



Allied Properties (H.K.) Limited

Interim Report

For the six months ended 30th June, 2003

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The Board of Directors of Allied Properties (H.K.) Limited (“Company”) is pleased to announce that the unaudited consolidated results of the Company and its subsidiaries (“Group”) for the six months ended 30th June, 2003 with comparative figures are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

for the six months ended 30th June, 2003

		Six months ended 30th June,	
		2003	2002
	<i>Notes</i>	Unaudited HK\$'000	Unaudited HK\$'000
			(Restated)
Turnover	3	372,261	425,095
Other operating income		23,137	4,801
Total income		395,398	429,896
Cost of sales		(55,034)	(86,723)
Brokerage and commission expenses		(33,972)	(42,639)
Selling expenses		(1,203)	(1,842)
Administrative expenses		(148,581)	(137,634)
Impairment losses and revaluation deficits	4	(55,935)	(4,760)
Bad and doubtful debts		(11,335)	(14,269)
Other operating expenses		(66,815)	(44,624)
Profit from operations	5	22,523	97,405
Finance costs		(29,064)	(40,463)
Release of negative goodwill		70,777	29,192
Amortisation of capital reserve		10,206	10,206
Share of results of associates		37,482	52,497
Share of results of jointly controlled entities		12,798	12,303
Profit before taxation		124,722	161,140
Taxation	6	(19,371)	(27,371)
Profit after taxation		105,351	133,769
Minority interests		(26,684)	(48,659)
Profit attributable to shareholders		78,667	85,110
Dividend		-	-
Earnings per share:	7		
Basic		1.6 cents	1.9 cents
Diluted		N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

at 30th June, 2003

		At 30th June, 2003 Unaudited HK\$'000	At 31st December, 2002 Audited HK\$'000 (Restated)
Non-current assets			
Fixed assets	8	2,213,669	2,121,461
Intangible assets		5,253	4,860
Negative goodwill	9	(667,576)	(380,449)
Properties under development		132,855	128,802
Interest in associates		2,144,726	2,167,420
Interest in jointly controlled entities		1,109,854	1,216,349
Investments	10	602,889	570,098
Deferred tax assets		2,599	4,752
		<u>5,544,269</u>	<u>5,833,293</u>
Current assets			
Properties held for sale		603,921	741,641
Inventories		96	117
Investments	10	18,673	21,847
Accounts receivable, deposits and prepayments	11	2,116,867	1,914,637
Amounts due from associates		278,716	294,787
Amount due from a jointly controlled entity		939	1,564
Short-term pledged bank deposit		1,000	1,000
Short-term bank deposits		187,219	156,060
Bank balances and cash		299,367	222,245
		<u>3,506,798</u>	<u>3,353,898</u>
Current liabilities			
Accounts payable and accrued charges	12	994,859	816,613
Amount due to Allied Group Limited		19,429	8,210
Amounts due to associates		39,347	37,544
Amount due to a jointly controlled entity		178,041	178,041
Taxation		10,981	6,112
Bank borrowings due within one year		629,100	812,018
Other liabilities due within one year	16	1,200	1,070
		<u>1,872,957</u>	<u>1,859,608</u>
Net current assets		<u>1,633,841</u>	<u>1,494,290</u>
		<u>7,178,110</u>	<u>7,327,583</u>

CONDENSED CONSOLIDATED BALANCE SHEET (CONT'D)*at 30th June, 2003*

		At 30th June, 2003 Unaudited <i>HK\$'000</i>	At 31st December, 2002 Audited <i>HK\$'000</i> (Restated)
Capital and reserves			
Share capital	<i>13</i>	978,745	978,745
Reserves	<i>14</i>	3,632,185	3,566,506
		<u>4,610,930</u>	<u>4,545,251</u>
Minority interests		<u>1,135,673</u>	<u>1,788,570</u>
Non-current liabilities			
Bank borrowings due after one year		1,165,797	962,039
Loan notes	<i>15</i>	233,637	–
Deferred tax liabilities		22,108	24,624
Other liabilities due after one year	<i>16</i>	9,965	7,099
		<u>1,431,507</u>	<u>993,762</u>
		<u>7,178,110</u>	<u>7,327,583</u>

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

	Six months ended 30th June, 2003	2002
	Unaudited HK\$'000	Unaudited HK\$'000
		(Restated)
Total equity at 1st January, as previously stated	4,649,214	4,998,376
Effect of adoption of SSAP 12 (Revised)	(103,963)	(98,004)
Total equity at 1st January, as restated	4,545,251	4,900,372
Revaluation increase (decrease) in investments in securities	22,024	(6,461)
Exchange differences arising on translation of operations outside Hong Kong	(196)	204
Share of reserve movements of associates	(3,989)	3,559
Share of reserve movements of jointly controlled entities	(22,601)	3,527
Net (losses) gains not recognised in the income statement	(4,762)	829
Profit attributable to shareholders	78,667	85,110
Investment revaluation reserve released on impairment of non-trading securities	893	2,563
Translation reserve released on disposal of an associate	(201)	4
(Capital) goodwill reserve released on disposal of an associate	(320)	17,160
Capital reserve released on amortisation	(10,206)	(10,206)
Investment revaluation reserve released on disposal of non-trading securities	1,608	–
	70,441	94,631
Issue of shares, net of expenses	–	15,006
Total equity at 30th June	4,610,930	5,010,838

