香港建設（控股）有限公司
HONG KONG CONSTRUCTION (HOLDINGS) LIMITED

2003

INTERIM REPORT

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the six months ended 30 June 2003 – unaudited
(Expressed in Hong Kong dollars)

		Six months ended 30 June	
		2003	2002 restated
	Note	***$ Million***	*$ Million*
Turnover	*3*	**784.6**	709.8
Cost of sales		**(777.3)**	(773.9)
Gross profit/(loss)		**7.3**	(64.1)
Other revenue	*4*	**6.0**	11.6
Other net (loss)/income	*5(a)*	**(1.6)**	12.8
Administrative expenses		**(43.9)**	(46.0)
Other operating expenses	*5(b)*	**(45.7)**	(13.0)
Loss from operations		**(77.9)**	(98.7)
Finance costs	*5(c)*	**(76.2)**	(63.1)
Share of profits less losses of associates		**(7.4)**	30.1
Share of profits less losses of jointly controlled entities		**(2.8)**	(6.3)
Loss from ordinary activities before taxation	*5*	**(164.3)**	(138.0)
Taxation	*6*	**1.2**	(0.5)
Loss from ordinary activities after taxation		**(163.1)**	(138.5)
Minority interests		**0.5**	–
Loss attributable to shareholders		**(162.6)**	(138.5)
Loss per share			
Basic	*7*	**(26.7) cents**	(22.8) cents

The notes on pages 5 to 17 form part of this interim financial report.

CONSOLIDATED BALANCE SHEET
at 30 June 2003 – unaudited
(Expressed in Hong Kong dollars)

	Note	At 30 June 2003 $ Million	At 31 December 2002 restated $ Million
ASSETS			
Non-current assets			
Fixed assets	*8*		
– Investment properties		**404.4**	429.5
– Other property, plant and equipment		**30.1**	30.3
		434.5	459.8
Properties held for development		**397.0**	397.0
Interest in associates	*9*	**1,653.0**	1,613.7
Interest in jointly controlled entities	*10*	**70.7**	39.1
Non-current receivables		**422.6**	367.2
Other non-current financial assets		**18.1**	18.1
Pledged deposits		**13.0**	13.8
		3,008.9	2,908.7
Current assets			
Properties held for sale	*11*	**256.0**	298.0
Trading securities		**0.2**	0.3
Trade and other receivables	*12*	**666.5**	946.4
Pledged deposits		**143.3**	173.4
Cash and cash equivalents	*13*	**106.1**	261.1
		1,172.1	1,679.2
TOTAL ASSETS		**4,181.0**	4,587.9
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	*15*	**607.9**	607.9
Reserves	*16*	**(242.6)**	(80.0)
		365.3	527.9
Minority interests		**188.3**	183.9
Non-current liabilities			
Bank loans	*17*	**94.2**	–
Creditors and accrued expenses		**160.7**	149.1
Amounts due to associates	*9*	**32.4**	31.6
		287.3	180.7
Current liabilities			
Trade and other payables	*14*	**1,361.7**	1,607.0
Bank loans and overdraft	*17*	**1,721.5**	1,816.6
Floating rate notes	*18*	**187.9**	205.5
Taxation		**69.0**	66.3
		3,340.1	3,695.4
TOTAL EQUITY AND LIABILITIES		**4,181.0**	4,587.9

The notes on pages 5 to 17 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2003 – unaudited
(Expressed in Hong Kong dollars)

		Six months ended 30 June	
		2003	2002 restated
	Note	***$ Million***	*$ Million*
Shareholders' equity at 1 January			
– as previously reported		**584.0**	1,089.3
– prior period adjustment arising from change in accounting policy for deferred tax	*1(a)*	**(56.1)**	(54.6)
– as restated		**527.9**	1,034.7
Exchange differences on translation of the financial statements of foreign entities		**–**	(1.0)
Net losses not recognised in the profit and loss account		**–**	(1.0)
Net loss for the period, as previously reported			(139.4)
– prior period adjustment arising from change in accounting policy for deferred tax	*1(a)*		0.9
Net loss for the period (2002: as restated)	*16*	**(162.6)**	(138.5)
Realisation of exchange reserve on disposal of a subsidiary		**–**	(2.7)
Realisation of revaluation reserves on disposal of non-trading securities		**–**	0.4
		(162.6)	(140.8)
Shareholders' equity at 30 June		**365.3**	892.9

The notes on pages 5 to 17 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
for the six months ended 30 June 2003 – unaudited
(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2003	2002
	$ Million	*$ Million*
Net cash used in operating activities	**(73.9)**	(170.1)
Net cash (used in)/from investing activities	**(64.3)**	23.0
Net cash used in financing activities	**(16.8)**	(5.9)
Net decrease in cash and cash equivalents	**(155.0)**	(153.0)
Cash and cash equivalents at 1 January	**261.1**	433.2
Cash and cash equivalents at 30 June	**106.1**	280.2

The notes on pages 5 to 17 form part of this interim financial report.

