



Lippo China Resources Limited
力寶華潤有限公司
(Incorporated in Hong Kong with limited liability)

INTERIM REPORT
For the six months ended 30th June, 2003



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The Directors of Lippo China Resources Limited (the "Company") are pleased to present the unaudited consolidated interim financial statements of the Company and its subsidiaries (together, the "Group") for the six months ended 30th June, 2003.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Note	Six months ended 30th June,	
		2003 HK\$'000	2002 HK\$'000 (Restated)
Turnover	3	794,816	540,807
Cost of sales		(568,062)	(335,399)
Gross profit		226,754	205,408
Administrative expenses		(103,668)	(115,696)
Other operating expenses		(54,349)	(67,165)
Write-back of deficit/(Deficit) on revaluation of investment properties		(41,440)	49,915
Provisions for properties held for sale		(6,470)	(17,500)
Provisions for impairment losses:			
Fixed assets		(29,587)	(83,666)
Investment securities		–	(10,232)
Goodwill		–	(79,863)
Negative goodwill recognised as income		40,580	–
Net unrealised holding gain on investment securities and held-to-maturity securities	4	20,483	–
Write-back of provision/(Provision) for loss on guaranteed return arrangement for fund management		10,868	(16,502)
Loss on dilution of shareholding in an associate		–	(28,849)
Provision for bad and doubtful debt relating to banking operation		–	(4,025)
Gain on disposal of subsidiaries		–	525,726
Profit from operating activities	5	63,171	357,551
Finance costs		(20,493)	(34,951)
Share of results of associates		13,639	(20,016)
Profit before tax		56,317	302,584
Tax	6	(13,221)	(6,208)
Profit before minority interests		43,096	296,376
Minority interests		(18,439)	(458,604)
Net profit/(loss) from ordinary activities attributable to shareholders		24,657	(162,228)
		HK cents	HK cents
Earnings/(Loss) per share	7		
Basic		0.3	(1.8)
Diluted		N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	30th June, 2003 HK\$'000	31st December, 2002 HK\$'000 (Restated)
ASSETS			
NON-CURRENT ASSETS			
Goodwill		62,261	63,881
Fixed assets		271,465	309,857
Investment properties		1,910,554	1,981,688
Properties under development		49,590	39,990
Interests in associates		448,586	462,938
Investment securities	8	295,392	345,841
Held-to-maturity securities	9	143,303	504,348
Loans and advances		55,027	58,339
Deferred tax assets		3,826	–
Assets less liabilities attributable to banking operation	10	151,202	148,971
Deposits paid for long term investments		64,000	74,342
		3,455,206	3,990,195
CURRENT ASSETS			
Properties held for sale		79,810	86,280
Inventories		63,325	64,611
Held-to-maturity securities	9	124,092	112,320
Other investments in securities	11	1,160,806	310,840
Loans and advances		108,816	135,447
Debtors, prepayments and deposits	12	348,245	412,496
Certificates of deposit held		–	1,000,000
Client trust bank balances		289,525	253,930
Pledged time deposits		155,801	155,817
Cash and bank balances		2,174,000	1,538,161
		4,504,420	4,069,902
TOTAL ASSETS		7,959,626	8,060,097
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Share capital	13	920,109	920,109
Reserves	14	3,222,495	3,210,233
		4,142,604	4,130,342
MINORITY INTERESTS		1,617,597	1,685,029
NON-CURRENT LIABILITIES			
Long term bank loans	15	665,580	692,551
Deferred tax liabilities		154,064	114,881
		819,644	807,432
CURRENT LIABILITIES			
Bank loans	15	485,552	430,508
Loan note	16	43,500	58,500
Creditors, accruals and deposits received	17	684,300	767,401
Provision for loss on guaranteed return arrangement for fund management		117,985	138,290
Tax payable		48,444	42,595
		1,379,781	1,437,294
TOTAL EQUITY AND LIABILITIES		7,959,626	8,060,097

CONDENSED CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY

	Six months ended 30th June,	
	2003 HK\$'000	2002 HK\$'000 (Restated)
Total equity as at 1st January		
As previously reported	4,205,563	4,212,764
Prior period adjustment as a result of change in accounting policy in respect of deferred tax with details stated in Note 1 to the interim financial statements	(75,221)	3,941
As restated	4,130,342	4,216,705
Deferred tax charges arising from change in applicable tax rate on revaluation surplus of leasehold properties	(381)	–
Deficit on revaluation of investment properties	(7,439)	–
Release of investment property revaluation reserve upon disposal of investment properties	(3,762)	–
Exchange differences on translation of the financial statements of foreign entities	(813)	11,682
Net gains/(losses) not recognised in the condensed consolidated profit and loss account	(12,395)	11,682
Release of goodwill previously eliminated against consolidated reserves upon disposal of subsidiaries	–	147,739
Net profit/(loss) from ordinary activities attributable to shareholders	24,657	(162,228)
Total equity as at 30th June	4,142,604	4,213,898

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30th June,	
	2003 HK\$'000	2002 HK\$'000
Net cash from/(used in) operating activities	907,932	(720,676)
Net cash from investing activities	71,418	1,099,491
Net cash used in financing activities	<u>(29,359)</u>	<u>(306,264)</u>
Net increase in cash and cash equivalents	949,991	72,551
Cash and cash equivalents at 1st January (Note a)	1,228,940	716,865
Reclassified from assets less liabilities attributable to banking operation to cash and cash equivalents	–	652,859
Exchange realignments	<u>(4,931)</u>	<u>17,014</u>
Cash and cash equivalents at 30th June (Note b)	<u>2,174,000</u>	<u>1,459,289</u>
<i>Note:</i>		
(a) Balances of cash and cash equivalents at 1st January:		
Cash and bank balances with original maturity of three months or less	1,228,940	716,865
Placements with banks and other financial institutions with original maturity over three months	<u>309,221</u>	<u>–</u>
Total cash and bank balances at 1st January	<u>1,538,161</u>	<u>716,865</u>
(b) Balances of cash and cash equivalents at 30th June:		
Cash and bank balances with original maturity of three months or less	2,174,000	1,459,289
Placements with banks and other financial institutions with original maturity over three months	<u>–</u>	<u>936,206</u>
Total cash and bank balances at 30th June	<u>2,174,000</u>	<u>2,395,495</u>

NOTES TO THE INTERIM FINANCIAL STATEMENTS

1. PRINCIPAL ACCOUNTING POLICIES

The interim financial statements are unaudited, condensed and have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25 (revised) "Interim financial reporting" issued by the Hong Kong Society of Accountants ("HKSA").

The accounting policies adopted in the preparation of the interim financial statements are consistent with those adopted in the Group's audited financial statements for the year ended 31st December, 2002 except that the Group has changed certain of its accounting policies and disclosure practices as a result of the adoption of the SSAPs recently-issued or revised by the HKSA which are effective for accounting periods commencing on or after 1st January, 2003.

The major effects on the Group's accounting policies and disclosure practices are summarised as follows:

SSAP 12 (revised): Income Taxes

SSAP 12 (revised) prescribes the basis for accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carry forward of unused tax losses (deferred tax). The principal impact of the revision of this SSAP on these interim financial statements is that:

Measurement and recognition:

- deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future;
- a deferred tax liability has been recognised on the revaluation of the Group's land and buildings and investment properties; and
- a deferred tax asset has been recognised for tax losses arising in the current/prior periods to the extent that it is probable that there will/would be sufficient future taxable profits against which such losses can be utilised.

Disclosure:

- deferred tax assets and liabilities are presented separately on the balance sheet, whereas previously they were presented on a net basis.

Following the adoption of SSAP 12 (revised), deferred tax liabilities totalling HK\$114,881,000 were quantified and recognised retrospectively in periods prior to 1st January, 2003. Accordingly, other asset revaluation reserve, investment property revaluation reserve and minority interests as at 31st December, 2002 were restated and decreased by HK\$49,893,000, HK\$69,831,000 and HK\$35,179,000, respectively, whereas retained profits at that date were restated and increased by HK\$40,022,000. On the other hand, deferred tax assets of HK\$5,854,000 in respect of an associate were quantified and recognised retrospectively in periods prior to 1st January, 2003. Accordingly, minority interests and retained profits as at 31st December, 2002 were restated and increased by HK\$1,373,000 and HK\$4,481,000, respectively. For the six months ended 30th June, 2002, net loss from ordinary activities attributable to shareholders was restated and increased by HK\$3,273,000 after taking into account the deferred tax charges incurred for that period.

NOTES TO THE INTERIM FINANCIAL STATEMENTS *(continued)*

2. SEGMENT INFORMATION

Segment information is presented by way of business segment as the primary reporting format and geographical segment as the secondary reporting format.