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30th June, 2003

	Six months ended 30th June, 2003	2002
	Unaudited HK\$'000	Unaudited HK\$'000
	<u> </u>	<u> </u>
Net cash from operating activities	130,619	501,214
Net cash from investing activities	60,516	16,965
Net cash used in financing activities	(123,188)	(435,607)
Increase in cash and cash equivalents	67,947	82,572
Exchange adjustments	171	598
Cash and cash equivalents at 1st January	375,450	190,328
Cash and cash equivalents at 30th June	443,568	273,498
	<u> </u>	<u> </u>
Analysis of the balances of cash and cash equivalents:		
Short-term bank deposits	187,219	109,025
Bank balances and cash	299,367	237,436
Bank overdrafts	(43,018)	(72,963)
	<u> </u>	<u> </u>
	443,568	273,498
	<u> </u>	<u> </u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

for the six months ended 30th June, 2003

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements set out in Appendix 16 of the Rules Governing the Listing of Securities (“Listing Rules”) on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) and Statement of Standard Accounting Practice (“SSAP”) 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants (“HKSA”).

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the condensed financial statements are consistent with those set out in the Group’s audited financial statements for the year ended 31st December, 2002, except that the Group has adopted SSAP 12 (Revised) “Income Taxes” which is effective for accounting periods commencing on or after 1st January, 2003. 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 the assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. 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.

The adoption of SSAP 12 (Revised) has been applied retrospectively. Comparative amounts for the prior periods have been restated accordingly.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)
for the six months ended 30th June, 2003

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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

	Negative goodwill	Interest in associates	Interest in jointly controlled entities	Deferred tax assets	Property revaluation reserve	Translation reserve	Capital (goodwill) reserve	Accumulated profits	Minority interests	Deferred tax liabilities
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1st January, 2003										
- As previously stated	(386,072)	2,163,937	1,316,709	-	325,051	(232,793)	8,396	720,506	1,788,047	7,686
- Arising from the adoption of SSAP 12 (Revised)	5,623	3,483	(100,360)	4,752	(83,938)	38,213	(6,043)	(52,195)	523	16,938
- As restated	<u>(380,449)</u>	<u>2,167,420</u>	<u>1,216,349</u>	<u>4,752</u>	<u>241,113</u>	<u>(194,580)</u>	<u>2,353</u>	<u>668,311</u>	<u>1,788,570</u>	<u>24,624</u>
Balance at 1st January, 2002										
- As previously stated	(213,101)	2,132,992	1,443,503	-	397,858	(222,291)	12,801	1,094,231	2,165,628	13,277
- Arising from the adoption of SSAP 12 (Revised)	8,804	6,800	(105,373)	11,845	(83,064)	35,277	(6,043)	(44,174)	6,950	13,130
- As restated	<u>(204,297)</u>	<u>2,139,792</u>	<u>1,338,130</u>	<u>11,845</u>	<u>314,794</u>	<u>(187,014)</u>	<u>6,758</u>	<u>1,050,057</u>	<u>2,172,578</u>	<u>26,407</u>

The adoption of SSAP 12 (Revised) has not had any material effect on the income statement for the current and the prior period.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)*for the six months ended 30th June, 2003***3. SEGMENTAL INFORMATION**

Analysis of the Group's businesses segmental information is as follows:

	Six months ended 30th June, 2003				
	Investment, broking and finance <i>HK\$'000</i>	Property rental and management services <i>HK\$'000</i>	Sale of properties and property based investments <i>HK\$'000</i>	Hotel operations <i>HK\$'000</i>	Total <i>HK\$'000</i>
Turnover	283,875	72,626	16,000	6,966	379,467
Less: inter-segment turnover	(4,576)	(2,630)	–	–	(7,206)
	<u>279,299</u>	<u>69,996</u>	<u>16,000</u>	<u>6,966</u>	<u>372,261</u>
Profit (loss) from operations	56,507	(8,609)	(19,834)	(5,541)	22,523
Finance costs					(29,064)
Release of negative goodwill					70,777
Amortisation of capital reserve					10,206
Share of results of associates					37,482
Share of results of jointly controlled entities					12,798
Profit before taxation					124,722
Taxation					(19,371)
Profit after taxation					<u>105,351</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)
for the six months ended 30th June, 2003

3. SEGMENTAL INFORMATION (CONT'D)

	Six months ended 30th June, 2002				
	Investment, broking and finance <i>HK\$'000</i>	Property rental and management services <i>HK\$'000</i>	Sale of properties and property based investments <i>HK\$'000</i>	Hotel operations <i>HK\$'000</i>	Total <i>HK\$'000</i>
Turnover	331,413	63,669	27,645	9,838	432,565
Less: inter-segment turnover	(4,894)	(2,576)	–	–	(7,470)
	<u>326,519</u>	<u>61,093</u>	<u>27,645</u>	<u>9,838</u>	<u>425,095</u>
Profit (loss) from operations	78,430	22,940	(5,212)	1,247	97,405
Finance costs					(40,463)
Release of negative goodwill					29,192
Amortisation of capital reserve					10,206
Share of results of associates					52,497
Share of results of jointly controlled entities					12,303
Profit before taxation					161,140
Taxation					(27,371)
Profit after taxation					<u>133,769</u>

Inter-segment transactions have been entered into on terms agreed by the parties concerned.