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

1. Basis of preparation

This interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports", issued by the Hong Kong Society of Accountants ("HKSA"). KPMG's independent review report to the board of directors is included on page 18.

The interim financial report has been prepared in accordance with the requirements of the Main Board Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), including compliance with Statement of Standard Accounting Practice 25 "Interim financial reporting" issued by the HKSA.

The financial information relating to the financial year ended 31 December 2002 included in the interim financial report does not constitute the group's statutory accounts for that financial year but is derived from those accounts. Statutory accounts for the year ended 31 December 2002 are available from the company's registered office. The auditors have expressed a qualified opinion on those accounts in their report dated 23 April 2003.

The same accounting policies adopted in the 2002 annual accounts have been applied to the interim financial report, except that the group has adopted the following revised Statement of Standard Accounting Practice ("SSAP") which became effective for the current accounting period.

(a) *SSAP 12 (revised) "Income taxes"*

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

Deferred tax assets and liabilities arise from deductible and taxable temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases respectively. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. The limited exceptions are temporary differences arising from goodwill not deductible for tax purposes, negative goodwill treated as deferred income, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

As a result of the adoption of this accounting policy, the group's loss for the period has been decreased by $1.5 million (6 months ended 30 June 2002: $0.9 million) and the net assets as at 30 June 2003 have been decreased by $54.6 million (at 31 December 2002: $56.1 million).

The new accounting policy has been adopted retrospectively, with the opening balance of accumulated losses and reserves and the comparative information adjusted for the amounts relating to prior periods as disclosed in the consolidated statement of changes in equity.

2. Going concern basis

On 1 December 2000, the company requested an informal standstill arrangement with its bankers on the payment of all Hong Kong bank loan principal and interest totalling approximately $1.9 billion, pending negotiation and agreement on a formal debt restructuring plan. The company has also requested a similar standstill arrangement with the holders of the floating rate notes ("the FRNs") with an outstanding balance of US$37 million issued by Hong Kong Construction (Capital) Limited, a wholly-owned subsidiary of the company. The FRNs were due for repayment on 13 December 2000. In accordance with the terms of the issue of the FRNs and the bank facility agreements, the group was in default of the FRNs and all its bank borrowings.

On 27 August 2002, the company and its wholly-owned subsidiaries entered into a restructuring agreement ("the Restructuring Agreement") with its bank creditors setting out the general terms and principles that will form the basis of the formal restructuring of the group's Hong Kong bank indebtedness. The holders of the FRNs have also been offered similar terms. The documentation and closing of the formal restructuring, which will be subject to certain conditions precedent, was expected to occur on or before 31 December 2002 or such later date as the bank creditors may agree with the company ("Long Stop Date"). The Long Stop Date was extended to 31 March 2003 and thereafter to 30 June 2003 and is currently being extended on a weekly basis. At the date of this report, the Long Stop Date has been extended to 29 September 2003.

In January 2003, pledged deposits of $147.3 million were distributed to the bank creditors and the holders of the FRNs as partial repayment in proportion to their outstanding principal and interest.

The directors are currently taking active steps with a view to achieve closing of the formal debt restructuring as soon as practicable and continue to implement the proposed property asset disposal strategy included in the Restructuring Agreement. The directors believe that the ongoing support from its bankers will continue and the measures to be taken under the debt restructuring plan will enable the group to continue in operational existence for the foreseeable future.

Accordingly, the directors are satisfied that it is appropriate to prepare the interim financial report on a going concern basis, notwithstanding the group's financial position as at 30 June 2003. Should the group be unable to continue in business as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effects of these adjustments have not been reflected in the interim financial report.

3. Segmental information

An analysis of the group's revenue and results for the period by the location of customers is as follows:

	Hong Kong *$ Million*	The People's Republic of China *$ Million*	Unallocated *$ Million*	Consolidated *$ Million*
Six months ended 30 June 2003 –				
Revenue from external customers	**364.8**	**419.8**	**–**	**784.6**
Other revenue	**–**	**4.2**	**1.8**	**6.0**
Total revenue	**364.8**	**424.0**	**1.8**	**790.6**
Segment profit	**7.0**	**2.6**		**9.6**
Unallocated operating income and expenses				**(87.5)**
Loss from operations				**(77.9)**

	Hong Kong *$ Million*	The People's Republic of China *$ Million*	Unallocated *$ Million*	Consolidated *$ Million*
Six months ended 30 June 2002 –				
Revenue from external customers	669.3	40.5	–	709.8
Other revenue	–	4.6	7.0	11.6
Total revenue	669.3	45.1	7.0	721.4
Segment profit/(loss)	(71.2)	11.7		(59.5)
Unallocated operating income and expenses				(39.2)
Loss from operations				(98.7)

An analysis of the group's revenue and results for the period by business segments is as follows:

	Construction *$ Million*	Property leasing *$ Million*	Property development and sales *$ Million*	Unallocated *$ Million*	Consolidated *$ Million*
Six months ended 30 June 2003 –					
Revenue from external customers	**753.7**	**10.1**	**20.8**	**–**	**784.6**
Other revenue	**–**	**4.2**	**–**	**1.8**	**6.0**
Total revenue	**753.7**	**14.3**	**20.8**	**1.8**	**790.6**
Segment profit/(loss)	**(1.6)**	**12.4**	**(1.2)**		**9.6**
Unallocated operating income and expenses					**(87.5)**
Loss from operations					**(77.9)**

	Construction	Property leasing	Property development and sales	Unallocated	Consolidated
	$ Million	*$ Million*	*$ Million*	*$ Million*	*$ Million*
Six months ended 30 June 2002 –					
Revenue from external customers	700.8	9.0	–	–	709.8
Other revenue	–	4.6	–	7.0	11.6
Total revenue	700.8	13.6	–	7.0	721.4
Segment profit/(loss)	(73.1)	13.6	–		(59.5)
Unallocated operating income and expenses					(39.2)
Loss from operations					(98.7)

4. Other revenue

	Six months ended 30 June	
	2003	2002
	$ Million	*$ Million*
Interest income	**1.1**	3.4
Property fee income	**4.2**	4.6
Other income	**0.7**	3.6
	6.0	11.6

5. Loss from ordinary activities before taxation

Loss from ordinary activities before taxation is arrived at after charging/(crediting):

	Six months ended 30 June	
	2003	2002
	$ Million	*$ Million*
(a) Other net loss/(income)		
Net unrealised loss on trading securities carried at fair value	**0.1**	0.1
Exchange (gain)/loss	**(0.3)**	9.1
Loss/(profit) on disposal of fixed assets	**1.7**	(15.5)
Gain on liquidation of a subsidiary	**–**	(7.0)
Others	**0.1**	0.5
	1.6	(12.8)

		Six months ended 30 June	
		2003	2002
		$ Million	*$ Million*
(b)	**Other operating expenses**		
	Provision for properties held for sale	**20.0**	–
	Impairment loss on fixed assets	**9.3**	–
	Provision for bad and doubtful debts	**5.4**	–
	Tendering costs and other unallocated contract costs	**9.6**	12.8
	Others	**1.4**	0.2
		45.7	13.0

The comparative figure of "Tendering costs and other unallocated contract costs" has been reclassified from "Cost of sales" to "Other operating expenses" to conform with the current period's presentation.

		Six months ended 30 June	
		2003	2002
		$ Million	*$ Million*
(c)	**Finance costs**		
	Interest on bank advance and other borrowings repayable within five years	**76.2**	63.1

		Six months ended 30 June	
		2003	2002
		$ Million	*$ Million*
(d)	**Other items**		
	Depreciation	**0.8**	1.2

6. Taxation

	Six months ended 30 June	
	2003	2002 restated
	$ Million	*$ Million*
PRC taxation	**(0.8)**	0.9
Share of associates' taxation	**(0.4)**	(0.4)
Tax (credit)/charge	**(1.2)**	0.5

No provision has been made for Hong Kong profits tax as the company and its subsidiaries in Hong Kong sustained losses for taxation purposes during the period. PRC taxation is calculated at rates of tax applicable in cities in which the group is assessed for tax.

7. Loss per share

(a) Basic loss per share

The calculation of basic loss per share is based on loss attributable to shareholders of $162.6 million (2002 restated: $138.5 million) and on 607.9 million (2002: 607.9 million) ordinary shares in issue during the period.

(b) Diluted loss per share

There were no dilutive potential ordinary shares in existence during the six months ended 30 June 2003 and 2002.

8. Fixed assets

Investment properties were not revalued at 30 June 2003 as the directors considered that the value of investment properties did not differ significantly between 31 December 2002 and 30 June 2003.

9. Interest in associates

	At 30 June 2003	At 31 December 2002 restated
	$ Million	*$ Million*
Share of net deficits	**(442.8)**	(430.2)
Amounts due from associates, less provision	**2,095.8**	2,043.9
	1,653.0	1,613.7
Amounts due to associates	**(32.4)**	(31.6)
	1,620.6	1,582.1

The balances with associates are unsecured and not expected to be settled within one year.

The amounts due from associates include $55.8 million (at 31 December 2002: $54.4 million) which is interest-bearing.

10. Interest in jointly controlled entities

	At 30 June 2003	At 31 December 2002
	$ Million	*$ Million*
Share of net deficits	**(106.5)**	(103.6)
Amounts due from jointly controlled entities	**177.2**	142.7
	70.7	39.1

The balances with jointly controlled entities are unsecured, interest-free and not expected to be settled within one year.

11. Properties held for sale

Included in properties held for sale are amounts of $256.0 million (at 31 December 2002: $298.0 million), stated net of a provision, made in order to state these properties at the lower of their cost and estimated net realisable value.