The Group's operating businesses are structured and managed separately, according to the nature of their operations. The Group's business segments represent different strategic business units which are subject to risks and returns that are different from those of the other business segments. In respect of geographical segment reporting, turnover is based on the location of customers. Descriptions of the business segments are as follows:

- (a) the treasury investment segment includes investments in cash and bond markets;
- (b) the property investment and development segment includes letting of properties and sale of completed properties;
- (c) the securities investment segment includes dealings in securities and disposals of investments;
- (d) the food businesses segment engages in food manufacturing, wholesale distribution of food and allied fast-moving consumer goods;
- (e) the corporate finance and securities broking segment provides securities and futures brokerage, investment banking, underwriting and other related advisory services;
- (f) the banking businesses segment engages in the provision of commercial and retail banking;
- (g) the insurance business segment includes the underwriting of general insurance business and the provision of general insurance agency services; and
- (h) the "other" segment comprises principally money lending and fund management services.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

2. SEGMENT INFORMATION (continued)

An analysis of the Group's segment revenue and segment results by business segment and geographical segment is set out below:

Business segment

	Six months ended 30th June, 2003									
	Treasury investment	Property investment and development	Securities investment	Food businesses	Corporate finance and securities broking	Banking businesses	Insurance business	Other	Inter-segment elimination	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue										
External	32,347	143,638	282,804	285,093	22,139	6,968	12,773	9,054	-	794,816
Inter-segment	3,062	2,491	-	-	-	-	-	-	(5,553)	-
Total	<u>35,409</u>	<u>146,129</u>	<u>282,804</u>	<u>285,093</u>	<u>22,139</u>	<u>6,968</u>	<u>12,773</u>	<u>9,054</u>	<u>(5,553)</u>	<u>794,816</u>
Segment results	<u>31,508</u>	<u>2,959</u>	<u>42,873</u>	<u>5,160</u>	<u>(2,005)</u>	<u>1,024</u>	<u>(160)</u>	<u>15,597</u>	<u>(383)</u>	<u>96,573</u>
Unallocated corporate expenses (Note)										(35,249)
Finance costs										(18,646)
Share of results of associates	-	53	-	-	-	2,777	-	10,809	-	<u>13,639</u>
Profit before tax										<u>56,317</u>
Tax										<u>(13,221)</u>
Profit before minority interests										<u>43,096</u>
Minority interests										<u>(18,439)</u>
Net profit from ordinary activities attributable to shareholders										<u>24,657</u>

Note: Amount included provisions for impairment losses for fixed assets of HK\$29,587,000 and negative goodwill of HK\$40,580,000 recognised as income.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

2. SEGMENT INFORMATION (continued)

Business segment (continued)

	Six months ended 30th June, 2002 (Restated)									
	Treasury investment HK\$'000	Property investment and development HK\$'000	Securities investment HK\$'000	Food businesses HK\$'000	Corporate finance and securities broking HK\$'000	Banking businesses HK\$'000	Insurance business HK\$'000	Other HK\$'000	Inter-segment elimination HK\$'000	Consolidated HK\$'000
Revenue										
External	40,024	54,675	78,984	267,386	29,748	24,538	24,327	21,125	-	540,807
Inter-segment	3,597	4,811	-	6,732	-	77	-	41	(15,258)	-
Total	43,621	59,486	78,984	274,118	29,748	24,615	24,327	21,166	(15,258)	540,807
Segment results	41,506	80,341	(47,727)	4,421	(5,719)	498,649	(260)	(789)	(2,208)	568,214
Unallocated corporate expenses (Note)										(212,836)
Finance costs										(32,778)
Share of results of associates	-	182	-	-	-	11,834	283	(32,315)	-	(20,016)
Profit before tax										302,584
Tax										(6,208)
Profit before minority interests										296,376
Minority interests										(458,604)
Net loss from ordinary activities attributable to shareholders										(162,228)

Note: Amount included provisions for impairment losses for fixed assets and goodwill of HK\$83,666,000 and HK\$79,863,000 respectively.

Geographical segment

	Six months ended 30th June, 2003				
	Hong Kong HK\$'000	Republic of Singapore HK\$'000	Mainland China HK\$'000	Other HK\$'000	Total HK\$'000
Revenue	180,862	450,280	112,949	50,725	794,816
Segment results	(17,655)	21,350	59,113	33,765	96,573

	Six months ended 30th June, 2002 (Restated)				
	Hong Kong HK\$'000	Republic of Singapore HK\$'000	Mainland China HK\$'000	Other HK\$'000	Total HK\$'000
Revenue	225,212	271,310	34,770	9,515	540,807
Segment results	491,544	(24,528)	137,605	(36,407)	568,214

NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

3. TURNOVER

Turnover represents the gross income on treasury investment which includes interest income on bank deposits and held-to-maturity securities, gross rental income, gross proceeds from sales of properties and investments, gross income from underwriting and securities broking, sales income from food businesses, interest and other income from money lending business, gross income from fund management, gross premiums from insurance business, dividend income and net interest income, commissions, dealing income and other revenues from banking subsidiaries, after elimination of all significant intra-group transactions.

An analysis of the turnover of the Group by principal activity is as follows:

	Six months ended 30th June,	
	2003 HK\$'000	2002 HK\$'000
Treasury investment	32,347	40,024
Property investment and development	143,638	54,675
Securities investment	282,804	78,984
Food businesses	285,093	267,386
Corporate finance and securities broking	22,139	29,748
Banking businesses	6,968	24,538
Insurance business	12,773	24,327
Other	9,054	21,125
	794,816	540,807

Turnover attributable to banking businesses represents turnover generated from The Macau Chinese Bank Limited ("MCB"), a licensed credit institution under the Financial System Act of the Macao Special Administrative Region of the People's Republic of China. Turnover attributable to banking businesses for the last corresponding period represents turnover generated from MCB since its acquisition by the Group in May 2002 and that generated from The Hongkong Chinese Bank, Limited up to its disposal by the Group in January 2002. Turnover attributable to banking businesses is analysed as follows:

	Six months ended 30th June,	
	2003 HK\$'000	2002 HK\$'000
Interest income	5,626	34,693
Interest expenses	(836)	(13,614)
Commission income	1,766	2,188
Commission expenses	-	(274)
Net dealing income and other revenues	412	1,545
	6,968	24,538

4. NET UNREALISED HOLDING GAIN ON INVESTMENT SECURITIES AND HELD-TO-MATURITY SECURITIES

During the period, investment securities in a total cost of HK\$54,681,000 and held-to-maturity securities in a total amortised cost of HK\$300,429,000 were transferred to other investments in securities at market value to reflect the Group's current intention to sell the investments in response to changes in market conditions, resulting in an unrealised gain at the date of transfer of HK\$20,483,000 (2002 - Nil).

NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

5. PROFIT FROM OPERATING ACTIVITIES

Profit from operating activities is arrived at after crediting/(charging):

	Six months ended 30th June,	
	2003 HK\$'000	2002 HK\$'000
Interest income (Note):		
Listed investments	10,323	1,968
Unlisted investments	7,967	2,173
Other	17,442	35,883
Dividend income:		
Listed investments	9,683	3,383
Unlisted investments	976	–
Net realised and unrealised holding gain/(loss) on other investments in securities:		
Listed	10,975	(12,419)
Unlisted	1,149	644
Net realised gain on held-to-maturity securities:		
Listed	4,209	–
Unlisted	250	–
Net realised gain on listed investment securities	2,468	–
Net unrealised gain from transfer of investment securities and held-to-maturity securities into other investments in securities:		
Listed	12,946	–
Unlisted	7,537	–
Provision for impairment losses on investment securities:		
Listed	–	(1,355)
Unlisted	–	(8,877)
Depreciation:		
Banking operations	(190)	(1,929)
Other	(10,860)	(17,031)
Gain/(Loss) on disposal of fixed assets	(180)	111
Cost of inventories sold	(216,126)	(207,784)
Amortisation of goodwill arising on acquisition of subsidiaries	(1,620)	(569)
Gain on disposal of investment properties	10,826	–

Note: The amounts exclude income relating to banking operations of the Group.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

6. TAX

	Six months ended 30th June,	
	2003 HK\$'000	2002 HK\$'000 (Restated)
The Company and its subsidiaries:		
Current taxation:		
Provision for the period:		
Hong Kong	1,189	223
Overseas	10,705	35
	<u>11,894</u>	<u>258</u>
Under provisions for prior years:		
Hong Kong	189	–
Overseas	3,450	82
	<u>3,639</u>	<u>82</u>
Deferred taxation for the period:		
Hong Kong	(3,752)	(12,115)
Overseas	780	18,916
	<u>(2,972)</u>	<u>6,801</u>
	<u>12,561</u>	<u>7,141</u>
Share of tax attributable to overseas associates	660	(933)
Tax charge for the period	<u>13,221</u>	<u>6,208</u>

Hong Kong profits tax has been provided for at the rate of 17.5 per cent. (2002 – 16 per cent.) on the estimated assessable profits arising in Hong Kong for the period. Overseas taxes have been calculated on the estimated assessable profits for the period at the tax rates prevailing in the countries in which the Group operates based on existing legislation, interpretations and practices in respect thereof.

7. EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

Basic earnings/(loss) per share is calculated based on (i) the net profit from ordinary activities attributable to shareholders of HK\$24,657,000 (2002 – net loss of HK\$162,228,000, restated); and (ii) the number of 9,201,089,000 shares (2002 – 9,201,089,000 shares) in issue during the period.

(b) Diluted earnings/(loss) per share

No diluted earnings/(loss) per share is presented for the periods ended 30th June, 2003 and 2002 as there were no dilutive potential ordinary shares.

NOTES TO THE INTERIM FINANCIAL STATEMENTS *(continued)*

8. INVESTMENT SECURITIES

	30th June, 2003 HK\$'000	31st December, 2002 HK\$'000
Equity securities, at cost:		
Listed in Hong Kong	45,633	45,633
Listed outside Hong Kong	1,247,116	1,256,615
Unlisted	206,622	197,851
	1,499,371	1,500,099
Provisions for impairment losses	(1,332,999)	(1,341,794)
	166,372	158,305
Unlisted debt securities, at cost	10,975	10,975
Unlisted investment funds, at cost	150,899	215,141
Provisions for impairment losses	(32,854)	(38,580)
	118,045	176,561
Total	295,392	345,841
Market value of listed securities	49,299	39,665
An analysis of the issuers of investment securities is as follows:		
Equity securities:		
Banks and other financial institutions	41,436	28,151
Corporate entities	1,457,935	1,471,948
	1,499,371	1,500,099
Debt securities:		
Club debentures	10,975	10,975

NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

9. HELD-TO-MATURITY SECURITIES

	30th June, 2003 HK\$'000	31st December, 2002 HK\$'000
Debt securities, at amortised cost:		
Listed outside Hong Kong	45,825	207,540
Unlisted	221,570	420,146
	267,395	627,686
Provisions for impairment losses	–	(11,018)
	267,395	616,668
Portion included under current assets	(124,092)	(112,320)
Non-current portion	143,303	504,348
Market value of listed securities	48,597	208,050
An analysis of the issuers of the held-to-maturity securities is as follows:		
Central governments and central banks	8,889	43,676
Public sector entities	–	2,245
Banks and other financial institutions	12,996	131,588
Corporate entities	245,510	450,177
	267,395	627,686

10. ASSETS LESS LIABILITIES ATTRIBUTABLE TO BANKING OPERATION

Due to the dissimilar nature of banking and non-banking operations, assets less liabilities attributable to banking operation are shown separately in the consolidated interim financial statements. The financial information in respect of banking operation shown below is based on the financial statements of MCB, a subsidiary of the Company, for the six months ended 30th June, 2003 and that for the year ended 31st December, 2002.