During the period under review, less than 10% of the operations of the Group in terms of both turnover and results of operations were carried on outside Hong Kong. Accordingly, no geographical segmental information is shown.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)

for the six months ended 30th June, 2003

4. IMPAIRMENT LOSSES AND REVALUATION DEFICITS

	Six months ended 30th June,	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<u> </u>	<u> </u>
Impairment losses and revaluation deficits comprise:		
Impairment losses recognised in respect of:		
Properties held for sale	805	–
Properties under development	12,325	–
Non-trading securities	1,200	4,760
	<u>14,330</u>	<u>4,760</u>
Deficits arising on revaluation of investment properties and hotel property	41,605	–
	<u>55,935</u>	<u>4,760</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)

for the six months ended 30th June, 2003

5. PROFIT FROM OPERATIONS

	Six months ended 30th June,	
	2003	2002
	<u>HK\$'000</u>	<u>HK\$'000</u>
Profit from operations has been arrived at after charging:		
Depreciation	10,690	11,860
Loss on disposal of a jointly controlled entity	5,549	–
Loss on disposal of an associate	3,088	–
Loss on disposal of non-trading securities	1,348	–
Amortisation of intangible assets	583	299
Net realised loss on trading securities	16	582
Net unrealised loss on trading securities	–	2,357
Realised loss on derivatives	–	482
and after crediting:		
Interest income	75,771	136,218
Write-back of loss arising from default of loan agreement with Millennium Touch Limited	19,332	–
Profit on dealing in foreign currencies	5,953	4,922
Realised profit on derivatives	3,160	–
Profit on other dealing activities	3,010	159
Net unrealised profit on trading securities	276	–
Profit on disposal of associates	–	3,534
Unrealised profit on derivatives	–	81
	<u> </u>	<u> </u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)

for the six months ended 30th June, 2003

6. TAXATION

	Six months ended 30th June,	
	2003	2002
	<u>HK\$'000</u>	<u>HK\$'000</u>
The charge comprises:		
Hong Kong Profits Tax	6,871	7,314
Taxation outside Hong Kong	3,039	576
Deferred taxation	(486)	3,333
	9,424	11,223
Share of taxation attributable to associates	6,018	(531)
Share of deferred taxation attributable to associates	287	12,703
Share of taxation attributable to jointly controlled entities	3,642	3,976
	<u>19,371</u>	<u>27,371</u>

Hong Kong Profits Tax is calculated at the rate of 17.5% (2002: 16%) on the estimated assessable profits derived from Hong Kong.

Taxation outside Hong Kong is calculated at the rates prevailing in the respective jurisdictions.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)
for the six months ended 30th June, 2003

7. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit attributable to shareholders of HK\$78,667,000 (2002: HK\$85,110,000) and on the 4,893,726,159 (2002: weighted average number of 4,385,195,967) shares in issue during the period.

No diluted earnings per share is presented as the Company has no dilutive potential ordinary shares during both periods.

8. FIXED ASSETS

During the period, certain of the Group's properties held for sale of HK\$106,183,000 (at 31st December, 2002: HK\$50,130,000), which were held for rental purposes under operating leases, were transferred to investment properties.

9. NEGATIVE GOODWILL

The increase in negative goodwill during the period mainly arose from the deemed acquisition of an additional 12.6% interest in a listed subsidiary following the completion of the repurchase by the listed subsidiary of its own shares as announced on 27th February, 2003 by the listed subsidiary, after deducting the amount released to the income statement during the period.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)
for the six months ended 30th June, 2003

10. INVESTMENTS

	Investment in securities				Other investments		Total	
	Non-trading securities		Trading securities		At	At	At	At
	At 30th June, 2003 HK\$'000	At 31st December, 2002 HK\$'000	At 30th June, 2003 HK\$'000	At 31st December, 2002 HK\$'000	30th June, 2003 HK\$'000	31st December, 2002 HK\$'000	30th June, 2003 HK\$'000	31st December, 2002 HK\$'000
Listed equity securities, at market value, issued by corporate entities								
Hong Kong	237,858	204,041	5,005	5,104	-	-	242,863	209,145
Outside Hong Kong	1,311	1,461	4,098	1,799	-	-	5,409	3,260
issued by banks								
Hong Kong	-	-	1,257	1,390	-	-	1,257	1,390
issued by public utility entities								
Hong Kong	-	-	21	23	-	-	21	23
	<u>239,169</u>	<u>205,502</u>	<u>10,381</u>	<u>8,316</u>	<u>-</u>	<u>-</u>	<u>249,550</u>	<u>213,818</u>
Unlisted equity securities issued by corporate entities								
Hong Kong	167,084	177,521	-	335	-	-	167,084	177,856
Outside Hong Kong	67,157	67,513	-	-	-	-	67,157	67,513
	<u>234,241</u>	<u>245,034</u>	<u>-</u>	<u>335</u>	<u>-</u>	<u>-</u>	<u>234,241</u>	<u>245,369</u>
Unlisted marketable debt securities issued by overseas government	-	-	7,779	7,772	-	-	7,779	7,772
issued by banks	-	-	-	5,424	-	-	-	5,424
	<u>-</u>	<u>-</u>	<u>7,779</u>	<u>13,196</u>	<u>-</u>	<u>-</u>	<u>7,779</u>	<u>13,196</u>
Other unlisted securities	-	-	513	-	-	-	513	-
Exchange seats and statutory deposits and other deposits with Exchange and Clearing companies	-	-	-	-	28,098	16,636	28,098	16,636
Amounts due from investee companies, less impairment loss recognised	-	-	-	-	101,381	102,926	101,381	102,926
	<u>473,410</u>	<u>450,536</u>	<u>18,673</u>	<u>21,847</u>	<u>129,479</u>	<u>119,562</u>	<u>621,562</u>	<u>591,945</u>
Carrying amount analysed for reporting purposes as:								
Non-current	473,410	450,536	-	-	129,479	119,562	602,889	570,098
Current	-	-	18,673	21,847	-	-	18,673	21,847
	<u>473,410</u>	<u>450,536</u>	<u>18,673</u>	<u>21,847</u>	<u>129,479</u>	<u>119,562</u>	<u>621,562</u>	<u>591,945</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)

