



Lippo Limited
力寶有限公司

(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 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	795,588	541,214
Cost of sales		(568,496)	(335,123)
Gross profit		227,092	206,091
Administrative expenses		(105,874)	(117,103)
Other operating expenses		(55,545)	(69,063)
Write-back of deficit/(Deficit) on revaluation of investment properties		(52,641)	49,915
Provisions for properties held for sale		(6,470)	(17,500)
Provisions for impairment losses:			
Fixed assets		(29,587)	(21,663)
Investment securities		–	(10,986)
Goodwill		–	(79,863)
Negative goodwill recognised as income		65,279	–
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		–	458,964
Profit from operating activities	5	73,605	349,416
Finance costs		(22,498)	(35,555)
Share of results of associates		13,639	(20,016)
Profit before tax		64,746	293,845
Tax	6	(13,126)	(16,141)
Profit before minority interests		51,620	277,704
Minority interests		(21,064)	(392,150)
Net profit/(loss) from ordinary activities attributable to shareholders		30,556	(114,446)
		HK cents	HK cents
Earnings/(Loss) per share	7		
Basic		7.0	(26.1)
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	8	(51,062)	63,881
Fixed assets		271,536	309,927
Investment properties		1,910,554	1,981,688
Properties under development		63,412	53,819
Interests in associates		448,713	463,065
Investment securities	9	298,808	349,256
Held-to-maturity securities	10	143,303	504,348
Loans and advances		55,027	58,339
Deferred tax assets		3,826	–
Assets less liabilities attributable to banking operation	11	151,202	148,971
Deposits paid for long term investments		64,000	74,342
		<u>3,359,319</u>	<u>4,007,636</u>
CURRENT ASSETS			
Properties held for sale		80,429	86,899
Inventories		63,325	64,611
Held-to-maturity securities	10	124,092	112,320
Other investments in securities	12	1,130,129	323,485
Loans and advances		108,816	135,447
Debtors, prepayments and deposits	13	351,463	416,544
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		2,189,232	1,583,986
		<u>4,492,812</u>	<u>4,133,039</u>
TOTAL ASSETS		<u>7,852,131</u>	<u>8,140,675</u>
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Share capital	14	43,803	43,826
Reserves	15	2,629,275	2,599,777
		<u>2,673,078</u>	<u>2,643,603</u>
MINORITY INTERESTS		<u>2,933,306</u>	<u>3,175,951</u>
NON-CURRENT LIABILITIES			
Long term bank loans and other borrowing	16	665,580	735,445
Deferred tax liabilities		154,420	115,277
		<u>820,000</u>	<u>850,722</u>
CURRENT LIABILITIES			
Bank loans and other borrowing	16	563,533	508,497
Creditors, accruals and deposits received	17	695,739	780,971
Provision for loss on guaranteed return arrangement for fund management		117,985	138,290
Tax payable		48,490	42,641
		<u>1,425,747</u>	<u>1,470,399</u>
TOTAL EQUITY AND LIABILITIES		<u>7,852,131</u>	<u>8,140,675</u>

CONDENSED CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY

	Six months ended 30th June,	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i> (Restated)
Total equity as at 1st January		
As previously reported	2,695,650	2,622,454
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	(52,047)	16,982
As restated	2,643,603	2,639,436
Deferred tax charges arising from change in applicable tax rate on revaluation surplus of leasehold properties	(250)	–
Exchange differences on translation of the financial statements of foreign entities	(569)	7,701
Net gains/(losses) not recognised in the condensed consolidated profit and loss account	(819)	7,701
Repurchase of shares	(262)	–
Release of goodwill previously eliminated against consolidated reserves upon disposal of subsidiaries	–	147,118
Release of other asset revaluation reserve upon disposal of subsidiaries	–	(49,435)
Net profit/(loss) from ordinary activities attributable to shareholders	30,556	(114,446)
Total equity as at 30th June	2,673,078	2,630,374

