111,920,000

Notes: 1. Mr. SUN Juyi resigned as a director of the Company on 3rd March, 2003.

2. Mr. SONG Zhiwang retired as a director of the Company on 3rd June, 2003

3. On 24 January, 2003, a total of 3,000,000 share options were exercised at a price of HK\$0.665 each. These share options were granted on 29 September, 2000.
4. On 24 January, 2003, a total of 7,000,000 share options were exercised at a price of HK\$0.595 each. These share options were granted on 8 January, 2001.
5. On 24 February, 2003, a total of 3,000,000 share options were exercised at a price of HK\$0.665 each. These share options were granted on 29 September, 2000.
6. On 24 February, 2003, a total of 7,000,000 share options were exercised at a price of HK\$0.595 each. These share options were granted on 8 January, 2001.
7. On 3 June, 2003, a total of 2,000,000 share options granted to a director of the Company at a price of HK\$1.265 each lapsed. These share options were granted on 27 June, 2002.

No share options had been granted or cancelled during the period.

The closing prices of the shares of the Company on 23 January, 2003 and 21 February, 2003, being the trading dates immediately before the respective dates on which the options were exercised were HK\$1.13 and HK\$1.10 respectively.

Directors' Right to Acquire Shares

Saved as disclosed above, at no time during the period was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debts securities (including debentures) of, the Company or its associated corporations and none of the directors, or their spouse or children under the age of 18, had any rights to subscribe for equity or debt securities of the Company or its associated corporations, or had exercised any such rights.

Substantial Shareholders

As at 30 June 2003, the following interests of 5% or more of the shares of the Company were recorded in the register of interests in shares and short positions required to be kept by the Company pursuant to Section 336 of the SFO.

Name	Capacity	Interests in shares	Percentage of shares of the Company in issue
Shum Yip Holdings Company Limited	Beneficial owner	1,391,669,966	57.17

All the interests stated above are long positions. Save as disclosed above, as at 30 June 2003, no other interests or short positions in shares and underlying shares of the Company were recorded in the register of interests and short positions required to be kept by the Company pursuant to Section 336 of the SFO.

Interim Dividend

The directors of the Company have resolved to declare an interim dividend of HK1.50 cents per share for the six months ended 30 June 2003 (2002: HK1.50 cents). The total amount of the dividend will be HK\$36,514,409 (2002: HK\$36,214,409). The dividend will be payable on 31 October 2003 to shareholders whose names appear on the Register of Members on 17 October 2003.

Closure of Register of Members

The Register of Members of the Company will be closed from Wednesday, 15 October 2003, to Friday, 17 October 2003 (both dates inclusive). In order to qualify for the interim dividend, all completed transfers, accompanied by the relevant share certificates, must be lodged with the Company's Registrar, Standard Registrars Limited, G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong no later than 4 p.m. on Tuesday, 14 October 2003 (Tuesday).

Code of Best Practice

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or 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 except that the non-executive directors are not appointed for a specific term as they are subject to retirement by rotation at Annual General Meeting in accordance with the Company's Articles of Association.

Publication of Interim Results on the Stock Exchange Website

In addition to this interim report, all the information required to be disclosed under paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules will be published on the website of The Stock Exchange of Hong Kong Limited in due course.

Appreciation

On behalf of the Board, I would like to take this opportunity to extend my gratitude to all shareholders, the public and our employees of the Group for their unfailing support, assistance and dedication.

By Order of the Board

Hu Aimin

Chairman

Hong Kong, 19 September 2003