

Interim Report 2004



天安中國投資有限公司

TIAN AN CHINA INVESTMENTS COMPANY LIMITED

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Patrick Lee Seng Wei, *Chairman*
Ng Qing Hai, *Managing Director*
Ma Sun
Edwin Lo King Yau
Li Chi Kong

Independent Non-Executive Directors

Moses Cheng Mo Chi
Lisa Yang Lai Sum

EXECUTIVE COMMITTEE

Ng Qing Hai, *Chairman*
Patrick Lee Seng Wei
Ma Sun
Edwin Lo King Yau
Li Chi Kong

AUDIT COMMITTEE

Moses Cheng Mo Chi, *Chairman*
Lisa Yang Lai Sum

REGISTERED OFFICE

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REGISTRAR

Secretaries Limited
Ground Floor
Bank of East Asia Harbour View
Centre
56 Gloucester Road, Wanchai,
Hong Kong

PRINCIPAL BANKERS

In Hong Kong

Bank of China (Hong Kong)
Limited
The Bank of East Asia, Limited
CITIC Ka Wah Bank Limited
The Hongkong and Shanghai
Banking Corporation Limited
Standard Chartered Bank
Wing Hang Bank, Limited

In the PRC

Agricultural Bank of China
Bank of China
Bank of Communications
China Construction Bank
China Merchants Bank
Dalian City Commercial Bank
Guangdong Development Bank
Industrial and Commercial
Bank of China
Industrial Bank Co., Ltd.
Shanghai Pudong Development
Bank Co., Ltd.
Shenzhen Development Bank
Co., Ltd.

SOLICITORS

Kwok & Yih
P. C. Woo & Co.

AUDITORS

Deloitte Touche Tohmatsu

COMPANY SECRETARY

Cindy Yung Yee Mei

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE, 2004

		(Unaudited)	
		Six months ended 30th June,	
		2004	2003
	Notes	HK\$'000	HK\$'000
Turnover	(3)	887,221	415,968
Cost of sales		<u>(668,322)</u>	<u>(324,159)</u>
Gross profit		218,899	91,809
Other operating income	(4)	30,829	25,848
Marketing and distribution costs		(13,559)	(20,047)
Administrative expenses		(60,565)	(57,908)
Other operating expenses		<u>(8,273)</u>	<u>(3,181)</u>
Profit from operations	(5)	167,331	36,521
Finance costs	(6)	(37,830)	(22,668)
Share of results of associates		(4,046)	1,355
Share of results of jointly controlled entities		<u>(2,502)</u>	<u>26,060</u>
Profit before taxation		122,953	41,268
Taxation	(7)	<u>(55,770)</u>	<u>(11,185)</u>
Profit before minority interests		67,183	30,083
Minority interests		<u>(14,909)</u>	<u>(16,923)</u>
Net profit for the period, retained		<u><u>52,274</u></u>	<u><u>13,160</u></u>
		<i>HK cents</i>	<i>HK cents</i>
Earnings per share			
Basic	(8)	<u><u>6.6</u></u>	<u><u>1.5</u></u>
Diluted		<u><u>6.4</u></u>	<u><u>1.5</u></u>

CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30TH JUNE, 2004

		(Unaudited) 30th June, 2004	(Audited) 31st December, 2003
	Notes	HK\$'000	HK\$'000
Non-Current Assets			
Property, plant and equipment	(9)	294,460	247,546
Investment properties	(10)	1,153,600	876,700
Properties for development		2,473,197	2,232,167
Interests in associates		599,636	604,436
Interests in jointly controlled entities		1,072,930	1,043,580
Other investment		40,737	41,208
Investments in securities		4,349	4,349
Loan receivable		12,273	12,273
Amounts due from minority shareholders		7,772	7,772
Goodwill on consolidation		40,627	41,868
Instalments receivable		92,952	96,537
Deferred tax assets		12,298	31,340
		5,804,831	5,239,776
Current Assets			
Inventories of properties in the PRC			
– under development		1,053,492	1,629,199
– completed		763,998	523,781
Other inventories		32,377	30,369
Loan receivable		7,100	7,100
Instalments receivable		12,829	13,357
Trade and other receivables, deposits and prepayments	(11)	680,059	788,308
Investments in securities		8,820	8,800
Prepaid tax		15,876	6,543
Pledged deposits		19,229	5,915
Bank balances and cash		506,368	352,691
		3,100,148	3,366,063
Current Liabilities			
Trade and other payables	(12)	1,008,632	929,620
Pre-sale deposits		339,661	204,491
Tax liabilities		36,093	45,670
Dividends payable to minority shareholders		21,837	4,732
Interest-bearing borrowings	(13)	1,571,057	1,563,147
Interest-free borrowings	(13)	8,163	1,415
		2,985,443	2,749,075
Net Current Assets		114,705	616,988
		5,919,536	5,856,764