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended	
	30th June,	
	2003	2002
	HK\$'000	HK\$'000
Net cash from/(used in) operating activities	946,805	(739,979)
Net cash from investing activities	32,036	1,099,491
Net cash used in financing activities	(59,443)	(282,874)
Net increase in cash and cash equivalents	919,398	76,638
Cash and cash equivalents at 1st January (<i>Note a</i>)	1,274,765	742,800
Reclassified from assets less liabilities attributable to banking operation to cash and cash equivalents	–	652,859
Exchange realignments	(4,931)	17,014
Cash and cash equivalents at 30th June (<i>Note b</i>)	<u>2,189,232</u>	<u>1,489,311</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	1,274,765	742,800
Placements with banks and other financial institutions with original maturity over three months	309,221	–
Total cash and bank balances at 1st January	<u>1,583,986</u>	<u>742,800</u>
(b) Balances of cash and cash equivalents at 30th June:		
Cash and bank balances with original maturity of three months or less	2,189,232	1,489,311
Placements with banks and other financial institutions with original maturity over three months	–	936,206
Total cash and bank balances at 30th June	<u>2,189,232</u>	<u>2,425,517</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\$115,277,000 were quantified and recognised retrospectively in periods prior to 1st January, 2003. Accordingly, other asset revaluation reserve and minority interests as at 31st December, 2002 were restated and decreased by HK\$5,110,000 and HK\$60,238,000, respectively, whereas accumulated losses at that date were restated and increased by HK\$49,929,000. 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 as at 31st December, 2002 were restated and increased by HK\$2,862,000 whereas accumulated losses at that date were decreased by HK\$2,992,000. For the six months ended 30th June, 2002, net loss from ordinary activities attributable to shareholders was restated and increased by HK\$45,439,000 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 business and fund management services.

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									Consolidated HK\$'000
	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	
Revenue										
External	32,645	142,595	284,321	285,093	22,139	6,968	12,773	9,054	-	795,588
Inter-segment	4,574	3,550	-	-	-	-	-	-	(8,124)	-
Total	<u>37,219</u>	<u>146,145</u>	<u>284,321</u>	<u>285,093</u>	<u>22,139</u>	<u>6,968</u>	<u>12,773</u>	<u>9,054</u>	<u>(8,124)</u>	<u>795,588</u>
Segment results	<u>33,188</u>	<u>(8,227)</u>	<u>43,955</u>	<u>5,160</u>	<u>(2,005)</u>	<u>1,024</u>	<u>(160)</u>	<u>15,597</u>	<u>(2,954)</u>	<u>85,578</u>
Unallocated corporate expenses (Note)										(13,814)
Finance costs										(20,657)
Share of results of associates	-	53	-	-	-	2,777	-	10,809	-	13,639
Profit before tax										64,746
Tax										(13,126)
Profit before minority interests										51,620
Minority interests										(21,064)
Net profit from ordinary activities attributable to shareholders										<u>30,556</u>

Note: Amount included provisions for impairment losses for fixed assets of HK\$29,587,000 and negative goodwill of HK\$65,279,000 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	42,074	52,583	78,984	267,386	29,748	24,566	24,327	21,546	-	541,214
Inter-segment	3,625	6,919	-	6,732	-	49	-	41	(17,366)	-
Total	45,699	59,502	78,984	274,118	29,748	24,615	24,327	21,587	(17,366)	541,214
Segment results	42,910	80,358	(48,206)	4,421	(5,719)	431,888	(260)	(368)	(4,316)	500,708
Unallocated corporate expenses (Note)										(153,465)
Finance costs										(33,382)
Share of results of associates	-	182	-	-	-	11,834	283	(32,315)	-	(20,016)
Profit before tax										293,845
Tax										(16,141)
Profit before minority interests										277,704
Minority interests										(392,150)
Net loss from ordinary activities attributable to shareholders										(114,446)

Note: Amount included provisions for impairment losses for fixed assets and goodwill of HK\$21,663,000 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	181,631	450,280	112,952	50,725	795,588
Segment results	(28,522)	21,350	58,985	33,765	85,578

	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	225,619	271,310	34,770	9,515	541,214
Segment results	425,191	(24,528)	136,929	(36,884)	500,708

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	32,645	42,074
Property investment and development	142,595	52,583
Securities investment	284,321	78,984
Food businesses	285,093	267,386
Corporate finance and securities broking	22,139	29,748
Banking businesses	6,968	24,566
Insurance business	12,773	24,327
Other	9,054	21,546
	795,588	541,214

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)	(13,586)
Commission income	1,766	2,188
Commission expenses	-	(274)
Net dealing income and other revenues	412	1,545
	6,968	24,566