for the six months ended 30th June, 2003

11. ACCOUNTS RECEIVABLE, DEPOSITS AND PREPAYMENTS

For trade receivables in respect of securities, bullion and commodities businesses, the Group allows a credit period up to the settlement dates of respective securities, bullion and commodities transactions or a credit period mutually agreed with the contracting parties. The average credit terms of other trade receivables range from 30 days to 180 days. Included in accounts receivable, deposits and prepayments are trade receivables totalling HK\$2,038,136,000 (at 31st December, 2002: HK\$1,883,640,000), the aged analysis of which is as follows:

	At 30th June, 2003 <i>HK\$'000</i>	At 31st December, 2002 <i>HK\$'000</i>
0 to 30 days	1,904,947	1,748,929
31 to 180 days	21,939	11,335
181 to 365 days	1,499	12,573
Over 365 days	543,791	509,550
	2,472,176	2,282,387
Allowance for doubtful debts	(434,040)	(398,747)
	<u>2,038,136</u>	<u>1,883,640</u>

The above balance of HK\$2,472,176,000 (at 31st December, 2002: HK\$2,282,387,000) includes term loans totalling HK\$422,700,000 (at 31st December, 2002: HK\$687,547,000), the maturity profile of which is shown in note 23.

There were listed and unlisted securities and properties of clients held as collateral against secured margin loans and term loans. The market value of the listed securities at 30th June, 2003 was HK\$3,939,003,000 (at 31st December, 2002: HK\$3,531,596,000).

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)

for the six months ended 30th June, 2003

11. ACCOUNTS RECEIVABLE, DEPOSITS AND PREPAYMENTS (CONT'D)

On 24th November, 1999, Sun Hung Kai & Co. Limited ("Sun Hung Kai"), a subsidiary of the Company since May 2001, entered into an agreement for the sale of 770,000,000 shares in Tian An China Investments Company Limited ("Tian An") to Millennium Touch Limited ("MT"). These 770,000,000 Tian An shares represented approximately 19.79% of the then issued share capital of Tian An and 9.07% of the issued share capital of Tian An at 30th June, 2003 (at 31st December, 2002: 9.07%). MT paid 5% of the purchase price and entered into a loan agreement with Sun Hung Kai group to finance the balance. As security for the loan agreement, MT entered into a share mortgage with Sun Hung Kai group. The share mortgage provided that if there was default under the loan agreement, then Sun Hung Kai group may enforce its security by, inter alia, selling the 770,000,000 Tian An shares to discharge the indebtedness owed by MT to Sun Hung Kai group or foreclosing on the shares. However, Sun Hung Kai has not exercised, and has forgone any entitlement to exercise, any voting rights on those 770,000,000 Tian An shares.

MT has been in default under the loan agreement since 24th November, 2000. There was an unrealised loss of HK\$134,124,000 to Sun Hung Kai group up to 31st December, 2000 by marking to market those 770,000,000 Tian An shares at a closing market price of HK\$0.134 on 31st December, 2000. An unrealised loss of HK\$10,110,000 was accounted for in 2002 as the closing market price at 31st December, 2002 fell below HK\$0.134.

In August 2003, 650,000,000 Tian An shares were tendered for the share repurchase offer by Tian An and were accepted in full. Sun Hung Kai group was entitled to receive the consideration of the share repurchase of HK\$97,402,500 (as to HK\$19,402,500 in cash and HK\$78,000,000 in the form of 5 years loan notes at an interest rate of 2.5% per annum issued by Tian An) on 2nd September, 2003, resulting in a reduction of amount due from MT.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)

for the six months ended 30th June, 2003

11. ACCOUNTS RECEIVABLE, DEPOSITS AND PREPAYMENTS (CONT'D)

As a result of the above share repurchase and by marking to market the remaining 120,000,000 Tian An shares at the closing market price of HK\$0.125 on 30th June, 2003, an unrealised loss of HK\$19,332,000 was written back to the income statement during the period. The amount due from MT after providing for the unrealised loss at 30th June, 2003 was HK\$112,402,000 (at 31st December, 2002: HK\$93,070,000) and has been included as a term loan under the Group's balance of accounts receivable, deposits and prepayments.

The credit of trade receivables in respect of the finance business including secured margin loans and secured term loans are approved and reviewed by the respective committees. Clients are normally required to provide additional margin or securities whenever there are any shortfalls in their accounts. Specific allowances are made for doubtful debts as and when they are considered necessary by the management and the credit committee. Trade receivables in the balance sheet are stated net of such allowances.