12. Trade and other receivables

	At 30 June 2003	At 31 December 2002
	$ Million	*$ Million*
Gross amount due from customers for contract work	**121.0**	338.5
Debtors, deposits and prepayments	**545.5**	607.9
	666.5	946.4

Included in trade and other receivables are trade debtors (net of specific provisions for bad and doubtful debts) with the following ageing analysis:

	At 30 June 2003	At 31 December 2002
	$ Million	*$ Million*
0 to less than 2 months	**172.5**	169.5
2 to less than 6 months	**21.8**	4.3
6 to less than 12 months	**4.9**	9.9
12 months and more	**98.7**	103.7
	297.9	287.4
Retention monies receivable due within one year	**133.8**	132.9
	431.7	420.3

The group's credit terms for contracting business are negotiated with and entered into under normal commercial terms with its trade customers. Interim applications for progress payments in construction contracts are normally on a monthly basis and settled within one month with retention monies withheld but released on the issuance of relevant certificates.

13. Cash and cash equivalents

	At 30 June 2003 *$ Million*	At 31 December 2002 *$ Million*
Deposits with banks and other financial institutions	**26.5**	32.4
Cash at bank and on hand	**79.6**	228.7
	106.1	261.1

14. Trade and other payables

	At 30 June 2003 *$ Million*	At 31 December 2002 *$ Million*
Advances received from a jointly controlled entity	**–**	181.0
Creditors and accrued expenses	**1,218.9**	1,269.0
Gross amount due to customers for contract work	**22.8**	37.0
Other loan *(note 17)*	**120.0**	120.0
	1,361.7	1,607.0

Included in trade and other payables are trade creditors with the following ageing analysis:

	At 30 June 2003 *$ Million*	At 31 December 2002 *$ Million*
0 to less than 2 months	**74.8**	150.6
2 to less than 6 months	**18.5**	42.9
6 to less than 12 months	**29.5**	60.3
12 months and more	**81.8**	48.9
	204.6	302.7
Retention monies payable due within one year	**123.3**	150.7
	327.9	453.4

15. Share capital

	No. of shares	*$ Million*
Issued and fully paid:		
At 1 January and 30 June 2003	607,853,996	607.9

The company has a share option scheme which was adopted on 22 January 1998 ("the Adoption Date") whereby the directors of the company at any time within 10 years after the Adoption Date are authorised, at their discretion, to invite employees of the group, including directors of any company in the group, to take up options to subscribe for shares of the company. The exercise price of option is determined by the board in accordance with Chapter 17 of the Listing Rules. The options vest after 6 months and are exercisable for various periods of not exceeding $9^1/_2$ years commencing 6 months after the date on which the grant of the option is accepted, or up to 21 January 2008, whichever is earlier. Each option gives the holder the right to subscribe for one share.

At 30 June 2003, terms of unexpired and unexercised share options were:

Date granted	Exercise period	Exercise price	Number
20 May 1998	20 November 1998 to 19 May 2005	$3.48	12,420,000
18 June 1998	18 December 1998 to 18 June 2005	$2.29	2,950,000
28 September 1998	28 March 1999 to 28 September 2005	$1.48	3,000,000

16. Reserves

	Share premium $ Million	Capital redemption reserve $ Million	Capital reserve $ Million	Exchange reserve $ Million	Investment properties revaluation reserve $ Million	Accumulated losses $ Million	Total $ Million
At 1 January 2003							
– as previously reported	1,369.6	14.6	175.7	(18.9)	0.4	(1,565.3)	(23.9)
– prior period adjustment in respect of deferred tax (note 1(a))	–	–	(24.4)	–	–	(31.7)	(56.1)
– as restated	1,369.6	14.6	151.3	(18.9)	0.4	(1,597.0)	(80.0)
Loss for the period	–	–	–	–	–	(162.6)	(162.6)
At 30 June 2003	**1,369.6**	**14.6**	**151.3**	**(18.9)**	**0.4**	**(1,759.6)**	**(242.6)**

17. Interest-bearing borrowings

At 30 June 2003, the interest-bearing borrowings were secured as follows:

Current liabilities	**At 30 June 2003** *$ Million*	At 31 December 2002 *$ Million*
Bank overdraft		
– secured	**59.1**	49.4
Bank loans		
– secured	**1,611.5**	1,716.3
– unsecured	**50.9**	50.9
	1,721.5	1,816.6
Other loan *(note 14)*		
– unsecured	**120.0**	120.0
Floating rate notes *(note 18)*		
– secured	**187.9**	205.5
Non-current liabilities		
Bank loans		
– unsecured	**94.2**	–

The other loan is from a related party, China Everbright Holdings Company Limited, and is unsecured, interest-bearing and repayable on demand.

18. Floating rate notes

On 11 December 1997, a wholly-owned subsidiary issued floating rate notes ("the FRNs") which are denominated in United States dollars and guaranteed by the company, with principal amount of US$65 million. The notes bear interest at the rate of 0.875% per annum above the London Interbank Offered Rate for six month US dollars deposits payable semi-annually. The original redemption date of the FRNs was 13 December 2000.

19. Contingent liabilities

(a) Contingent liabilities at the balance sheet date in respect of guarantees given to banks and other lenders to secure loans and advances to associates amounted to $80.6 million (at 31 December 2002: $90.6 million).