	Note	30th June, 2003 HK\$'000	31st December, 2002 HK\$'000
Cash and short-term funds	(a)	43,492	70,535
Placements with banks and other financial institutions maturing between one and twelve months		12,622	11,467
Other investments in securities	(b)	8,972	–
Advances and other accounts	(c)	187,108	166,719
Held-to-maturity securities	(d)	9,349	9,757
Fixed assets		709	895
		262,252	259,373
Deposits and balances of banks and other financial institutions		(319)	(3)
Current, fixed, savings and other deposits of customers		(104,866)	(109,010)
Other accounts and provisions		(5,865)	(1,389)
		(111,050)	(110,402)
		151,202	148,971

NOTES TO THE INTERIM FINANCIAL STATEMENTS *(continued)*

 10. ASSETS LESS LIABILITIES ATTRIBUTABLE TO BANKING OPERATION *(continued)*

Note:

(a)	Cash and short-term funds	30th June, 2003 HK\$'000	31st December, 2002 HK\$'000
	Cash and balances with banks and other financial institutions	30,397	23,975
	Treasury bills	13,095	46,560
		<u>43,492</u>	<u>70,535</u>
(b)	Other investments in securities	30th June, 2003 HK\$'000	31st December, 2002 HK\$'000
	Debt securities, at market value:		
	Listed outside Hong Kong	<u>8,972</u>	<u>–</u>
(c)	Advances and other accounts	30th June, 2003 HK\$'000	31st December, 2002 HK\$'000
	Advances to customers	183,482	173,241
	Other accounts	5,297	2,940
	Accrued interest	1,190	1,402
	Provisions for bad and doubtful debts	<u>(2,861)</u>	<u>(10,864)</u>
		<u>187,108</u>	<u>166,719</u>

Non-performing loans, which represent the gross amount of advances, net of suspended interest, on which interest has been placed in suspense or on which interest accrual has ceased, are as follows:

		30th June, 2003 HK\$'000	31st December, 2002 HK\$'000
	Non-performing loans:		
	Gross advances	–	9,985
	Less: Specific provisions	–	(8,003)
		<u>–</u>	<u>1,982</u>

The above specific provisions were made after taking into account the value of collateral in respect of such advances.

		30th June, 2003 HK\$'000	31st December, 2002 HK\$'000
	Rescheduled advances	<u>3,464</u>	<u>–</u>
	Market value of collateral held	<u>3,734</u>	<u>–</u>

NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

10. ASSETS LESS LIABILITIES ATTRIBUTABLE TO BANKING OPERATION (continued)

(d) Held-to-maturity securities

	30th June, 2003 HK\$'000	31st December, 2002 HK\$'000
Debt securities, at amortised cost:		
Listed outside Hong Kong	<u>9,349</u>	<u>9,757</u>
Market value of listed debt securities	<u>10,450</u>	<u>9,949</u>
An analysis of the issuers of the held-to-maturity securities is as follows:		
Banks and other financial institutions	<u>9,349</u>	<u>9,757</u>

11. OTHER INVESTMENTS IN SECURITIES

	30th June, 2003 HK\$'000	31st December, 2002 HK\$'000
Listed equity securities, at market value:		
Hong Kong	<u>341,457</u>	164,747
Overseas	<u>13,341</u>	<u>28,940</u>
	<u>354,798</u>	193,687
Debt securities:		
Listed, at market value:		
Hong Kong	<u>37,286</u>	–
Overseas	<u>327,115</u>	3,120
Unlisted, at fair value	<u>203,777</u>	<u>6,478</u>
	<u>568,178</u>	9,598
Unlisted investment funds, at fair value	<u>234,645</u>	<u>107,555</u>
Other	<u>3,185</u>	–
	<u>1,160,806</u>	<u>310,840</u>

NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

12. DEBTORS, PREPAYMENTS AND DEPOSITS

Included in the balances are trade debtors with the aged analysis as follows:

	30th June, 2003 HK\$'000	31st December, 2002 HK\$'000
Outstanding balances with ages:		
Repayable on demand	118,148	195,474
Within 30 days	61,230	55,690
Between 31 and 60 days	37,823	45,392
Between 61 and 90 days	22,154	26,593
Between 91 and 180 days	7,158	7,213
Over 180 days	15,686	18,676
	<u>262,199</u>	<u>349,038</u>

Trading terms with customers are either on cash basis or on credit. For those customers who trade on credit, invoices are normally payable within 90 days. Outstanding balances with ages over 180 days include claims receivable in respect of the Group's insurance underwriting business which is broadly consistent with the claims payable included in the trade creditors of the Group. Credit limits are set for customers. The Group seeks to maintain tight control over its outstanding receivables in order to minimise credit risk. Overdue balances are regularly reviewed by senior management.

13. SHARE CAPITAL

Shares

	30th June, 2003 HK\$'000	31st December, 2002 HK\$'000
Authorised:		
28,000,000,000 (31st December, 2002 – 28,000,000,000) shares of HK\$0.10 each	<u>2,800,000</u>	<u>2,800,000</u>
Issued and fully paid:		
9,201,088,716 (31st December, 2002 – 9,201,088,716) shares of HK\$0.10 each	<u>920,109</u>	<u>920,109</u>

Share options

Pursuant to the Share Option Scheme for Employees of the Company (the "Scheme") approved and adopted by the shareholders of the Company on 2nd May, 1994, the Directors of the Company may, at their discretion, grant to any employees (including Directors) of the Group options to subscribe for shares in the Company.

As at 1st January, 2003, certain directors and employees of the Group held a total of 5,800,000 share options under the Scheme. The holder of each option is entitled to subscribe for six shares of HK\$0.10 each in the Company on or before 23rd June, 2007 at an exercise price of HK\$0.883 per share (subject to adjustment). The above share options were granted on 23rd June, 1997 at a consideration of HK\$1.00 per grantee under the Scheme. During the six months ended 30th June, 2003, no share options were cancelled or exercised. The exercise in full of the 5,800,000 share options would, under the capital structure of the Company as at 30th June, 2003, result in the issue of 34,800,000 shares of HK\$0.10 each in the Company and cash proceeds, before expenses, of HK\$30,728,000.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

14. RESERVES

	Share premium HK\$'000	Capital reserve HK\$'000	Special capital reserve (Note a) HK\$'000	Legal reserve (Note b) HK\$'000	Investment property revaluation reserve HK\$'000	Other asset revaluation reserve HK\$'000	Exchange equalisation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st January, 2003									
As previously reported	785,257	93,691	2,075,948	-	81,032	309,529	(165,807)	105,804	3,285,454
Prior period adjustment as a result of change in accounting policy in respect of deferred tax with details stated in Note 1 to the interim financial statements	-	-	-	-	(69,831)	(49,893)	-	44,503	(75,221)
As restated	785,257	93,691	2,075,948	-	11,201	259,636	(165,807)	150,307	3,210,233
Transfer of portion of depreciation charge on leasehold properties attributable to the related revaluation surplus to retained profits	-	-	-	-	-	(2,884)	-	2,884	-
Deferred tax charges arising from change in applicable tax rate on revaluation surplus of leasehold properties	-	-	-	-	-	(381)	-	-	(381)
Deficit on revaluation of investment properties	-	-	-	-	(7,439)	-	-	-	(7,439)
Release on disposal of investment properties	-	-	-	-	(3,762)	-	-	-	(3,762)
Transfer of reserve	-	-	-	621	-	-	-	(621)	-
Exchange differences on consolidation	-	-	-	-	-	-	(813)	-	(813)
Profit for the period	-	-	-	-	-	-	-	24,657	24,657
At 30th June, 2003	785,257	93,691	2,075,948	621	-	256,371	(166,620)	177,227	3,222,495

NOTES TO THE INTERIM FINANCIAL STATEMENTS *(continued)*14. RESERVES *(continued)*

Note:

(a) Special capital reserve

Pursuant to a special resolution passed at an extraordinary general meeting of the Company on 2nd December, 1997 and the subsequent confirmation by the court on 22nd December, 1997, the then entire amount standing to the credit of the share premium account of the Company in the amount of HK\$849,149,000 was cancelled on 23rd December, 1997 (the "Cancellation").

The credit arising from the Cancellation was transferred to a special capital reserve account. A summary of the terms of the undertaking given by the Company (the "Undertaking") in respect of the application of the special capital reserve is set out below:

- (1) The reserve is to be used for eliminating goodwill which has already arisen on the acquisition of subsidiaries and associates at the date of the Cancellation and that arising as a result of future acquisitions.
- (2) The reserve (a) shall not be treated as realised profits; and (b) shall be treated as an undistributable reserve for so long as there shall remain any outstanding debts or claims which were in existence on the date of the Cancellation provided that:
 - (i) the Company shall be at liberty to apply the reserve for the same purposes as a share premium account may be applied; and
 - (ii) the amount of the reserve may be reduced by the amount of any future increase in the share capital and the share premium account. Any part of the reserve so reduced is released from the terms of the Undertaking.