12. ACCOUNTS PAYABLE AND ACCRUED CHARGES

Included in accounts payable and accrued charges are trade payables of HK\$754,809,000 (at 31st December, 2002: HK\$580,214,000), the aged analysis of which is as follows:

	At 30th June, 2003 <i>HK\$'000</i>	At 31st December, 2002 <i>HK\$'000</i>
0 to 30 days	634,837	480,174
31 to 180 days	39,780	11,917
181 to 365 days	40,163	47,464
Over 365 days	40,029	40,659
	<u>754,809</u>	<u>580,214</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)*for the six months ended 30th June, 2003***13. SHARE CAPITAL**

	<u>Number of shares</u>	<u>Value HK\$'000</u>
Ordinary shares of HK\$0.20 each		
<i>Authorised:</i>		
At 31st December, 2002 and 30th June, 2003	<u>30,000,000,000</u>	<u>6,000,000</u>
<i>Issued and fully paid:</i>		
At 31st December, 2002 and 30th June, 2003	<u>4,893,726,159</u>	<u>978,745</u>

14. RESERVES

	<u>At 30th June, 2003 HK\$'000</u>	<u>At 31st December, 2002 HK\$'000</u>
Share premium	492,778	492,778
Property revaluation reserve	216,509	241,113
Investment revaluation reserve	(9,951)	(35,943)
Special capital reserve	2,320,430	2,320,430
Capital redemption reserve	72,044	72,044
Translation reserve	(198,430)	(194,580)
(Goodwill) capital reserve	(8,028)	2,353
Accumulated profits	746,833	668,311
	<u>3,632,185</u>	<u>3,566,506</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)

for the six months ended 30th June, 2003

15. LOAN NOTES

The amount represents the loan notes issued for the repurchase of shares by a listed subsidiary. The loan notes bear interest at 4% per annum and are due on 7th March, 2008.

	At 30th June, 2003 <i>HK\$'000</i>	At 31st December, 2002 <i>HK\$'000</i>
Loan notes issued	255,234	–
Purchase and cancellation	(21,597)	–
	<u>233,637</u>	<u>–</u>

16. OTHER LIABILITIES

	At 30th June, 2003 <i>HK\$'000</i>	At 31st December, 2002 <i>HK\$'000</i>
Obligations under a finance lease	1,396	1,816
Other employee benefits	6,463	6,353
Deferred income	3,306	–
	11,165	8,169
Less: Amount repayable within one year and shown under current liabilities	(1,200)	(1,070)
Amount due after one year	<u>9,965</u>	<u>7,099</u>

17. ACQUISITION OF A SUBSIDIARY

On 25th June, 2003, Sun Hung Kai group acquired 100% of the issued share capital of Shun Loong Holdings Limited (“Shun Loong”) for a consideration of HK\$36,500,000 subject to additional amounts of HK\$15,700,000 which may be payable one year from the date of completion under certain conditions. The negative goodwill of HK\$18,918,000 arising on acquisition was calculated based on the maximum consideration of HK\$52,200,000 and related cost on acquisition. The acquisition of Shun Loong during the period did not have any significant contribution to the Group’s operating profit or material impact on the Group’s net operating cash flow.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)

for the six months ended 30th June, 2003

18. CONTINGENT LIABILITIES

- (a) At 30th June, 2003, the Group had guarantees as follows:

	At 30th June, 2003 <i>HK\$'000</i>	At 31st December, 2002 <i>HK\$'000</i>
Guarantees for banking and loan facilities granted to a subsidiary of a jointly controlled entity	-	100,000
Guarantees for banking and loan facilities granted to an investee company	7,020	7,020
Indemnities on banking guarantees made available to a clearing house and regulatory body	4,540	4,540
Other guarantees	1,563	1,734
	<u>13,123</u>	<u>113,294</u>

- (b) Sun Hung Kai Securities Limited ("SHKSL"), a wholly-owned subsidiary of Sun Hung Kai, issued proceedings against New World Development Company Limited ("NWD") on 22nd December, 1998, claiming, inter alia, the repayment of HK\$35,319,000 paid by SHKSL to NWD as restitution of monies received by NWD in relation to a hotel project in Kuala Lumpur, Malaysia.

NWD and its wholly-owned subsidiary, namely, Stapleton Developments Limited, subsequently issued proceedings against SHKSL, claiming, inter alia, the specific performance of SHKSL's alleged commitment with them in respect of the development project to provide funding of HK\$115,910,000, of which HK\$18,740,000 represents interest accrued. A trial date, originally set for April 2002 was vacated at NWD's request, and the trial commenced on 9th June, 2003. Final submissions have been made and the court has reserved its judgement.

Legal costs are recorded in the income statement as incurred.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)

for the six months ended 30th June, 2003

18. CONTINGENT LIABILITIES (CONT'D)

- (c) On 9th September, 2002, Sun Hung Kai Investment Services Limited ("SHKIS"), an indirect wholly-owned subsidiary of Sun Hung Kai, was served with a writ attaching a statement of claim by Shenzhen Building Materials Group Co. Limited, a Shenzhen P.R.C. registered company, claiming the return of certain shares in Shenzhen International Holdings Limited (worth HK\$29,031,000 at 30th June, 2003) together with interest, costs and damages. The actions taken by SHKIS were based on considered advice from reputable legal counsel, which advice was strictly followed in its implementation. The claim is being strenuously defended and at this stage the management takes the view that no contingency arises for which a provision is required to be made. The case is at an early stage with interlocutory matters only being dealt with.