(b) The group has contingent liabilities in respect of performance bonds and guarantees under contracts and other agreements entered into in the normal course of business.

(c) The group has contingent liabilities in respect of banking facilities granted to certain buyers of properties of the group and its associates.

(d) At 30 June 2003, one of the group's associates has conducted a review of certain billing arrangements with the group, and as of the date of approval of this interim financial report, this associate is still in the process of assessing the validity of certain development costs charged in previous years by the group for the development of this associate's property in Guangzhou, the PRC.

No provision in respect of the above review is considered necessary in the interim financial report by the directors as the review of development costs is still ongoing.

20. Material related party transactions

(a) During the period, a related group, which can exercise significant influence over the group in making financial and operating decisions, provided construction services to the group and charged progress payment amounting to $41.8 million (6 months ended 30 June 2002: $89.3 million). The net amount due to this related group at the period end amounted to $34.6 million (at 31 December 2002: $44.1 million).

In addition, at the period end, the related group provided corporate guarantee to the group on bank loans amounted to $94.2 million (at 31 December 2002: $Nil) which were included under non-current liabilities.

(b) In prior periods, the group had several construction contracts with another related group for the provision of consulting and engineering services on a combination of cost plus basis and fixed price basis. No progress payment has been received and receivable from these related companies during the period ended 30 June 2003 (6 months ended 30 June 2002: $3.0 million).

The amount due from the related group at the period end amounted to $106.3 million (at 31 December 2002: $118.3 million).

(c) At the period end, properties of an associate of $127.7 million (at 31 December 2002: $127.7 million) were used to secure the bank loans of the group which were included under current liabilities. The bank loans secured by these properties amounted to $215.9 million (at 31 December 2002: $215.9 million).

(d) The group provided construction services to certain of its joint ventures and charged progress payment amounting to $23.4 million during the period (6 months ended 30 June 2002: $19.0 million). The net amount due from these joint ventures at the period end amounted to $37.3 million (at 31 December 2002: $24.2 million).

(e) Included in other loan under trade and other payables is an amount advanced from a related party, amounting to $120.0 million (at 31 December 2002: $120.0 million) at the period end (see note 17). Interest paid and payable to this related party amounted to $4.2 million for the period (6 months ended 30 June 2002: $4.5 million).

21. Approval of interim financial report

The interim financial report was approved and authorised for issue by the board of directors on 22 September 2003.

KPMG

INDEPENDENT REVIEW REPORT TO THE BOARD OF DIRECTORS OF HONG KONG CONSTRUCTION (HOLDINGS) LIMITED

Introduction
We have been instructed by the company to review the interim financial report set out on pages 1 to 17.

Respective responsibilities of directors and auditors
The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Statement of Standard Accounting Practice 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Review work performed
We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Society of Accountants.

A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Fundamental uncertainty
In arriving at our review conclusion, we have considered the adequacy of the disclosures made in the interim financial report concerning the continued support of the group's bankers and the ability of the group to obtain sufficient external funding. The interim financial report has been prepared on a going concern basis, the validity of which depends upon the ongoing support of the group's bankers and the successful outcome of the group's restructuring plan. The interim financial report does not include any adjustments that would result from a failure to obtain such support or to implement the restructuring plan. Details of the circumstances relating to this fundamental uncertainty are described in note 2 to the interim financial report.

Review conclusion
On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2003.

KPMG
Certified Public Accountants

Hong Kong, 22 September 2003

FINANCIAL REVIEW AND ANALYSIS

Results

The Directors report that the unaudited consolidated loss attributable to shareholders for the six months ended 30 June 2003 was $162.6 million, compared to loss attributable to shareholders of $138.5 million for the corresponding period of the previous year. The gross profit was $7.3 million compared with the gross loss of $64.1 million for the last corresponding period. It is due mainly to the steady performance of the Group's core construction business in the first half of 2003. The loss arising from construction business decreased to $1.6 million from $73.1 million for the corresponding period of last year. The finance costs for the current period increased to $76.2 million from $63.1 million for the corresponding period of last year as a result of increase in outstanding interest payable calculated on compound interest basis. The share of losses of associates was $7.4 million compared with the share of profits of associates of $30.1 million for the last corresponding period. It is mainly because of the poor performance of the Group's hotel in Beijing and the weakening demand in the PRC rental market in both the residential and commercial properties due to the unexpected outbreak of Severe Acute Respiratory Syndrome ("SARS") in March 2003. Provision for properties held for sale of $20 million was made in respect of certain of the Group's properties interest in the PRC during the first half of 2003. Loss per share increased to 26.7 cents from 22.8 cents for the corresponding period of the previous year. The Directors did not recommend the payment of any interim dividends.

Debt restructuring

At the end of 2000, the Group faced liquidity problems and failed to repay its loans when they were due. This included an aggregate indebtedness of $1.9 billion to its bank creditors (the "Banks") in Hong Kong and floating rate notes ("FRNs") of US$37 million due for repayment on 13 December 2000. The Group immediately appointed KPMG Financial Advisory Services as financial adviser for its debt restructuring scheme.