Pursuant to a special resolution passed at an extraordinary general meeting of the Company on 23rd December, 1998 and the subsequent confirmation by the court on 26th January, 1999, the then issued and fully paid-up share capital of the Company was reduced from approximately HK\$1,533,498,000 divided into 3,066,996,246 shares of HK\$0.50 each to approximately HK\$306,700,000 divided into 3,066,996,246 shares of HK\$0.10 each and an amount standing to the credit of the share capital account of the Company of approximately HK\$1,226,799,000 was cancelled and transferred to a special capital reserve account, the application of which is subject to the same conditions as specified in (2)(a) and (2)(b)(ii) of the terms of the Undertaking above.

During the period, there were no movement of the special capital reserve subject to the Undertaking which was amounted to HK\$679,156,000 as at 30th June, 2003 (31st December, 2002 – HK\$679,156,000).

(b) Legal reserve

Legal reserve represents the part of reserve generated by a banking subsidiary of the Company which may only be distributable in accordance with certain limited circumstances prescribed by the statute of the country in which the subsidiary operates.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

15. BANK LOANS

	30th June, 2003 HK\$'000	31st December, 2002 HK\$'000
Bank loans:		
Secured (Note)	1,131,132	1,113,059
Unsecured	20,000	10,000
	1,151,132	1,123,059
Repayable within one year	(485,552)	(430,508)
Non-current portion	665,580	692,551
Bank loans repayable:		
Within one year	485,552	430,508
In the second year	88,785	73,193
In the third to fifth years, inclusive	155,962	317,358
After five years	420,833	302,000
	1,151,132	1,123,059

Note: The bank loans are secured by shares in certain listed subsidiaries of the Group, first legal mortgages over certain investment properties, leasehold land and buildings and properties under development of the Group and certain securities owned by margin clients of the Group.

16. LOAN NOTE

As at 1st January, 2003, the Group had an outstanding loan note of HK\$58,500,000 (the "Loan Note") due to Lippo Limited ("Lippo"), an intermediate holding company of the Company. The Loan Note is repayable immediately upon Lippo's issuing a written notice of not less than 10 days, interest-bearing at best lending rate of The Hongkong and Shanghai Banking Corporation Limited and the interest thereon is payable monthly. During the period, the Group redeemed HK\$15,000,000 of the Loan Note at par in cash. As at 30th June, 2003, after the above redemption, the Group had an outstanding Loan Note of HK\$43,500,000.

17. CREDITORS, ACCRUALS AND DEPOSITS RECEIVED

Included in the balances are trade creditors with the aged analysis as follows:

	30th June, 2003 HK\$'000	31st December, 2002 HK\$'000
Outstanding balances with ages:		
Repayable on demand	398,840	459,352
Within 30 days	52,023	38,606
Between 31 and 60 days	25,049	26,092
Between 61 and 90 days	7,517	13,993
Between 91 and 180 days	10,160	14,120
Over 180 days	15,320	15,446
	508,909	567,609

NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

18. MATURITY PROFILE OF ASSETS AND LIABILITIES

The maturing profile analysed by the remaining period at the balance sheet date to the contractual maturity date is as follow:

	Repayable on demand HK\$'000	3 months or less HK\$'000	1 year or less but over 3 months HK\$'000	5 years or less but over 1 year HK\$'000	After 5 years HK\$'000	Undated HK\$'000	Total HK\$'000
At 30th June, 2003							
Assets							
Debt securities:							
Investment securities	-	-	-	-	-	10,975	10,975
Held-to-maturity securities	-	66,484	57,608	112,969	30,334	-	267,395
Other investments in securities	-	2,990	45,252	321,933	189,115	8,888	568,178
Loan and advances	106,028	1,343	1,445	3,031	434	51,562	163,843
Client trust bank balances	38,678	250,847	-	-	-	-	289,525
Pledged time deposits	-	-	155,801	-	-	-	155,801
Cash and bank balances	108,545	2,065,455	-	-	-	-	2,174,000
Assets less liabilities attributable to banking operation:							
Cash and short-term funds	18,408	25,084	-	-	-	-	43,492
Placements with banks and other financial institutions maturing between one and twelve months	-	7,953	4,669	-	-	-	12,622
Debt securities:							
Other investments in securities	-	-	-	-	-	8,972	8,972
Held-to-maturity securities	-	-	-	-	9,349	-	9,349
Advances to customers	35,880	71,962	28,171	25,715	21,754	-	183,482
	307,539	2,492,118	292,946	463,648	250,986	80,397	3,887,634
Liabilities							
Bank loans	-	272,370	213,182	244,747	420,833	-	1,151,132
Loan note	43,500	-	-	-	-	-	43,500
Assets less liabilities attributable to banking operation:							
Deposits and balances of banks and other financial institutions	319	-	-	-	-	-	319
Current, fixed, savings and other deposits of customers	9,194	76,403	17,329	1,940	-	-	104,866
	53,013	348,773	230,511	246,687	420,833	-	1,299,817

NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

18. MATURITY PROFILE OF ASSETS AND LIABILITIES (continued)

	Repayable on demand HK\$'000	3 months or less HK\$'000	1 year or less but over 3 months HK\$'000	5 years or less but over 1 year HK\$'000	After 5 years HK\$'000	Undated HK\$'000	Total HK\$'000
At 31st December, 2002							
Assets							
Debt securities:							
Investment securities	-	-	-	-	-	10,975	10,975
Held-to-maturity securities	-	62,778	49,542	425,595	89,771	-	627,686
Other investments in securities	-	-	39	-	3,120	6,439	9,598
Loan and advances	131,856	1,475	2,116	6,029	748	51,562	193,786
Certificates of deposit held	-	1,000,000	-	-	-	-	1,000,000
Client trust bank balances	3,548	250,382	-	-	-	-	253,930
Pledged time deposits	-	-	155,817	-	-	-	155,817
Cash and bank balances	118,854	1,419,307	-	-	-	-	1,538,161
Assets less liabilities attributable to banking operation:							
Cash and short-term funds	16,183	54,352	-	-	-	-	70,535
Placements with banks and other financial institutions maturing between one and twelve months	-	-	11,467	-	-	-	11,467
Debt securities:							
Held-to-maturity securities	-	-	-	-	9,757	-	9,757
Advances to customers	49,021	60,603	24,592	36,055	2,970	-	173,241
	<u>319,462</u>	<u>2,848,897</u>	<u>243,573</u>	<u>467,679</u>	<u>106,366</u>	<u>68,976</u>	<u>4,054,953</u>
Liabilities							
Bank loans	-	197,900	232,608	390,551	302,000	-	1,123,059
Loan note	58,500	-	-	-	-	-	58,500
Assets less liabilities attributable to banking operation:							
Deposits and balances of banks and other financial institutions	3	-	-	-	-	-	3
Current, fixed, savings and other deposits of customers	10,228	81,479	4,500	12,803	-	-	109,010
	<u>68,731</u>	<u>279,379</u>	<u>237,108</u>	<u>403,354</u>	<u>302,000</u>	<u>-</u>	<u>1,290,572</u>

NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

19. CONTINGENT LIABILITIES

At the balance sheet date, the Group had the following contingent liabilities:

(a) Guarantees in respect of banking facilities

	30th June, 2003 HK\$'000	31st December, 2002 HK\$'000
Guarantees provided in respect of banking facilities granted to:		
An associate	11,765	11,765
Investee companies	2,924	2,925
	<u>14,689</u>	<u>14,690</u>

(b) As at 30th June, 2003, the Group had entered into certain foreign exchange contracts. Pursuant to the contracts, the Group is committed to sell Japanese Yen with a principal sum of HK\$8,060,000 (31st December, 2002 – HK\$8,147,000) and to purchase United States Dollars with a principal sum of HK\$8,313,000 (31st December, 2002 – HK\$8,032,000). The transactions committed as at 31st December, 2002 were fully settled during the period.

(c) Details of the off-balance sheet exposures relating to banking operation

As at 30th June, 2003, the Group had contingent liabilities relating to its banking subsidiary of HK\$42,896,000 (31st December, 2002 – HK\$74,578,000), comprising guarantees and other endorsements of HK\$15,780,000 (31st December, 2002 – HK\$39,978,000) and liabilities under letters of credit on behalf of customers of HK\$27,116,000 (31st December, 2002 – HK\$34,600,000).

20. COMMITMENTS

The Group had the following capital commitments at the balance sheet date:

	30th June, 2003 HK\$'000	31st December, 2002 HK\$'000
Capital commitments in respect of property, plant and equipment:		
Contracted, but not provided for	3,140	6,194
Other capital commitments:		
Contracted, but not provided for	6,238	6,239
	<u>9,378</u>	<u>12,433</u>

21. RELATED PARTY TRANSACTIONS

(a) As at 30th June 2003, the Group had amounts due from associates in a total of HK\$136,857,000 (31st December, 2002 – HK\$136,802,000) and amounts due to associates in a total of HK\$2,188,000 (31st December, 2002 – HK\$2,155,000). The balances with the associates are unsecured, interest-free and have no fixed terms of repayment.

(b) During the period, the Group received rental income amounting HK\$1,059,000 (2002 – HK\$2,108,000) from Lippo Limited ("Lippo"), an intermediate holding company of the Company. The rental was determined by reference to open market rentals.

(c) During the period, the Group paid interest of HK\$1,366,000 (2002 – HK\$1,669,000) to Lippo. The interest was paid on the Loan Note due to Lippo as referred to Note 16 to the interim financial statements. The interest rate was determined by reference to the then market lending rates.