19. CAPITAL COMMITMENTS

	At 30th June, 2003 HK\$'000	At 31st December, 2002 <i>HK\$'000</i>
Capital expenditure contracted for but not provided for in the financial statements in respect of:		
Property development projects	22,150	26,700
Others	3,930	4,339
	<u>26,080</u>	<u>31,039</u>
Capital expenditure authorised but not contracted for:		
Others	<u>46,526</u>	<u>47,175</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)

for the six months ended 30th June, 2003

20. LEASE COMMITMENTS

At 30th June, 2003, the Group had outstanding minimum lease payments under non-cancellable operating leases, which fall due as follows:

	At 30th June, 2003		At 31st December, 2002	
	Land and buildings HK\$'000	Others HK\$'000	Land and buildings HK\$'000	Others HK\$'000
Within one year	28,849	934	23,512	77
In the second to fifth year inclusive	20,302	496	26,875	–
	<u>49,151</u>	<u>1,430</u>	<u>50,387</u>	<u>77</u>

Operating leases are negotiated for terms ranging from one to four years.

21. PLEDGE OF ASSETS

At 30th June, 2003, certain of the Group's investment properties, hotel property, land and buildings, properties under development and properties held for sale with an aggregate carrying value of HK\$2,809,546,000 (at 31st December, 2002: HK\$2,852,371,000), certain securities in respect of a listed subsidiary with a cost of HK\$1,607,866,000 (at 31st December, 2002: HK\$1,607,866,000), and listed investments belonging to the Group and margin clients with an aggregate carrying value of HK\$833,171,000 (at 31st December, 2002: HK\$761,412,000) were pledged to secure loans and general banking facilities to the extent of HK\$3,956,879,000 (at 31st December, 2002: HK\$3,876,202,000) granted to the Group. Facilities amounting to HK\$1,794,897,000 (at 31st December, 2002: HK\$1,774,034,000) were utilised at 30th June, 2003.

At 30th June, 2003, a bank deposit of HK\$1,000,000 (at 31st December, 2002: HK\$1,000,000) was pledged to secure a bank guarantee amounting to HK\$1,000,000 (at 31st December, 2002: HK\$1,000,000).

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)

for the six months ended 30th June, 2003

22. RELATED PARTY TRANSACTIONS

The following is a summary of the significant transactions with related parties during the period:

(a) Summary of income and expense items:

	(Income)/Expenses	
	Six months ended 30th June,	
	2003	2002
	HK\$'000	HK\$'000
	<u> </u>	<u> </u>
Corporate management services, calculated at 0.5% of the Group's net assets to the ultimate holding company	11,623	12,496
Advertising income from the ultimate holding company	(400)	–
Rent, property management and air-conditioning fees from the ultimate holding company	(1,680)	(1,764)
Advertising income from a fellow subsidiary	(200)	–
Dividend income from a fellow subsidiary	(4,610)	(9,300)
Administration and management fees from a jointly controlled entity	(930)	(930)
Property management and air-conditioning fees and other property related service fees from a jointly controlled entity	(7,706)	(7,508)
Rent, property management and air-conditioning fees to a jointly controlled entity	321	143
Dividend income from an associate	(1,100)	(2,000)
Interest income from an associate	(7,982)	(7,591)
Insurance premium from an associate	(1,249)	–
Rent, property management, air-conditioning fees and other related service fees from an associate	(876)	(876)
	<u> </u>	<u> </u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)

for the six months ended 30th June, 2003

22. RELATED PARTY TRANSACTIONS (CONT'D)

- (b) During the period, the Group disposed of its 50% interest in a jointly controlled entity to a non-wholly owned subsidiary of the ultimate holding company for an aggregate consideration of HK\$87,500,000. A loss of HK\$5,549,000 arose on disposal of the jointly controlled entity.
- (c) A promissory note of HK\$21,900,000 issued by a listed associate and accrued interest of HK\$438,900 were repaid during the period.
- (d) A promissory note of HK\$40,419,000 was issued by a listed associate for the purpose of repaying the outstanding principal and interest under the 4% convertible loan note dated 2nd June, 1998 due on 2nd June, 2002. The promissory note bore interest at 7% per annum and matured on 2nd June, 2003. It was agreed on 2nd September, 2003 that the repayment date of the amount and accrued interest should be extended to 2nd June, 2004 with other terms and conditions remaining unchanged.

The above transactions have been entered into on terms agreed by the parties concerned.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)

for the six months ended 30th June, 2003

23. MATURITY PROFILE OF TERM ASSETS AND LIABILITIES

The following table lists the assets and liabilities of the Group which have a term of maturity. Overdue assets are reported as on demand.

	At 30th June, 2003					
	On	Within	3 months	1 year to	After	Total
	demand	3 months	to 1 year	5 years	5 years	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets						
Fixed deposits with banks	-	188,219	-	-	-	188,219
Promissory notes of a listed associate	-	-	242,563	-	-	242,563
Term loans	248,106	71,510	100,617	2,467	-	422,700
Marketable debt securities	-	7,779	-	-	-	7,779
	<u>-</u>	<u>196,498</u>	<u>100,617</u>	<u>2,467</u>	<u>-</u>	<u>300,082</u>
Liabilities						
Bank loans and overdrafts	-	114,372	514,728	1,033,437	132,360	1,794,897
Loan notes	-	-	-	233,637	-	233,637
Obligations under a finance lease	-	214	656	526	-	1,396
	<u>-</u>	<u>114,586</u>	<u>515,384</u>	<u>1,267,599</u>	<u>-</u>	<u>1,907,569</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)*for the six months ended 30th June, 2003***23. MATURITY PROFILE OF TERM ASSETS AND LIABILITIES (CONT'D)**