The Company and its wholly-owned subsidiaries entered into a restructuring agreement on 27 August 2002 (the "Restructuring Agreement") with the Banks. The Restructuring Agreement sets out the general terms and principles and provided that formal documentation ("Formal Documentation") to implement the same will be entered into between the Company and the Banks in due course. The Restructuring Agreement was subject to a long stop date (the "Long Stop Date") for entry into the Formal Documentation by 31 December 2002 or such date as may be agreed by a simple majority of the Banks' steering committee. Similar terms, as those agreed with the Banks, have been offered to the holders of the FRNs due 2000 issued by a subsidiary of the Company and guaranteed by the Company.

The Formal Documentation is currently still being drafted. Due to the complexity involved, both the Company and the Banks are of the view that more time is needed for the finalization of the Formal Documentation. On 31 March 2003, a majority of the Banks' steering committee has agreed to extend the Long Stop Date from 31 March 2003 to 30 June 2003. The Long Stop Date is currently being extended on a weekly basis. At the date of this report, the Long Stop Date has been extended to 29 September 2003.

Liquidity and financial resources

The Group's borrowings at the balance sheet date comprised Hong Kong and PRC bank loans and overdraft of $1.81 billion and the FRNs of US$24.1 million. As the Group and the Company were in default of all these borrowings at the balance sheet date, except for a new facility for $94 million, these amounts became due immediately and were classified as current liabilities.

All these borrowings are interest bearing with interest rates fixed at market rates plus margin at various intervals of time from one month to one year after the previous fixing. The majority of the borrowings are denominated in Hong Kong dollars. As of the balance sheet date the foreign currency borrowings included US$ borrowings of 11.2%, RMB borrowings of 13.5% and Japanese Yen borrowings of 4.7% approximately of the total borrowings. The Group had pledged deposits of $156.3 million and cash and cash equivalents of $106.1 million at the balance sheet date. The Group has not used financial instruments for currency hedging purposes.

Details of charges on Group assets

The Company and certain of its subsidiaries have entered into a guarantee and debenture dated 3 December 2001, under which all of their assets and properties were charged by way of fixed and floating charges in favour of the bank creditors and the holders of the FRNs for the purpose of securing the Hong Kong bank indebtedness and the FRNs.

Gearing ratio

The Borrowings to Equity Ratio of the Group as at 30 June 2003 amounted to 509.5% (at 31 December 2002 restated: 320.9%), being the ratio of "total borrowings less cash and cash equivalents and pledged deposits" divided by "shareholders' equity".

Contingent liabilities

Details of the Group's contingent liabilities are set out in note 19 on the interim financial report.

BUSINESS REVIEW

Construction

The Group had in hand contracts valued at $5.6 billion at the end of August 2003 (excluding the share of joint venture partners). They included a construction contract for residential development at the Tung Chung Station, a construction contract for residential development at Lai Chi Kok, three West Rail projects, the widening of Tolo Highway, Shanghai Pudong Shangri-La Hotel Extension Project, a Chinese government joint venture contract for main construction of the National Grand Theatre in Beijing and a Chinese Shenzhen government contract for main construction of the Shenzhen Convention Exhibition Centre. The Group has completed the Shanghai Outer Ring Tunnel project in the first half of 2003. It is now tendering for several private contracts and is planning to bid for large-scale construction projects in China, Hong Kong and Macau.

Property

The Group has interests in first class commercial and residential developments in Shenzhen, Guangzhou, Haikou and Beijing. The outbreak of SARS in March posed a serious challenge to the rental market in commercial properties in the PRC, resulting in a sharp decline in new tenants and consumer traffic. During this difficult period, we implemented precautionary measures aiming at enhancing consumer confidence and strengthening communications with existing and potential tenants. We kept a close dialogue with our valued tenants and organized promotional activities to minimize the impact of SARS. Our active approach in managing tenants' concerns helped strengthening our relationship with them. We are pleased to witness that the consumers traffic has largely resumed to normal level by the end of July. The outbreak of SARS in March weakened the demand in rental market and dampened the market sentiment in sales market in residential properties. With the implementation of precautionary measures, we expect that it will improve in the second half of the year.

Employees

At the end of June 2003, there were a total of approximately 244 employees employed by the Group. The employees are remunerated according to the nature of jobs, their and the Group's performance, and market conditions. Some of the employees are entitled to year end bonus and participation in the share option scheme of the Group.

OUTLOOK

The already sluggish economy of Hong Kong was further impacted by the outbreak of SARS in March. Although strong signs of recovery from SARS are already apparent, we believe that the extent of the damage is not fully reflected, in particular, the construction industry. In addition, the speed or robustness of the economic recovery of Hong Kong is still uncertain as continuing high unemployment rate, falling property prices and deflationary pressure are expected to continue to undermine local consumer confidence and investment sentiments. The second half of the year will continue to be challenging for the Group. In view of such challenging operating environment, the Group will continue the corporate strategy of maintaining stringent cost controls, streamlining the operations, disposing of the non-core assets and maximizing operating efficiency.