SUPPLEMENTARY INFORMATION

Management of risks

The Group had established policies and procedures for risk management which were reviewed regularly by the Directors and senior management of the Group to ensure the proper monitoring and control of all major risks arising from the Group's activities at all times. The risk management function was carried out by individual business units and regularly overseen by the Group's senior management with all the risk limits approved by the Directors of the Group.

(a) *Credit risk*

Credit risk arose from the possibility that the counterparty in a transaction may default. It arose from lending, treasury, investment and other activities undertaken by the Group.

The credit policies for banking and margin lending businesses set out in details the credit approval and monitoring mechanism, the loan classification criteria and provision policy. Credit approval was conducted in accordance with the credit policies, taking into account the type and tenor of loans, creditworthiness and repayment ability of prospective borrowers, collateral available and the resultant risk concentration in the context of the Group's total assets. Day-to-day credit management was performed by management of individual business units.

The Group had established guidelines to ensure that all new debt investments were properly made, taking into account a number of factors, including but not limiting to, the credit rating requirements and the maximum exposure limit to a single corporate or issuer. All relevant departments within the Group were involved to ensure that appropriate processes, systems and controls were set in place before and after the investments were acquired.

(b) *Liquidity risk*

The Group managed the liquidity structure of its assets, liabilities and commitments in view of market conditions and its business needs, as well as to ensure that its operations met with the statutory requirement on minimum liquidity ratio whenever applicable.

Management comprising Directors and senior managers monitored the liquidity position of the Group on an ongoing basis to ensure the availability of sufficient liquid funds to meet all obligations as they fell due and to make the most efficient use of the Group's financial resources.

(c) *Interest rate risk*

Interest rate risk primarily resulted from timing differences in the repricing of interest bearing assets, liabilities and commitments. The Group's interest rate positions arose mainly from treasury, commercial banking and other investment activities undertaken.

The Group monitors its interest-sensitive products and investments and net repricing gap and limits interest rate exposure through management of maturity profile, currency mix and choice of fixed or floating interest rates. The interest rate risk was managed and monitored regularly by senior managers of the Group.

SUPPLEMENTARY INFORMATION *(continued)***Management of risks** *(continued)**(d) Foreign exchange risk*

Foreign exchange risk was the risk to earnings or capital arising from movements of foreign exchange rates. The Group's foreign exchange risk primarily arose from currency exposures originating from its commercial banking activities, foreign exchange dealings and other investment activities.

The Group monitors the relative foreign exchange positions of its assets and liabilities and allocates accordingly to minimise foreign exchange risk. When appropriate, hedging instruments including forward contracts, swaps and currency loans are used to manage the foreign exchange exposure. The foreign exchange risk was managed and monitored on an ongoing basis by senior managers of the Group.

(e) Market risk

Market risk was the risk that changes in interest rates, foreign exchange rates, equity or commodity prices would affect the prices of financial instruments taken or held by the Group. Financial instruments included foreign exchange contracts, interest rate contracts, equity and fixed income securities.

Market risk limits were approved by the Directors of the Group. Actual positions were compared with approved limits and monitored regularly by the Directors and senior managers of the Group. Exposures were measured and monitored on the basis of principal and notional amounts, outstanding balances and pre-determined stop-loss limits. All market risk trading positions were subject to periodic mark-to-market valuation, which was monitored and managed by senior managers of the Group. With respect to the investment accounts, the Group had established evaluation procedures for the selection of investments and fund managers and the Directors and senior managers of the Group perform regular reviews of the operation and performance of these investment accounts and ensure compliance with the market risk limits and guidelines adopted by the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

On the global front, 2003 started on a sombre and uncertain economic note as war clouds loomed over Iraq. Domestically, the sluggish economy of the previous year carried over into 2003 with continuing deflation and rising unemployment. The outbreak of the Severe Acute Respiratory Syndrome ("SARS") in March made further and drastic cuts into domestic economic activities. With the poor sentiment and ample supply of new properties, local property prices continued to go down. Given the market conditions and uncertainty, the Group made a total provision of HK\$103 million (2002 – HK\$166 million) against its local property portfolio. Despite the difficult operating environment during the first half of the year, the Group has been striving for better operating performance, resulting in the Group producing a net profit of HK\$24.7 million for the six months ended 30th June, 2003, in contrast to a loss of HK\$162 million, restated, for the corresponding period of last year. When excluding the impact of the property revaluation and the negative goodwill recognised as income mentioned below, the Group recorded an operating profit before tax of over HK\$93 million.

Results for the period

Turnover for the first six months of 2003 totalled HK\$795 million which was 47 per cent. higher than the HK\$541 million recorded for the same period of 2002, mainly due to a significant increase attributable to property and securities investments. Property investment, securities investment and food businesses remained principal sources of revenue of the Group, contributing 18 per cent. (2002 – 10 per cent.), 36 per cent. (2002 – 15 per cent.) and 36 per cent. (2002 – 49 per cent.), respectively, of the total turnover.

Property

The Group has been focusing on the market in the People's Republic of China ("China") since the last few years in order to seek for a replenished portfolio. The property market in China continued to be robust during the period. The Group was able to dispose of a small portion of its property in China at an attractive price. Despite the disposal, rental income from China properties increased satisfactorily. Lippo Plaza in Shanghai, China with total floor area over 44,000 square metres was almost fully let at the end of the period.

On the other side, the local property market remained bleak, especially after the outbreak of SARS. As aforesaid, a total provision of HK\$103 million (2002 – HK\$166 million) was made against the Group's local property portfolio. The loss was mitigated by a net revaluation surplus of HK\$26 million (2002 – HK\$115 million, restated) arising from China properties. Notwithstanding the extremely difficult conditions in the property leasing market under SARS, the leasing of the Group's investment properties progressed well with high occupancy rates, especially the commercial properties with occupancy rate of over 97 per cent. throughout the period.

Given the quality and the strategic locations of the Group's property portfolio, rental income remained a strong recurring income to the Group and registered an overall increase of 4 per cent.

Securities investment

At the end of June 2003, total investment portfolio stood at HK\$1.7 billion (31st December, 2002 – HK\$1.3 billion). Turnover from securities investment jumped 258 per cent. to HK\$283 million compared with the HK\$79 million recorded in the corresponding period of 2002. The Group responded to reduced deposit rates and diversified into better yielding bonds and equity investments. The performance of the investment portfolio improved substantially, producing realised and unrealised gain totalling HK\$50 million for the period (2002 – loss of HK\$19 million).

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)***Food businesses**

Food businesses mainly comprise wholesale distribution of food and allied fast-moving consumer goods and food manufacturing in Singapore. Despite the economic impact of the SARS outbreak and the continuing downturn in Singapore and regional economies, turnover from food businesses amounted to HK\$285 million, being 6.6 per cent. higher than the HK\$267 million recorded in the same period of 2002. With improved cost and operational efficiencies, income contributed from this segment slightly rose to HK\$5.2 million (2002 – HK\$4.4 million).

Other sector

Share of results of associates included a profit of HK\$15 million (2002 – loss of HK\$30 million) attributable to the Group's 25 per cent. interest in a coal-fired power plant in Putian City, Fujian Province, China. The improved performance of the power plant was due to high level of availability and dispatch level of electricity during the period. Discussions on the new electricity tariff and other terms between the project company, the Fujian provincial authorities, the local power company and the lenders have been ongoing with some encouraging progress.

Other income

During the period, the Group acquired an additional interest of 2.2 per cent. in Hongkong Chinese Limited ("HKCL"), giving rise to a negative goodwill of HK\$40 million which was recognised as income in the profit and loss account. At the end of the period, the Group's effective shareholding in HKCL increased to 73.3 per cent.

Finance costs

Another reason for the increase in the Group's operating profit was the significant reduction of its finance costs. During the period, the Group refinanced certain bank loans with lower cost financing, reducing finance costs by 41 per cent. to HK\$20 million (2002 – HK\$35 million).

Financial position

At 30th June, 2003, total assets and total liabilities of the Group stood at HK\$8.0 billion (31st December, 2002 – HK\$8.1 billion) and HK\$2.2 billion (31st December, 2002 – HK\$2.2 billion, restated), respectively, almost the same as at the end of 2002. Both net asset value of the Group and the consolidated net asset value per share remained constant and stood at HK\$4.1 billion (31st December, 2002 – HK\$4.1 billion, restated) and HK\$0.45 (31st December, 2002 – HK\$0.45, restated), respectively.

At the end of the period, the Group had cash and bank balances of HK\$2.2 billion. This compared with the HK\$2.5 billion at 31st December, 2002 which included certificates of deposit of HK\$1.0 billion which was subsequently redeemed at par. The Group's financial position remained strong with the liquidity ratio standing at 3.3:1 (31st December, 2002 – 2.8:1).

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)***Financial position** *(continued)*

Gearing ratio (total borrowings, net of minority interests, to shareholders' equity) remained the same at 24 per cent. (31st December, 2002 – 24 per cent., restated) which was well below the average among companies in the same industry. The borrowings of the Group as at 30th June, 2003 comprised secured bank loans of HK\$1,131 million (31st December, 2002 – HK\$1,113 million), unsecured bank loans of HK\$20 million (31st December, 2002 – HK\$10 million) and an unsecured loan note of HK\$43.5 million (31st December, 2002 – HK\$58.5 million) issued by the Company to Lippo Limited, an intermediate holding company of the Company.

The bank loans carried interest at floating rates and 42 per cent. (31st December, 2002 – 38 per cent.) of which was repayable within one year. Certain leasehold land and buildings, investment properties, properties under development and shares in certain subsidiaries owned by the Group and certain securities owned by margin clients of the Group have been pledged to secure banking facilities made available to the Group. Almost all the bank loans were denominated in United States dollars or Hong Kong dollars. When appropriate, hedging instruments including forward contracts, swaps and currency loans are used to manage foreign exchange exposures.