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	3,927
Other	17,634	36,178
Dividend income:		
Listed investments	10,801	3,804
Unlisted investments	976	-
Net realised and unrealised holding gain/(loss) on other investments in securities:		
Listed	10,939	(12,145)
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	-	(1,713)
Unlisted	-	(9,273)
Depreciation:		
Banking operations	(190)	(1,929)
Other	(10,860)	(15,049)
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	(3,847)	(2,182)
Overseas	780	18,916
	<u>(3,067)</u>	<u>16,734</u>
	<u>12,466</u>	<u>17,074</u>
Share of tax attributable to overseas associates	660	(933)
Tax charge for the period	<u>13,126</u>	<u>16,141</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\$30,556,000 (2002 – net loss of HK\$114,446,000, restated); and (ii) the weighted average number of 438,215,000 shares (2002 – 438,257,000 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. GOODWILL

	Goodwill HK\$'000	Negative goodwill HK\$'000
Cost:		
At 1st January, 2003	149,168	(131,668)
Additions during the period	–	(178,602)
At 30th June, 2003	<u>149,168</u>	<u>(310,270)</u>
Accumulated amortisation and impairment losses:		
At 1st January, 2003	85,287	(131,668)
Amortisation provided/ (Recognised as income) during the period	1,620	(65,279)
At 30th June, 2003	<u>86,907</u>	<u>(196,947)</u>
Net book value:		
At 30th June, 2003	<u>62,261</u>	<u>(113,323)</u>
At 31st December, 2002	<u>63,881</u>	<u>–</u>

9. INVESTMENT SECURITIES

	30th June, 2003 HK\$'000	31st December, 2002 HK\$'000
Equity securities, at cost:		
Listed in Hong Kong	52,881	52,881
Listed outside Hong Kong	1,247,116	1,256,615
Unlisted	<u>215,542</u>	<u>206,771</u>
	<u>1,515,539</u>	1,516,267
Provisions for impairment losses	<u>(1,348,589)</u>	<u>(1,357,385)</u>
	<u>166,950</u>	158,882
Unlisted debt securities, at cost	<u>12,175</u>	<u>12,175</u>
Unlisted investment funds, at cost	158,386	222,628
Provisions for impairment losses	<u>(38,703)</u>	<u>(44,429)</u>
	<u>119,683</u>	178,199
Total	<u>298,808</u>	<u>349,256</u>
Market value of listed securities	<u>49,896</u>	<u>40,242</u>
An analysis of the issuers of investment securities is as follows:		
Equity securities:		
Banks and other financial institutions	41,436	28,151
Corporate entities	<u>1,474,103</u>	<u>1,488,116</u>
	<u>1,515,539</u>	<u>1,516,267</u>
Debt securities:		
Club debentures	<u>12,175</u>	<u>12,175</u>

NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

10. 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

11. 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.

	30th June, 2003 HK\$'000	31st December, 2002 HK\$'000
	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	8,972	–
Advances and other accounts	187,108	166,719
Held-to-maturity securities	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)

11. 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	8,972	–

(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	(2,861)	(10,864)
	<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	3,464	–
Market value of collateral held	3,734	–

NOTES TO THE INTERIM FINANCIAL STATEMENTS *(continued)*11. 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>

12. OTHER INVESTMENTS IN SECURITIES

	30th June, 2003 HK\$'000	31st December, 2002 HK\$'000
Listed equity securities, at market value:		
Hong Kong	<u>353,670</u>	176,845
Overseas	<u>13,341</u>	<u>29,487</u>
	<u>367,011</u>	<u>206,332</u>
Debt securities:		
Listed, at market value:		
Hong Kong	<u>37,286</u>	–
Overseas	<u>327,115</u>	3,120
Unlisted, at fair value	<u>160,887</u>	<u>6,478</u>
	<u>525,288</u>	<u>9,598</u>
Unlisted investment funds, at fair value	<u>234,645</u>	<u>107,555</u>
Other	<u>3,185</u>	–
	<u>1,130,129</u>	<u>323,485</u>

NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

13. 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.