I would like to thank the Board of Directors and the Group's employees for their hard work, support and dedication.

INTERIM DIVIDEND

The Directors do not recommend the payment of any interim dividend for the period (2002: $Nil).

PRACTICE NOTE 19 TO THE LISTING RULES

The Company itself and through its subsidiaries have entered into contractual joint venture agreements with several joint venture members and have undertaken substantial investments for development of certain properties and infrastructure projects, and construction works. Pursuant to these agreements, investments were made to joint venture companies in the form of capital and advances in proportion to the respective joint venture members' capital contribution ratios or in accordance with the terms of the joint venture agreements. These investments were classified under the headings "Interest in jointly controlled entities" and "Interest in associates" in the consolidated balance sheet of the Company and its subsidiaries. Details of such investments as at 30 June 2003 are disclosed below:–

Affiliated companies	% interest attributable to the Group	Amounts due from affiliated companies	Guarantee given for facilities utilised by affiliated companies	Committed capital injection to affiliated companies	Annual interest rate on advances
		$ Million	*$ Million*	*$ Million*	
Karbony Investment Ltd *(note d)*	50%	737.5	80.6	–	Interest free
Hong Kong Construction SMC Development Ltd *(note d)*	40%	106.3	–	–	Interest free
Hainan Yangpu Land Development Co. Ltd	30%	11.4	–	–	Interest free
Hainan Yangpu Merchant Co. Ltd	25%	23.0	–	–	Interest free
Right Choice International Ltd *(note d)*	27.5%	236.0	–	–	Interest free
Dorboy Investment Ltd *(note d)*	50%	401.3	–	–	Interest free
Quick Wealth Investments Ltd *(note d)*	50%	436.9	–	–	Partial interest free/Partial bearing interest at HK$ prime rate
First Choice International Development Ltd *(note d)*	25%	119.9	–	–	Interest free
Greenway Venture Ltd *(note d)*	20%	54.0	–	86.0	Interest free

Affiliated companies	% interest attributable to the Group	Amounts due from affiliated companies	Guarantee given for facilities utilised by affiliated companies	Committed capital injection to affiliated companies	Annual interest rate on advances
		$ Million	*$ Million*	*$ Million*	
Hong Kong Construction Maeda-Yokogawa-Hitachi Joint Venture	25%	0.3	–	–	Interest free
Hong Kong Construction-AMEC Joint Venture *(note d)*	55%	94.0	–	–	Interest free
Hong Kong Construction-Maeda-CRABC Joint Venture	34%	5.3	–	–	Interest free
BCJ Joint Venture	20%	0.2	–	–	Interest free
HK ACE Joint Venture	30%	33.9	–	–	Interest free
AMEC-Hong Kong Construction CC-202 Joint Venture	35%	43.4	–	–	Interest free
		2,303.4	80.6	86.0	

Notes:

(a) The advances are unsecured, without fixed repayment terms and are repayable in cash out of the net cash surplus from operation of the affiliated companies.

(b) The advances made were funded by internal resources and by bank borrowings for general working capital purposes.

(c) Save for those mentioned above, no guarantee has been given by the Group for facilities granted to the above mentioned affiliated companies.

(d) The amounts due from and guarantees given on behalf of these affiliated companies, the aggregate of which is individually exceeds 25% of the net asset value of the Group, are related to these companies' property development/investment projects/working capital funds.

As at 30 June 2003, total committed capital injections, advances made, committed advances to be made to affiliated companies and guarantees given by the Group for facilities utilised by affiliated companies, in aggregate, amounted to approximately $2,470.0 million which represented approximately 676.2% of the net asset value of the Group as at 30 June 2003.

As the circumstances giving rise to this disclosure will probably continue to exist, the Board will ensure that the required details will be disclosed in the subsequent interim reports and annual reports providing adequate and sufficient information to allow investors to make an informed assessment of the financial position of the Group.

A proforma combined balance sheet of the affiliated companies as at 30 June 2003 is presented below:

	Combined total	
	$ Million	*$ Million*
Fixed assets		
Investment properties		2,388.4
Hotel properties		733.1
Others		23.1
		3,144.6
Land and properties under development		2,203.1
Interest in jointly controlled entities		523.6
Other non-current assets		1,364.7
Current assets		
– Properties held for sale	633.4	
– Other current assets	980.7	
		1,614.1
Total assets		8,850.1
Share capital	1,026.6	
Reserves	(1,284.3)	(257.7)
Non-current liabilities		
– Advances from shareholders	4,039.8	
– Bank and other loans	1,114.5	
– Other non-current liabilities	732.5	5,886.8
Current liabilities		
– Amounts due to shareholders/joint venturers	1,006.8	
– Current portion of bank loans	233.6	
– Other current liabilities	1,980.6	3,221.0
Equity and liabilities		8,850.1

Attributable interest of the affiliated companies to the Group as at 30 June 2003 amounted to a deficit of $542.1 million.