Other than those relating to the banking operation, the Group had no material contingent liabilities outstanding as at the end of the period (31st December, 2002 – Nil).

Changes in accounting policies

As a result of the adoption of the revised accounting standard in relation to deferred tax, a provision of deferred tax liabilities of HK\$115 million was retrospectively made in periods prior to 1st January, 2003. Shareholders' funds of the Group and the consolidated net asset value per share as at 31st December, 2002 were restated at HK\$4.1 billion and HK\$0.45, respectively, which were previously reported as HK\$4.2 billion and HK\$0.46, respectively. Loss attributable to shareholders for the six months ended 30th June, 2002 was restated at HK\$162 million which was previously reported as HK\$159 million. Details of the changes are set out in Note 1 to the interim financial statements.

Staff and remuneration

The Group had approximately 730 employees as at 30th June, 2003 (2002 – 780 employees). Total staff costs totalled HK\$95 million which was slightly lower than the HK\$97 million recorded for the same period of 2002. The Group offered competitive remuneration packages to its employees. Certain employees of the Group were granted options under share option schemes of their respective companies.

Outlook

With global and regional economic outlook improving in the recent months, the local economy is also expected to improve in the coming remaining months of the year. The Group shall continue to take advantage of improved operating performance and its strong financial position to seek appropriate new investment opportunities. Management shall continue to adopt a cautious and prudent approach in assessing new investment opportunities.

BUSINESS REVIEW AND PROSPECTS

Business review

The global economy in the first half of the year was adversely affected by the turbulent international political situation and the sluggish U.S. economy. The local economy and business environment, affected by the weak global economic conditions, further deteriorated with the outbreak of the Severe Acute Respiratory Syndrome ("SARS") in March which drastically cut down most of the economic activities. The poor sentiment and the ample supply of new properties further aggravated the local property prices. In view of the adverse local property market conditions, further provisions were made against the Group's local property portfolio. Despite these tough operating conditions, the Group is able to achieve a consolidated net profit attributable to shareholders of HK\$24.7 million for the period under review, compared to a net loss of HK\$162 million for the last corresponding period. Most of the principal subsidiaries have achieved better results for the period under review.

Given further deterioration in the local property market following the outbreak of SARS, property rental rates continued to adjust downwards. In spite of very difficult leasing conditions, the Group's local investment properties still maintained a very high level of occupancy and its rental income remained steady during the period. Lippo Plaza, a grade A office and retail complex situated at Huahai Zhong Road, Shanghai, the People's Republic of China ("China") continued to achieve almost full occupancy at satisfactory rental rates during the period. The Group had disposed of two office floors at Lippo Plaza at an attractive price during the period in order to reap the benefits of the booming property market in Shanghai. The Group has a 66.5 per cent. effective interest in this investment.

The performance of the 724 megawatt (net) coal-fired Meizhou Wan power plant project in Putian City, Fujian Province, China, in which the Group has a 25 per cent. interest, has been satisfactory to-date due to strong electricity demand in Fujian Province. Discussions on the new electricity tariff and other terms between the project company and the Fujian provincial authorities, the local power company and the lenders have been ongoing with some encouraging progress.

Despite the impact of the outbreak of SARS and the continuing downturn in Singapore and regional economies, Auric Pacific Group Limited, a listed subsidiary of the Company in Singapore, achieved a consolidated net profit attributable to shareholders of S\$1.4 million for the period under review, compared to a net loss of S\$5.3 million for the last corresponding period.

Hongkong Chinese Limited ("HKCL"), a listed subsidiary of the Company, and its subsidiaries ("HKCL Group"), recorded a consolidated net profit attributable to shareholders of HK\$44.2 million for the period under review, compared to a net loss of HK\$11.7 million for the last corresponding period.

The sluggish local stock market in the first few months of 2003 affected the business and performance of Lippo Securities Holdings Limited, a wholly-owned subsidiary of HKCL, and its subsidiaries, which are principally engaged in underwriting, securities brokerage, corporate finance, investment advisory and other related financial services. However, aided by the return of foreign and local investors, the recent months saw a pick up in the local stock market, with the sharp increase in the trading volume, sending the Hang Seng Index surging above the 10,000 point level. This return of favourable market conditions will benefit the securities business of the HKCL Group in the months ahead.

BUSINESS REVIEW AND PROSPECTS *(continued)***Business review** *(continued)*

The Macau Chinese Bank Limited ("MCB"), an 85 per cent. owned subsidiary of HKCL, continues to be a regular income earner for the HKCL Group. The recent signing of the Closer Economic Partnership Arrangement ("CEPA") which is aimed at attracting Hong Kong and Macau companies to participate in the Mainland China market, will open up opportunities for companies in the HKCL Group, including MCB, to extend its financial services into the Mainland China market, especially in the Pearl River Delta region.

On 30th January, 2003, HKCL Group acquired a 20 per cent. interest in the Convoy Group, one of the largest independent financial planning service groups in Hong Kong. This alliance will enable the Convoy Group to leverage on the diversified financial services and extensive business network of the Group and in that way, strengthen its position in the independent financial planning industry. HKCL Group's interest in the Convoy Group subsequently increased to approximately 23 per cent.

Against the tough operating conditions in the first half of the year, The Hong Kong Building and Loan Agency Limited ("HKBLA"), a listed subsidiary of the Company, achieved a consolidated net profit attributable to shareholders of HK\$1.9 million, compared to a net profit of HK\$0.2 million for the last corresponding period. HKBLA maintained a very strong liquidity position over the period.

Prospects

With SARS contained since June and Mainland China recent lifting of the restrictions on individual visits to Hong Kong, a surge of Mainland China visitors has stimulated the growth of local consumption which may boost consumers' confidence and investment sentiment. Increase in tourist arrivals and the signing of CEPA will provide momentum to the economic recovery process. Both these factors have already had a positive effect on the level of sentiment of the local property market and as a result now there are signs of a slight improvement. The Hong Kong Government has affirmed its desire and intention to maintain a stable property market. It is hoped that a more balanced situation between the level of supply and the level of demand in the local property market can be attained in the not too distant future and that confidence in the ownership of residential property can be fully restored.

While an upturn in global growth and confidence after the war against Iraq is still yet to be confirmed, the conditions for an upturn have improved, with declining oil prices and the recent rally in stock markets. The global economic activities are generally believed to pick up swiftly during the remainder of the year.

Overall, the Group maintains a positive outlook for the Group's business in the second half of the year and will continue to adopt a cautious and prudent approach in assessing potential new business opportunities.

ADDITIONAL INFORMATION**Interim dividend**

The Directors do not recommend the payment of an interim dividend for the six months ended 30th June, 2003 (2002 – Nil).

Directors' and chief executive's interests and short positions in shares, underlying shares and debentures of the Company and associated corporations

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

(a) Interests in shares of the Company and associated corporations

Name of Director	Personal interests (held as beneficial owner)	Family interests (interest of spouse)	Other interests	Total interests	Approximate percentage of total interests in the issued share capital
Number of ordinary shares of HK\$0.10 each in the Company					
Mochtar Riady	–	–	6,539,460,389 <i>Notes (i) and (ii)</i>	6,539,460,389	71.07
James Riady	–	–	6,539,460,389 <i>Notes (i) and (ii)</i>	6,539,460,389	71.07
Stephen Riady	–	–	6,539,460,389 <i>Notes (i) and (ii)</i>	6,539,460,389	71.07
Number of ordinary shares of HK\$0.10 each in Lippo Limited ("Lippo")					
Mochtar Riady	–	–	248,697,776 <i>Note (i)</i>	248,697,776	56.78
James Riady	–	–	248,697,776 <i>Note (i)</i>	248,697,776	56.78
Stephen Riady	–	–	248,697,776 <i>Note (i)</i>	248,697,776	56.78
John Luen Wai Lee	825,000	–	–	825,000	0.19

ADDITIONAL INFORMATION (continued)**Directors' and chief executive's interests and short positions in shares, underlying shares and debentures of the Company and associated corporations** (continued)(a) *Interests in shares of the Company and associated corporations* (continued)

Name of Director	Personal interests (held as beneficial owner)	Family interests (interest of spouse)	Other interests	Total interests	Approximate percentage of total interests in the issued share capital
Number of ordinary shares of HK\$1.00 each in Hongkong Chinese Limited ("HKCL")					
Mochtar Riady	-	-	987,470,440 <i>Notes (i), (ii) and (iii)</i>	987,470,440	73.32
James Riady	-	-	987,470,440 <i>Notes (i), (ii) and (iii)</i>	987,470,440	73.32
Stephen Riady	-	-	987,470,440 <i>Notes (i), (ii) and (iii)</i>	987,470,440	73.32
John Luen Wai Lee	200	200	-	400	0.00

Note:

- (i) As at 30th June, 2003, Lippo Cayman Limited ("Lippo Cayman"), an associated corporation (within the meaning of Part XV of the SFO) of the Company, and through its wholly-owned subsidiaries, Lippo Capital Limited, J & S Company Limited and Huge Returns Limited, was directly and indirectly interested in an aggregate of 248,697,776 ordinary shares of HK\$0.10 each in, representing approximately 56.78 per cent. of, the issued share capital of Lippo. Lanius Limited ("Lanius"), an associated corporation (within the meaning of Part XV of the SFO) of the Company, was the registered shareholder of 10,000,000 ordinary shares of US\$1.00 each in, representing 100 per cent. of, the issued share capital of Lippo Cayman. Lanius was the trustee of a discretionary trust, of which Dr. Mochtar Riady is the founder and in accordance with whose instructions Lanius was accustomed to act. Dr. Mochtar Riady did not have any interests in the share capital of Lanius. The beneficiaries of the trust included Dr. Mochtar Riady, Mr. James Riady, Mr. Stephen Riady and their respective family members including, inter alia, the children of each of Messrs. James Riady and Stephen Riady under 18 years of age. Dr. Mochtar Riady as the founder of the trust, Messrs. James Riady and Stephen Riady (together with their children under 18 years of age) as beneficiaries of the trust were taken to be interested in Lippo Cayman under the SFO.
- (ii) As at 30th June, 2003, Lippo was indirectly interested in 6,539,460,389 ordinary shares of HK\$0.10 each in, representing approximately 71.07 per cent. of, the issued share capital of the Company.
- (iii) As at 30th June, 2003, the Company was directly and indirectly interested in an aggregate of 987,470,440 ordinary shares of HK\$1.00 each in, representing approximately 73.32 per cent. of, the issued share capital of HKCL.