	At 31st December, 2002					
	On	Within	3 months	1 year to	After	Total
	demand	3 months	to 1 year	5 years	5 years	
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>
Assets						
Fixed deposits with banks	-	157,060	-	-	-	157,060
Promissory notes of a listed associate	-	-	264,463	-	-	264,463
Term loans	248,241	127,339	309,500	2,467	-	687,547
Marketable debt securities	-	13,196	-	-	-	13,196
	<u>-</u>	<u>13,196</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,196</u>
Liabilities						
Bank loans and overdrafts	-	473,189	338,829	814,729	147,310	1,774,057
Obligations under a finance lease	-	209	641	966	-	1,816
	<u>-</u>	<u>209</u>	<u>641</u>	<u>966</u>	<u>-</u>	<u>1,816</u>

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 recommend the declaration of an interim dividend .

For the six months ended 30th June, 2002, the Company did not declare an interim dividend.

FINANCIAL REVIEW

The profit attributable to shareholders for the period was approximately HK\$78.7 million, a decrease of 7.6% compared to the corresponding period of last year of approximately HK\$85.1 million.

Financial Resources, Liquidity and Capital Structure

Other than the loan notes as mentioned below, the Group is principally financed by net cash inflow from operating activities and banking facilities granted by the banks. The banking facilities of the Group are reviewed from time to time and new banking facilities will be obtained or renewed to meet the funding requirements for capital commitments, investments and operations of the Group.

The loan notes with an aggregate principal amount of HK\$255.2 million were issued by a listed subsidiary during the period as part of the consideration for repurchase of its own shares. Of the principal amount, HK\$21.6 million was redeemed during the period. The loan notes bear interest at 4% per annum and are due on 7th March, 2008.

There was no change to the issued share capital of the Company during the period.

At 30th June, 2003, the current ratio (current assets/current liabilities) of the Group was 1.87 times, which increased from the 1.80 times applicable at the end of last year.

At 30th June, 2003, the Group's net borrowings amounted to HK\$1,540.9 million (at 31st December, 2002: HK\$1,394.8 million), representing bank borrowings and loan notes of HK\$2,028.5 million (at 31st December, 2002: HK\$1,774.1 million) less bank deposits, bank balances and cash of HK\$487.6 million (at 31st December, 2002: HK\$379.3 million) and the Group had net assets of HK\$4,610.9 million (at 31st December, 2002: HK\$4,545.3 million). Accordingly, the Group's gearing ratio of net borrowings to net assets was 33.4% (at 31st December, 2002: 30.7%).

FINANCIAL REVIEW (CONT'D)

Financial Resources, Liquidity and Capital Structure (Cont'd)

	At 30th June, 2003 <i>HK\$'000</i>	At 31st December, 2002 <i>HK\$'000</i>
Bank borrowings are repayable as follows:		
Within one year or on demand	629,100	812,018
More than one year but not exceeding two years	247,285	259,669
More than two years but not exceeding five years	786,152	555,060
More than five years	132,360	147,310
	1,794,897	1,774,057
Loan notes repayable within five years	233,637	–
	2,028,534	1,774,057

The Group's bank borrowings are charged at floating rates.

Risk of Foreign Exchange Fluctuation

There have been no significant changes in the exposures to foreign exchange risks from those previously outlined in the Company's annual report for 2002.

Additional Interest in Sun Hung Kai

The Group's equity interest in Sun Hung Kai increased from 61.67% to 74.45% at the period-end mainly resulting from the completion of repurchase by Sun Hung Kai of its own shares as announced by Sun Hung Kai on 27th February, 2003.

FINANCIAL REVIEW (CONT'D)

Acquisition of a Subsidiary

During the period, Sun Hung Kai group acquired the entire issued share capital of Shun Loong for a consideration of HK\$36.5 million subject to adjustment as detailed in an announcement of Sun Hung Kai dated 25th June, 2003. Shun Loong provides a full range of traditional and online brokerage services through its subsidiaries.

Disposal of a Jointly Controlled Entity

During the period, the Group disposed of its 50% interest in a jointly controlled entity to a non-wholly owned subsidiary of the ultimate holding company at a consideration of HK\$87.5 million. A loss of HK\$5.5 million arose on disposal of the jointly controlled entity.

Contingent Liabilities

Details regarding the contingent liabilities are set out in note 18 to the condensed financial statements on pages 21 and 22.

Pledge of Assets

Details regarding the pledge of assets are set out in note 21 to the condensed financial statements on page 23.

OPERATIONAL REVIEW

Properties

Hong Kong and overseas

The performance of China Online Centre, the commercial/office building at 333 Lockhart Road, Wanchai, continued to be affected by an unfavourable office rental market. The superstructure works for phase two of Ibis North Point, the hotel at Java Road, have commenced and have reached the fifteenth floor. The occupancy rates of Century Court, a renovated commercial/residential building located directly opposite Allied Kajima Building and Novotel Century Hong Kong hotel in Wanchai, have been recovering after the Severe Acute Respiratory Syndrome ("SARS") crisis in the spring of this year. Following the decision by the Group to retain certain units of St. George Apartments on Waterloo Road for investment purposes, the occupancy rates have been increasing gradually.