14. SHARE CAPITAL

	30th June, 2003 HK\$'000	31st December, 2002 HK\$'000
Authorised:		
30,000,000,000 (31st December, 2002 – 30,000,000,000) shares of HK\$0.10 each	<u>3,000,000</u>	<u>3,000,000</u>
Issued and fully paid:		
438,030,010 (31st December, 2002 – 438,257,010) shares of HK\$0.10 each	<u>43,803</u>	<u>43,826</u>

During the period, a total of 227,000 shares of HK\$0.10 each were repurchased on The Stock Exchange of Hong Kong Limited and cancelled by the Company. The premium of HK\$239,000 arising from such repurchases have been charged to the retained profits of the Company and an amount of HK\$23,000 was transferred from retained profits to the capital redemption reserve account.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

15. RESERVES

	Share premium HK\$'000	Special capital reserve (Note a) HK\$'000	Capital redemption reserve HK\$'000	Capital reserve HK\$'000	Legal reserve (Note b) HK\$'000	Other asset revaluation reserve HK\$'000	Exchange equalisation reserve HK\$'000	Accumu- lated losses HK\$'000	Total HK\$'000
At 1st January, 2003									
As previously reported	517,794	1,709,202	17,408	529,598	-	31,848	(95,251)	(58,775)	2,651,824
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	-	-	-	-	-	(5,110)	-	(46,937)	(52,047)
As restated	517,794	1,709,202	17,408	529,598	-	26,738	(95,251)	(105,712)	2,599,777
Repurchase of shares	-	-	23	-	-	-	-	(262)	(239)
Transfer of portion of depreciation charge on leasehold properties attributable to the related revaluation surplus to accumulated losses	-	-	-	-	-	(298)	-	298	-
Deferred tax charges arising from change in applicable tax rate on revaluation surplus of leasehold properties	-	-	-	-	-	(250)	-	-	(250)
Transfer of reserve	-	-	-	-	413	-	-	(413)	-
Exchange differences on consolidation	-	-	-	-	-	-	(569)	-	(569)
Profit for the period	-	-	-	-	-	-	-	30,556	30,556
At 30th June, 2003	<u>517,794</u>	<u>1,709,202</u>	<u>17,431</u>	<u>529,598</u>	<u>413</u>	<u>26,190</u>	<u>(95,820)</u>	<u>(75,533)</u>	<u>2,629,275</u>

NOTES TO THE INTERIM FINANCIAL STATEMENTS *(continued)*15. RESERVES *(continued)*

Note:

(a) Special capital reserve

Pursuant to a special resolution passed at an extraordinary general meeting of the Company on 23rd December, 1998 and the 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\$1,753,028,000 divided into 438,257,010 shares of HK\$4.00 each to approximately HK\$43,826,000 divided into 438,257,010 shares of HK\$0.10 each and an amount standing to the credit of the share capital account of the Company of approximately HK\$1,709,202,000 was cancelled (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 shall not be treated as realised profits; and
- (2) The reserve shall be treated as an undistributable reserve for so long as there shall remain any outstanding debts or claims which was in existence on the date of the Cancellation provided that 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.

As at 30th June, 2003, the balance of the special capital reserve subject to the Undertaking amounted to HK\$1,709,202,000 (31st December, 2002 – HK\$1,709,202,000).

(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)

16. BANK LOANS AND OTHER BORROWING

	30th June, 2003 HK\$'000	31st December, 2002 HK\$'000
Bank loans:		
Secured (Note a)	1,131,132	1,113,059
Unsecured	20,000	10,000
	1,151,132	1,123,059
Other borrowing:		
Commercial papers (Note b)	77,981	120,883
	1,229,113	1,243,942
Portion due within one year included under current liabilities	(563,533)	(508,497)
Non-current portion	665,580	735,445
The maturities of other borrowing are as follows:		
Within one year	77,981	77,989
In the second year	–	42,894
	77,981	120,883
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
	1,229,113	1,243,942

Note:

- (a) 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.
- (b) In 1997, Lippo Commercial Paper Limited ("LCPL"), a wholly-owned subsidiary of the Company, entered into a commercial paper programme with a number of dealers under which LCPL may issue loan notes guaranteed by the Company up to a principal amount of US\$120 million at any time outstanding for working capital purposes.