ADDITIONAL INFORMATION (continued)**Directors' and chief executive's interests and short positions in shares, underlying shares and debentures of the Company and associated corporations** (continued)(a) *Interests in shares of the Company and associated corporations* (continued)

As at 30th June, 2003, Dr. Mochtar Riady, as founder of the aforesaid discretionary trust, and Messrs. James Riady and Stephen Riady (together with their children under 18 years of age), as beneficiaries of the aforesaid discretionary trust, through their interests in Lippo Cayman as mentioned in Note (i) above, were also taken to be interested in the share capital of the following associated corporations (within the meaning of Part XV of the SFO) of the Company:

Name of associated corporation	Class of shares	Number of shares interested	Approximate percentage of interests in the issued share capital
Abital Trading Pte. Limited	Ordinary shares	2	100
AcrossAsia Multimedia Limited	Ordinary shares	3,669,576,788	72.45
		(Note a)	
Actfield Limited	Ordinary shares	1	100
Boudry Limited	Ordinary shares	1,000	100
Congrad Holdings Limited	Ordinary shares	1	100
Cyport Limited	Ordinary shares	1	100
East Winds Food Pte Ltd.	Ordinary shares	400,000	88.88
		(Note b)	
First Bond Holdings Limited	Ordinary shares	1	100
First Tower Corporation	Ordinary shares	1	100
		(Note c)	
Gainfield Enterprise Limited	Ordinary shares	1	100
Glory Power Worldwide Limited	Ordinary shares	1	100
Grand Peak Investment Limited	Ordinary shares	2	100
Huge Returns Limited	Ordinary shares	1	100
J & S Company Limited	Ordinary shares	1	100
Lippo Assets (International) Limited	Ordinary shares	1,000,000	100
	Non-voting deferred shares	15,000,000	100
Lippo Capital Limited	Ordinary shares	705,690,000	100
Lippo Energy Company N.V.	Ordinary shares	6,000	100
Lippo Finance Limited	Ordinary shares	6,176,470	82.35
Lippo Holding America Inc.	Ordinary shares	1	100
Lippo Holding Company Limited	Ordinary shares	2,500,000	100
	Non-voting deferred shares	7,500,000	100
Lippo Investments Limited	Ordinary shares	2	100
Lippo Leisure Holdings Limited	Ordinary shares	2	100
Lippo Realty Limited	Ordinary shares	2	100
Multi-World Builders & Development Corporation	Ordinary shares	4,080	51

ADDITIONAL INFORMATION (continued)**Directors' and chief executive's interests and short positions in shares, underlying shares and debentures of the Company and associated corporations** (continued)(a) *Interests in shares of the Company and associated corporations* (continued)

Name of associated corporation	Class of shares	Number of shares interested	Approximate percentage of interests in the issued share capital
Nelton Limited	Ordinary shares	10,000	100
Pointbest Limited	Ordinary shares	1	100
Sinotrend Global Holdings Limited	Ordinary shares	1	100
Skyscraper Realty Limited	Ordinary shares	10	100
		<i>(Note d)</i>	
The HCB General Investment (Singapore) Pte Ltd. ("HCB General")	Ordinary shares	70,000	70
The Hong Kong Building and Loan Agency Limited	Ordinary shares	168,313,038	74.80
		<i>(Note e)</i>	
Valencia Development Limited	Ordinary shares	800,000	100
	Non-voting deferred shares	200,000	100

Note:

- a. The interests included 219,600,000 ordinary shares held by Mideast Pacific Strategic Holdings Limited in which Lippo Cayman controlled a 30 per cent. interest.
- b. The interests were held by HCB General, a 70 per cent. owned subsidiary of Lippo Cayman.
- c. The interest was held by Lippo, a 56.78 per cent. owned subsidiary of Lippo Cayman.
- d. The interests were held through Lippo, a 56.78 per cent. owned subsidiary of Lippo Cayman.
- e. The interests were held through the Company, a 71.07 per cent. owned subsidiary of Lippo which in turn was a 56.78 per cent. owned subsidiary of Lippo Cayman.

As at 30th June, 2003, each of Messrs. James Riady and Stephen Riady, as beneficial owners, was directly interested in 5 ordinary shares of HK\$1.00 each in, representing 25 per cent. of, the issued share capital of Lanius which was the registered shareholder of 10,000,000 ordinary shares of US\$1.00 each in, representing 100 per cent. of, the issued share capital of Lippo Cayman. Lanius was the trustee of a discretionary trust, of which Dr. Mochtar Riady is the founder. Dr. Mochtar Riady did not have any interests in the share capital of Lanius but the shareholders of Lanius were accustomed to act in accordance with his instructions.

As at 30th June, 2003, Mr. John Luen Wai Lee, as beneficial owner, was also interested in 230,000 ordinary shares of HK\$0.10 each in, representing approximately 0.0045 per cent. of, the issued share capital of AcrossAsia Multimedia Limited, an associated corporation (within the meaning of Part XV of the SFO) of the Company.

ADDITIONAL INFORMATION (continued)**Directors' and chief executive's interests and short positions in shares, underlying shares and debentures of the Company and associated corporations** (continued)(b) *Interests in underlying shares of the Company*

Name of Director	Type of interest	Number of underlying shares of HK\$0.10 each in respect of which options have been granted*	Approximate percentage of the issued share capital
John Luen Wai Lee	Personal (held as beneficial owner)	9,000,000	0.09

* The options were granted on 23rd June, 1997 at a consideration of HK\$1.00 per grantee under the Share Option Scheme for Employees adopted by the Company (the "Share Option Scheme"). Such options vested after two months from the date when the options were deemed to be granted and accepted and are exercisable from August 1997 to June 2007 in accordance with the rules of the Share Option Scheme to subscribe for ordinary shares in the Company at an initial exercise price of HK\$5.30 per share (subject to adjustment). Pursuant to the bonus issue of new shares in the ratio of one for one in October 1997, the rights issue of new shares in July 1999 on the basis of one rights share for every one share held and the rights issue of new shares in November 2000 on the basis of one rights share for every two shares held, the holder of each option is entitled to subscribe for six ordinary shares of HK\$0.10 each in the Company at an exercise price of HK\$0.883 per share (subject to adjustment). None of the options were exercised by the above Director during the six months ended 30th June, 2003 and the quantity of options held by the above Director as at 1st January, 2003 and 30th June, 2003 remained unchanged.

The above interest in the underlying shares of the Company was held pursuant to unlisted physically settled equity derivatives. As at 30th June, 2003, none of the Directors or chief executive of the Company had any interests in the underlying shares in respect of cash settled or other equity derivatives of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

(c) *Interests in debentures of the Company's associated corporation*

As at 30th June, 2003, Dr. Mochtar Riady, Messrs. James Riady and Stephen Riady (together with the children of each of Messrs. James Riady and Stephen Riady under 18 years of age), through their interests in Lippo Cayman as mentioned in Note (i) above, were taken to be interested in the debentures issued by Lippo Commercial Paper Limited, an associated corporation (within the meaning of Part XV of the SFO) of the Company, in a principal amount of US\$5,500,000. Such interest was held through HKCL, a 73.32 per cent. owned subsidiary of the Company which in turn was a 71.07 per cent. owned subsidiary of Lippo. Lippo was a 56.78 per cent. owned subsidiary of Lippo Cayman.

Certain Directors have non-beneficial personal equity interests in certain subsidiaries of the Company held for the benefit of the Group solely for the purpose of holding the requisite qualifying shares.

All the interests stated above represent long positions. Save as disclosed herein, as at 30th June, 2003, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be recorded in the register kept by the Company under Section 352 of the SFO or which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

ADDITIONAL INFORMATION *(continued)***Directors' and chief executive's interests and short positions in shares, underlying shares and debentures of the Company and associated corporations** *(continued)*

Save as disclosed herein, as at 30th June, 2003, none of the Directors or chief executive of the Company nor their spouses or children under 18 years of age, were granted or had exercised any rights to subscribe for any equity or debt securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

Interests and short positions of shareholders discloseable under the Securities and Futures Ordinance

As at 30th June, 2003, so far as is known to the Directors of the Company, the following persons (other than Directors or chief executive of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the Securities and Futures Ordinance (the "SFO") as follows:

Interests of substantial shareholders in shares of the Company

Name	Number of ordinary shares of HK\$0.10 each	Approximate percentage of the issued share capital
Lippo Limited ("Lippo")	6,539,460,389	71.07
Lippo Cayman Limited ("Lippo Cayman")	6,539,460,389	71.07
Lanius Limited ("Lanius")	6,539,460,389	71.07
Madam Lidya Suryawaty	6,539,460,389	71.07

Note:

- 6,539,460,389 ordinary shares of the Company were held by Skyscraper Realty Limited directly as beneficial owner which in turn was a wholly-owned subsidiary of First Tower Corporation ("First Tower"). First Tower was a wholly-owned subsidiary of Lippo. Lippo Cayman, and through its wholly-owned subsidiaries, Lippo Capital Limited (which owned approximately 49.97 per cent. interest in the issued share capital of Lippo), J & S Company Limited and Huge Returns Limited, was directly and indirectly interested in approximately 56.78 per cent. of the issued share capital of Lippo.
- Lanius was the registered shareholder of the entire issued share capital of Lippo Cayman and was the trustee of a discretionary trust, of which Dr. Mochtar Riady is the founder. The beneficiaries of the trust included Dr. Mochtar Riady and his family members. Madam Lidya Suryawaty is the spouse of Dr. Mochtar Riady. Dr. Mochtar Riady was not the registered holder of any shares in the issued share capital of Lanius.
- Lippo's interests in the shares of the Company were recorded as the interests of Lippo Cayman, Lanius and Madam Lidya Suryawaty. The above ordinary shares in the Company related to the same block of shares that Dr. Mochtar Riady, Messrs. James Riady and Stephen Riady were interested, details of which were disclosed in the above section headed "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures of the Company and associated corporations".