SHARE OPTION SCHEME

The Company has a share option scheme which was adopted on 22 January 1998 ("Adoption Date") whereby the directors of the Company at any time within 10 years after the Adoption Date are authorised, at their discretion, to invite employees of the Group, including Directors of any Company in the Group, to take up options to subscribe for shares of the Company. The exercise price of options is determined by the board in accordance with Chapter 17 of the Listing Rules. The options vest after 6 months and are exercisable for various periods of not exceeding $9^1/_2$ years commencing 6 months after the date on which the grant of the option is accepted, or up to 21 January 2008, whichever is earlier.

The maximum number of shares in respect of which options may be granted under the share option scheme may not exceed 10% of the issued share capital of the Company from time to time excluding any shares issued pursuant to the scheme.

At 30 June 2003, the directors and employees of the Company had the following interests in options to subscribe for shares of the Company (market value per share at 30 June 2003 is $0.325) granted at nominal consideration under the share option scheme of the Company. Each option gives the holder the right to subscribe for one share.

	Number of options outstanding at 1 January 2003	Number of options cancelled during the period	Number of options outstanding at 30 June 2003	Date of grant	Exercise period	Exercise price per share $	Closing price per share immediately before the date of grant $
Directors							
CHEN Libo	4,000,000	–	4,000,000	20/5/1998	20/11/1998 to 19/5/2005	3.48	4.28
	2,000,000	–	2,000,000	18/6/1998	18/12/1998 to 18/6/2005	2.29	2.90
	3,000,000	–	3,000,000	28/9/1998	28/3/1999 to 28/9/2005	1.48	1.88
Employees	5,720,000	(300,000)	5,420,000	20/5/1998	20/11/1998 to 19/5/2005	3.48	4.28
	950,000	–	950,000	18/6/1998	18/12/1998 to 18/6/2005	2.29	2.90
Other participants	3,000,000	–	3,000,000	20/5/1998	20/11/1998 to 19/5/2005	3.48	4.28

No options were exercised during the six months ended 30 June 2003.

DIRECTORS' INTERESTS

At 30 June 2003, the interests of the Directors in the shares and share options of the Company as recorded in the register maintained under section 352 of the Securities and Futures Ordinance (the "SFO") were as follows:

(i) Shares

Name of director	Number of ordinary shares Personal interests
CHEN Libo	3,800,000

(ii) Options to subscribe for shares of $1.00 each in the Company granted under the share option scheme of the Company:

Name of director	Number of options outstanding at 1 January 2003	Number of options outstanding at 30 June 2003	Date of grant	Exercise period	Number of options exercised during the six months ended 30 June 2003	Exercise price per share $	Closing price per share immediately before the date of grant $	Consideration paid for the options granted $
CHEN Libo	4,000,000	4,000,000	20/5/1998	20/11/1998 to 19/5/2005	–	3.48	4.28	1
	2,000,000	2,000,000	18/6/1998	18/12/1998 to 18/6/2005	–	2.29	2.90	1
	3,000,000	3,000,000	28/9/1998	28/3/1999 to 28/9/2005	–	1.48	1.88	1

The options are held by the Director under personal interests.

Other than as disclosed, none of the Directors was interested or had any short position in any shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as at 30 June 2003.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30 June 2003, the following companies were interested in more than 5% of the issued share capital of the Company as recorded in the register maintained under section 336 of the SFO:

	Number of ordinary shares held	Percentage of total issued shares
China Everbright International Ltd *(Note)*	60,763,000	9.99%
China Everbright Holdings Company Ltd *(Note)*	60,763,000	9.99%
Shanghai Construction (Group) General Co	149,000,000	24.51%

Note: Out of the 60,763,000 ordinary shares, 60,000,000 ordinary shares are beneficially owned by Maddington Ltd and 763,000 ordinary shares are held by China Everbright Securities Investments Ltd, both of which are wholly-owned subsidiaries of China Everbright International Ltd. China Everbright International Ltd is a company listed on The Stock Exchange of Hong Kong Ltd and is indirectly owned as to approximately 69.01% by China Everbright Holdings Company Ltd through its direct and indirect wholly-owned subsidiaries, namely, Guildford Ltd, Datten Investments Ltd and Everbright Investment & Management Ltd.

Both parties are considered to have deemed interests in the same shares.

Save as stated above, no person was interested in or had a short position in the shares or underlying shares which would fall to be disclosed to the Company under Part XV of the SFO.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

CODE OF BEST PRACTICE

The Company has complied throughout the six months ended 30 June 2003 with the Code of Best Practice as set out by The Stock Exchange of Hong Kong Limited in Appendix 14 to the Listing Rules.

AUDIT COMMITTEE

The audit committee comprises two independent non-executive directors and one non-executive director with written terms of reference in accordance with the requirements of the Listing Rules, and reports to the board of directors. The audit committee has reviewed the Company's interim results for the six months ended 30 June 2003.

On behalf of the board
YAO JIANPING
Managing Director

Hong Kong, 22 September 2003