Allied Kajima Limited, which is 50% indirectly owned by the Group and the core properties of which group include Allied Kajima Building, Novotel Century Hong Kong hotel and the Westin Philippine Plaza Hotel, contributed a profit of approximately 37.1% lower than the corresponding period of last year mainly due to the effect of SARS in Hong Kong.

OPERATIONAL REVIEW (CONT'D)

Properties (Cont'd)

Mainland P.R.C.

Regarding Tian An, a listed associate of Sun Hung Kai, insufficient labour supply in the construction industry, delay in the delivery of construction materials and intermittent suspension of construction works resulted in delays in the completion of certain projects of the group in the PRC. This together with the slow-down of sales during the SARS outbreak undermined Tian An group's turnover in the second quarter. It is however pleasing that the impact of SARS in the PRC was only temporary, regional and limited. Property prices have continued to increase in some major cities, and it is envisaged that the continual economic growth of the PRC will boost the residential property market in the mainland.

Financial Services

Sun Hung Kai, the Group's listed subsidiary, was able to compete successfully with rival brokers with its diversified range of products and rigorous business and marketing concepts. Notwithstanding the severe impact of SARS on its business, Sun Hung Kai was able to report a 10.4% modest decrease in profit. However, having completed its share repurchase exercise, its profit represents a small increase in earnings per share. Following the decline of SARS in June and the strength in US markets, market volumes recovered to levels which were more profitable. Sun Hung Kai is hopeful that the market will continue to recover and that its income from the traditional brokerage business will improve in the latter half of 2003. Despite the reduction in average daily turnover, Sun Hung Kai's margin loan book has been able to maintain a similar level compared with the same period of last year. Its term lending activities have continued at a lower level but with similar spreads to the same period of last year. Profitability benefited from the write-back of a provision.

Employees

The total number of staff of the Group at 30th June, 2003 was 1,630 (at 31st December, 2002: 1,463). The Group reviews remuneration packages from time to time and normally annually. Besides salary payments, other staff benefits include contributions to employee provident funds, medical subsidies and a discretionary bonus scheme.

Management of Risks

The management of risks in respect of the Group's finance business is primarily conducted by Sun Hung Kai. There has been no material change in the nature of Sun Hung Kai group's exposures, policies and practices in managing its risks to those which were previously reported in the Company's annual report for 2002.

BUSINESS OUTLOOK

Although recent weeks have seen an improvement in confidence, the short to medium term outlook for the local property market remains subdued. Whilst we are hopeful on the long term future prospects of the Hong Kong property market, the Group will continue to adopt a cautious approach for the foreseeable future. On the positive side, the expected gradual improvement of the local economy should eventually help to stabilise the property market and benefit the Group in terms of income and property values.

SHARE OPTION SCHEME

No option was granted under the share option scheme of the Company during the six months ended 30th June, 2003, nor was there any option outstanding at 31st December, 2002 and 30th June, 2003. The share option scheme of the Company expired on 29th June, 2003.

DIRECTORS' INTERESTS

At 30th June, 2003, Mr. Patrick S. W. Lee, a Director of the Company, had the following interests in the shares of the Company and its associated corporation, 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:

Name of Director	Number of shares	Approximate % of the relevant issued share capital	Nature of interest
Patrick S. W. Lee	(i) 2,700,000 shares in the Company	0.05%	Personal interest (held as beneficial owner)
	(ii) 5,500,000 shares in Allied Group Limited (Note 1)	0.16%	Personal interest (held as beneficial owner)

Notes:

1. Allied Group Limited is the ultimate holding company of the Company.
2. All interests stated above represent long position.

DIRECTORS' INTERESTS (CONT'D)

Save as disclosed above, at 30th June, 2003, none of the Directors and chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as 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.

SUBSTANTIAL SHAREHOLDER'S INTERESTS

At 30th June, 2003, the following shareholder had an interest in the shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name of shareholder	Number of shares	Approximate % of the issued share capital	Notes
Allied Group Limited ("Allied Group")	3,635,465,323	74.28%	1, 2

Notes:

1. The figure referred to the aggregate holding of 1,518,742,008 shares, 39,151,200 shares, 1,201,771,858 shares and 875,800,257 shares held by Capscore Limited ("Capcore"), Citiwealth Investment Limited ("Citiwealth"), Sunhill Investments Limited ("Sunhill") and Allied Group respectively.
2. Capscore, Citiwealth and Sunhill are all wholly-owned subsidiaries of Allied Group. Allied Group was therefore deemed to have an interest in the shares.
3. The interest stated above represents long position.

Save as disclosed above, the Company had not been notified of any other person who had an interest or a short position in the shares and underlying shares as recorded in the register required to be kept under to Section 336 of the SFO at 30th June, 2003.

CORPORATE GOVERNANCE

Audit Committee Review

The audit committee of the Company (“Audit Committee”) has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a general review of the unaudited interim financial report for the six months ended 30th June, 2003. In carrying out this review, the Audit Committee has relied on a review conducted by the Group’s external auditors in accordance with Statement of Auditing Standards 700 issued by the HKSA, and on the interim results announcements of the listed associates, as well as obtaining reports from management. The Audit Committee has not undertaken detailed independent audit checks.

Code of Best Practice

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30th June, 2003, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s shares during the six months ended 30th June, 2003.

By Order of the Board
Cindy Yung Yee Mei
Company Secretary

18th September, 2003