All the interests stated above represent long positions. Save as disclosed herein, as at 30th June, 2003, none of the substantial shareholders or other persons (other than Directors or chief executive of the Company) had any interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

ADDITIONAL INFORMATION (continued)**Share option schemes**

Pursuant to the Share Option Scheme for Employees of the Company (the "Share Option Scheme") approved and adopted by its shareholders on 2nd May, 1994 (the "Adoption Date"), the Directors of the Company may, at their discretion, grant to any employees (including Directors) of the Company and its subsidiaries options to subscribe for shares in the Company. The purpose of the adoption of the Share Option Scheme was to provide an incentive scheme to the employees of the Company and its subsidiaries. Under the rules of the Share Option Scheme, no more options can be granted from the tenth anniversary of the Adoption Date. The options can be exercisable after two months from the date on which the options are deemed to be granted and accepted and prior to the expiry of ten years from that date.

The maximum number of shares in respect of which options may be granted under the Share Option Scheme shall not exceed 10 per cent. of the number of issued shares of the Company from time to time, excluding the aggregate number of shares issued on exercise of options, and the maximum number of shares in respect of which options may be granted under the Share Option Scheme in any one financial year shall not exceed 5 per cent. of the total number of issued shares of the Company from time to time. In addition, the maximum number of shares in respect of which options may be granted under the Share Option Scheme to any grantee shall not exceed 25 per cent. of the number of shares subject to the Share Option Scheme at the time of grant. The exercise price for the share under the Share Option Scheme will be determined by the Directors of the Company at their absolute discretion but in any event shall not be less than 80 per cent. of the average of the closing price of the shares of the Company as stated on daily quotation sheets of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the five trading days immediately preceding the date of offer of the option or the nominal value of the shares of the Company, whichever is the greater. The consideration for the grant is HK\$1.00 per grantee which must be paid on acceptance to the Company by the grantee within 28 days after the date of offer of the option.

The following is a summary of movement in share options of the Company during the six months ended 30th June, 2003:

Date of grant	Exercise price per share	Exercise period of share options	Quantity of share options outstanding at 1st January, 2003	Quantity of share options exercised/lapsed during the period	Quantity of share options outstanding at 30th June, 2003
23rd June, 1997	HK\$0.883	August 1997 to June 2007	5,800,000	Nil	5,800,000

Pursuant to the bonus issue of new shares in the ratio of one for one in October 1997, the rights issue of new shares in July 1999 on the basis of one rights share for every one share held and the rights issue of new shares in November 2000 on the basis of one rights share for every two shares held, the holder of each share option is entitled to subscribe for six shares of HK\$0.10 each in the Company in cash at the above exercise price per share which is subject to adjustment.

ADDITIONAL INFORMATION *(continued)***Share option schemes** *(continued)*

As at 30th June, 2003, save for Mr. John Luen Wai Lee, a Director of the Company, held 1,500,000 options, none of the Directors, chief executive or substantial shareholders of the Company or their respective associates had an interest in any options to subscribe for shares of the Company. The remaining 4,300,000 share options are held by Directors of the Company's subsidiaries or employees of the Company or its subsidiaries.

As at the date of this report, the total number of shares available for issue under the Share Option Scheme is 920,108,871 shares of HK\$0.10 each, representing approximately 10 per cent. of the issued share capital of the Company. The exercise in full of 5,800,000 share options would, under the present capital structure of the Company, result in the issue of 34,800,000 shares of HK\$0.10 each, representing approximately 0.38 per cent. of the issued share capital of the Company.

Since no share options were granted under the Share Option Scheme during the six months ended 30th June, 2003, no value of the share options granted has been disclosed.

On 1st September, 2001, Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange was amended whereby if the Company wishes to continue to grant share options under the Share Option Scheme on or after 1st September, 2001, it must also comply with the new requirements set out therein.

Details of the share option scheme of a subsidiary of the Company are set out below.

Pursuant to the Executives' Share Option Scheme of Auric Pacific Group Limited ("Auric"), a listed subsidiary of the Company in Singapore, approved by the shareholders of Auric on 17th December, 1992 (the "Auric Share Option Scheme"), the directors of Auric might, at their discretion, grant to any employees of Auric or any of its subsidiaries (the "Auric Group") options to subscribe for shares in Auric. The purpose of the adoption of the Auric Share Option Scheme was to provide opportunities for full-time senior executives of the Auric Group of the rank of manager and above (including full-time executive directors of Auric) who have contributed to the growth and prosperity of the Auric Group to participate in the equity of Auric. The Auric Share Option Scheme continued in operation for a period of ten years from the date of adoption, that is, 17th December, 1992 and expired after 16th December, 2002. The share options should be held for one year from the date of grant before they could be exercised.

The total number of shares in respect of which Auric might grant options should at no time exceed 5 per cent. of the total issued share capital of Auric (the "Issue Limit"). The total number of shares for which Auric might grant options in any one financial year should not exceed 10 per cent. of the Issue Limit (the "Annual Limit") provided that any part of the Annual Limit not utilized might, subject to any necessary approvals, be carried forward to succeeding financial years and for this purpose, the unutilized Annual Limit of a financial year should be added to and form part of the Annual Limit of the next succeeding year. The maximum number of shares of Auric in respect of which options might be granted to any single executive for the entire duration of the Auric Share Option Scheme should not in aggregate exceed 1,000,000 shares of Auric. The maximum entitlement of each participant under the Auric Share Option Scheme is as follows:

ADDITIONAL INFORMATION (continued)**Share option schemes** (continued)

Category	Maximum entitlement of shares of Auric
Chief Executive Officer	200,000
Chief Financial Officer	100,000
Divisional Directors	100,000
General Managers	30,000
Assistant General Managers	20,000
Business Managers	15,000

The exercise price for the shares under the Auric Share Option Scheme would be an amount equal to the greater of the nominal value of the shares of Auric and the average of the last transacted prices of the shares of Auric for the five consecutive market days on which dealings in shares took place on the Singapore Exchange Securities Trading Limited immediately preceding the date on which the share options were offered. The consideration for the grant was S\$1.00 per grantee which must be paid on acceptance to Auric within 30 days after the date of offer of the options.

The following is a summary of movements in share options of Auric during the six months ended 30th June, 2003:

Date of grant	Exercise price per share	Exercise period of share options	Quantity of share options outstanding at 1st January, 2003	Quantity of share options lapsed during the period	Quantity of share options outstanding at 30th June, 2003
25th March, 1998	S\$1.02	March 1999 to March 2003	60,000	60,000	Nil
27th April, 1999	S\$1.53	April 2000 to April 2004	90,000	Nil	90,000
			150,000	60,000	90,000

The holder of each share option is entitled to subscribe for one share of S\$0.50 in Auric in cash at the above exercise price per share which is subject to adjustment. During the six months ended 30th June, 2003, no options were exercised and options for 60,000 shares of S\$0.50 each lapsed on 24th March, 2003 as the options were no longer exercisable due to the expiry of the exercise period for options granted on 25th March, 1998.

As at 30th June, 2003, none of the Directors, chief executive or substantial shareholders of the Company or their respective associates had an interest in any options to subscribe for shares of Auric. The above interests in options to subscribe for shares of Auric were held by the employees of the Auric Group.

Since no share options were granted under the Auric Share Option Scheme during the six months ended 30th June, 2003, no value of the share options granted has been disclosed.

ADDITIONAL INFORMATION *(continued)*

Share option schemes *(continued)*

The exercise in full of the remaining options which had been granted would, under the present capital structure of Auric, result in the issue of 90,000 shares of S\$0.50 each, representing 0.07 per cent. of the issued share capital of Auric.

Purchase, sale or redemption of securities

During the six months ended 30th June, 2003, there was no purchase, sale or redemption of securities of the Company by the Company or any of its subsidiaries.

Audit committee

The Company has established an audit committee (the "Committee") in accordance with paragraph 14 of 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. The members of the Committee are Messrs. Leon Nim Leung Chan and Edwin Neo, independent non-executive Directors of the Company, and the Committee meets regularly. The Committee has reviewed with the management of the Company the accounting principles and practices adopted by the Group and financial reporting matters including the review of the unaudited interim financial statements for the six months ended 30th June, 2003.

Code of Best Practice

In the opinion of the Directors, the Company has complied 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 throughout the period, except that the non-executive Directors are not appointed for a specific term but are subject to retirement by rotation and re-election at the Company's annual general meetings in accordance with the Company's Articles of Association.

By Order of the Board
Lippo China Resources Limited
John Luen Wai Lee
Director

Hong Kong, 19th September, 2003