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

	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	-	-	-	-	-	12,175	12,175
Held-to-maturity securities	-	66,484	57,608	112,969	30,334	-	267,395
Other investments in securities	-	2,990	2,362	321,933	189,115	8,888	525,288
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	112,573	2,076,659	-	-	-	-	2,189,232
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
	<u>311,567</u>	<u>2,503,322</u>	<u>250,056</u>	<u>463,648</u>	<u>250,986</u>	<u>81,597</u>	<u>3,861,176</u>
Liabilities							
Bank loans and other borrowing	-	350,351	213,182	244,747	420,833	-	1,229,113
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
	<u>9,513</u>	<u>426,754</u>	<u>230,511</u>	<u>246,687</u>	<u>420,833</u>	<u>-</u>	<u>1,334,298</u>

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	-	-	-	-	-	12,175	12,175
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	122,966	1,461,020	-	-	-	-	1,583,986
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>323,574</u>	<u>2,890,610</u>	<u>243,573</u>	<u>467,679</u>	<u>106,366</u>	<u>70,176</u>	<u>4,101,978</u>
Liabilities							
Bank loans and other borrowing	-	197,900	310,597	433,445	302,000	-	1,243,942
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>10,231</u>	<u>279,379</u>	<u>315,097</u>	<u>446,248</u>	<u>302,000</u>	<u>-</u>	<u>1,352,955</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
	14,689	14,690

(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
	9,378	12,433

21. RELATED PARTY TRANSACTION

As at 30th June, 2003, the Group had amounts due from associates in a total of HK\$153,630,000 (31st December, 2002 – HK\$153,575,000) and amounts due to associates in a total of HK\$2,218,000 (31st December, 2002 – HK\$2,185,000). The balances with the associates are unsecured, interest-free and have no fixed terms of repayment.

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\$104 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\$30.6 million for the six months ended 30th June, 2003, in contrast to a loss of HK\$114 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\$88 million.

Results for the period

Turnover for the first six months of 2003 totalled HK\$796 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\$104 million) was made against the Group's local property portfolio. The loss was mitigated by a net revaluation surplus of HK\$15 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 6 per cent.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)***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 260 per cent. to HK\$284 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\$51 million for the period (2002 – loss of HK\$19 million).

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 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, Lippo China Resources Limited ("LCR"), a listed subsidiary of the Company, 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, LCR's effective shareholding in HKCL increased to 73.3 per cent. In addition, the Group also increased its stake in LCR by 4.3 per cent., resulting in a negative goodwill of approximately HK\$140 million, of which HK\$25 million was recognised as income with the remaining balance amortised over the average useful lives of LCR's depreciable assets. At 30th June, 2003, the Group's effective shareholding in LCR increased to 71.1 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 37 per cent. to HK\$22 million (2002 – HK\$36 million).

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

At 30th June, 2003, total assets and total liabilities of the Group slightly decreased to HK\$7.9 billion (31st December, 2002 – HK\$8.1 billion) and HK\$2.2 billion (31st December, 2002 – HK\$2.3 billion, restated), respectively. However, net asset value of the Group and the consolidated net asset value per share slightly increased and stood at HK\$2.7 billion (31st December, 2002 – HK\$2.6 billion, restated) and HK\$6.1 (31st December, 2002 – HK\$6.0, 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\$2.6 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 3.2:1 (31st December, 2002 – 2.8:1).

Gearing ratio (total borrowings, net of minority interests, to shareholders' equity) remained more or less the same at 29 per cent. (31st December, 2002 – 28 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 commercial papers issued in a total of HK\$78 million (31st December, 2002 – HK\$121 million).

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. The commercial papers were denominated in United States dollars, repayable within one year and carried interest at floating rate (31st December, 2002 – 65 per cent. of which were repayable within one year and carried interest at floating rate).

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\$2.6 billion and HK\$6.0, respectively, which were previously reported as HK\$2.7 billion and HK\$6.2, respectively. Loss attributable to shareholders for the six months ended 30th June, 2002 was restated at HK\$114 million which was previously reported as HK\$69 million. Details of the changes are set out in Note 1 to the interim financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Staff and remuneration

The Group had approximately 750 employees as at 30th June, 2003 (2002 – 800 employees). Total staff costs totalled HK\$97 million which was slightly lower than the HK\$99 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\$30.6 million for the period under review, compared to a net loss of HK\$114 million for the last corresponding period. Most of the principal subsidiaries have achieved better results for the period under review.

Lippo China Resources Limited ("LCR"), a principal listed subsidiary of the Company, and its subsidiaries (the "LCR Group") achieved 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.

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 LCR 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 LCR 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 LCR 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 LCR 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 LCR 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 LCR, 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.

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

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.

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 LCR, 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					
Stephen Riady	-	-	248,697,776 <i>Note (i)</i>	248,697,776	56.78
Jark Pui Lee	-	48	-	48	0.00
John Luen Wai Lee	825,000	-	-	825,000	0.19
Number of ordinary shares of HK\$0.10 each in Lippo China Resources Limited ("LCR")					
Stephen Riady	-	-	6,539,460,389 <i>Notes (i) and (ii)</i>	6,539,460,389	71.07
Number of ordinary shares of HK\$1.00 each in Hongkong Chinese Limited ("HKCL")					
Stephen Riady	-	-	987,470,440 <i>Notes (i), (ii) and (iii)</i>	987,470,440	73.32
Jark Pui Lee	350	350	-	700	0.00
John Luen Wai Lee	200	200	-	400	0.00

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)*

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 the Company. Lanius Limited ("Lanuis"), 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. Lanuis was the trustee of a discretionary trust, of which Dr. Mochtar Riady is the founder. The beneficiaries of the trust included, inter alia, Mr. Stephen Riady and his children under 18 years of age. Mr. Stephen Riady together with his 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, the Company 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 LCR.
- (iii) As at 30th June, 2003, LCR 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.

As at 30th June, 2003, Mr. Stephen Riady together with his 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
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
First Bond Holdings Limited	Ordinary shares	1	100
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

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
Lippo Assets (International) Limited	Ordinary shares	1,000,000	100
	Non-voting	15,000,000	100
	deferred shares		
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	7,500,000	100
	deferred shares		
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
Nelton Limited	Ordinary shares	10,000	100
Pointbest Limited	Ordinary shares	1	100
Sinotrend Global Holdings Limited	Ordinary shares	1	100
The HCB General Investment (Singapore) Pte Ltd.	Ordinary shares	70,000	70
The Hong Kong Building and Loan Agency Limited	Ordinary shares	168,313,038	74.80
Valencia Development Limited	Ordinary shares	800,000	100
	Non-voting	200,000	100
	deferred shares		

As at 30th June, 2003, Mr. Stephen Riady, as beneficial owner, 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, father of Mr. Stephen Riady, is the founder.

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's associated corporation***LCR**

Name of Director	Type of interest	Number of underlying shares of HK\$0.10 each in LCR 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
David T. Yeh	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 LCR (the "LCR 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 LCR Share Option Scheme to subscribe for ordinary shares in LCR 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 LCR at an exercise price of HK\$0.883 per share (subject to adjustment). None of the options were exercised by any of the above Directors during the six months ended 30th June, 2003 and the quantity of options held by each of the above Directors as at 1st January, 2003 and 30th June, 2003 remained unchanged.

The above interests in the underlying shares of the Company were 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, Mr. Stephen Riady together with his children 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.

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.

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)*

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.

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 substantial shareholders (as defined under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and other person, 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 (as defined under the Listing Rules) and other person in shares of the Company

Name	Number of ordinary shares of HK\$0.10 each	Approximate percentage of the issued share capital
<i>Substantial shareholders:</i>		
Lippo Cayman Limited ("Lippo Cayman")	248,697,776	56.78
Lanius Limited ("Lanius")	248,697,776	56.78
Dr. Mochtar Riady	248,697,776	56.78
Madam Lidya Suryawaty	248,697,776	56.78
Sun Hung Kai & Co. Limited ("SHK")	43,950,000	10.03
AP Emerald Limited ("AP Emerald")	43,950,000	10.03
AP Jade Limited ("AP Jade")	43,950,000	10.03
Allied Properties (H.K.) Limited ("APL")	43,950,000	10.03
Allied Group Limited ("AGL")	43,950,000	10.03
<i>Other person:</i>		
Upstand Assets Limited ("UAL")	31,450,000	7.18

ADDITIONAL INFORMATION *(continued)***Interests and short positions of shareholders discloseable under the Securities and Futures Ordinance** *(continued)*

Interests of substantial shareholders (as defined under the Listing Rules) and other person in shares of the Company (continued)

Note:

1. Lippo Cayman, through its wholly-owned subsidiaries, Lippo Capital Limited (which owned approximately 49.97 per cent. interest in the issued share capital of the Company), J & S Company Limited and Huge Returns Limited, was indirectly interested in 237,335,144 ordinary shares of the Company. Together with 11,362,632 ordinary shares of the Company owned by Lippo Cayman directly as beneficial owner, Lippo Cayman was interested in an aggregate of 248,697,776 ordinary shares in, representing approximately 56.78 per cent. of, the issued share capital of the Company.
2. 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.
3. Lippo Cayman's interests in the ordinary shares of the Company were recorded as the interests of Lanius, Dr. Mochtar Riady and Madam Lidya Suryawaty. The above 248,697,776 ordinary shares in the Company related to the same block of shares that Mr. Stephen Riady was 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".
4. 31,450,000 ordinary shares of the Company were held by UAL directly as beneficial owner. SHK, through its wholly-owned subsidiaries, UAL, Cheeroll Limited and Best Delta International Limited, was interested in an aggregate of 43,950,000 ordinary shares in, representing approximately 10.03 per cent. of, the issued share capital of the Company. SHK was a subsidiary of AP Emerald which in turn was wholly owned by AP Jade. AP Jade was a wholly-owned subsidiary of APL which in turn was a subsidiary of AGL.

All the interests stated above represent long positions. Save as disclosed herein, as at 30th June, 2003, none of the substantial shareholders (as defined under the Listing Rules) 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.

Share option schemes

Details of the share option schemes of the subsidiaries of the Company are set out below.

- (a) Pursuant to the Share Option Scheme for Employees (the "LCR Share Option Scheme") of Lippo China Resources Limited ("LCR"), a listed subsidiary of the Company, approved and adopted by the shareholders of LCR on 2nd May, 1994 (the "LCR Adoption Date"), the directors of LCR may, at their discretion, grant to any employees (including directors) of LCR and its subsidiaries options to subscribe for shares in LCR. The purpose of the adoption of the LCR Share Option Scheme was to provide an incentive scheme to the employees of LCR and its subsidiaries. Under the rules of the LCR Share Option Scheme, no more options can be granted from the tenth anniversary of the LCR 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.

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

The maximum number of shares in respect of which options may be granted under the LCR Share Option Scheme shall not exceed 10 per cent. of the number of issued shares of LCR 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 LCR Share Option Scheme in any one financial year shall not exceed 5 per cent. of the total number of issued shares of LCR from time to time. In addition, the maximum number of shares in respect of which options may be granted under the LCR Share Option Scheme to any grantee shall not exceed 25 per cent. of the number of shares subject to the LCR Share Option Scheme at the time of grant. The exercise price for the shares under the LCR Share Option Scheme will be determined by the directors of LCR 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 LCR as stated on the 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 LCR, whichever is the greater. The consideration for the grant is HK\$1.00 per grantee which must be paid on acceptance to LCR 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 LCR 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 LCR in cash at the above exercise price per share which is subject to adjustment.

As at 30th June, 2003, save for Messrs. John Luen Wai Lee and David T. Yeh, Directors of the Company and each of them 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 LCR. The remaining 2,800,000 share options are held by directors of LCR's subsidiaries or employees of LCR or its subsidiaries.

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

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

Since no share options were granted under the LCR 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 LCR wishes to continue to grant share options under the LCR Share Option Scheme on or after 1st September, 2001, it must also comply with the new requirements set out therein.

- (b) 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:

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

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

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.

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.

ADDITIONAL INFORMATION *(continued)***Purchase, sale or redemption of securities**

During the six months ended 30th June, 2003, the Company had repurchased a total of 227,000 shares of HK\$0.10 each in the Company on The Stock Exchange of Hong Kong Limited, all of which were subsequently cancelled. Particulars of the aforesaid repurchases were as follows:

Month	Number of shares of HK\$0.10 each repurchased	Price per share or highest price paid per share	Lowest price paid per share	Total price paid before expenses
May	227,000	HK\$1.150	HK\$1.130	HK\$259,890

Save as disclosed herein, there was no purchase, sale or redemption of securities of the Company by the Company or any of its subsidiaries during the period.

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 Limited
John Luen Wai Lee
Managing Director

Hong Kong, 19th September, 2003