CONDENSED CONSOLIDATED BALANCE SHEET *(continued)**AS AT 30TH JUNE, 2004*

		(Unaudited) 30th June, 2004	(Audited) 31st December, 2003
	<i>Notes</i>	HK\$'000	HK\$'000
Capital and Reserves			
Share capital	(14)	157,524	1,567,468
Reserves	(15)	3,879,997	2,380,076
		<hr/>	<hr/>
		4,037,521	3,947,544
Minority Interests			
		<hr/>	<hr/>
		412,269	433,139
Non-Current Liabilities			
Interest-bearing borrowings	(13)	697,301	731,204
Interest-free borrowings	(13)	165,715	153,798
Deferred tax liabilities		606,730	591,079
		<hr/>	<hr/>
		1,469,746	1,476,081
		<hr/>	<hr/>
		5,919,536	5,856,764
		<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30TH JUNE, 2004

	(Unaudited)	
	Six months ended 30th June,	2003
	2004	2003
	HK\$'000	HK\$'000
Total equity at the beginning of the period (<i>Note</i>)	<u>3,947,544</u>	<u>3,867,467</u>
Surplus on revaluation of investment properties	33,205	4,259
Exchange difference arising on translation of financial statements of subsidiaries, associates and jointly controlled entities	<u>(10)</u>	<u>(124)</u>
Net gains not recognised in the income statement	<u>33,195</u>	<u>4,135</u>
Net profit for the period	52,274	13,160
Shares issued on exercise of warrants	7,775	–
Investment property revaluation reserve realised on disposal of investment properties	<u>(3,267)</u>	<u>(21,202)</u>
Total equity at the end of the period	<u><u>4,037,521</u></u>	<u><u>3,863,560</u></u>
<i>Note:</i>		
Total equity at 1st January, 2003		
– As originally stated in last interim report		4,242,400
– Prior period adjustment (<i>Note 15(a)</i>)		<u>(374,933)</u>
– As restated in the annual report for the year ended 31st December, 2003		<u><u>3,867,467</u></u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30TH JUNE, 2004

	(Unaudited)	
	Six months ended 30th June,	
	2004	2003
	HK\$'000	HK\$'000
Net cash from operating activities	362,167	7,886
Net cash used in investing activities	(112,155)	(189,466)
Net cash (used in) from financing activities	(39,755)	276,746
	<hr/>	<hr/>
Increase in cash and cash equivalents	210,257	95,166
Cash and cash equivalents at the beginning of the period	242,865	415,165
Effect of foreign exchange rate changes	205	(124)
	<hr/>	<hr/>
Cash and cash equivalents at the end of the period	453,327	510,207
	<hr/> <hr/>	<hr/> <hr/>
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	506,368	579,086
Bank overdrafts	(53,041)	(63,219)
	<hr/>	<hr/>
	453,327	515,867
Bank deposits with maturity of more than three months	–	(5,660)
	<hr/>	<hr/>
	453,327	510,207
	<hr/> <hr/>	<hr/> <hr/>

**NOTES TO THE CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS**
FOR THE SIX MONTHS ENDED 30TH JUNE, 2004

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost convention as modified for the revaluation of investment properties and investments in securities. The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2003.

3. SEGMENTAL INFORMATION

The Group's turnover for the period was derived mainly from activities carried out in the People's Republic of China (the "PRC") other than Hong Kong. An analysis of the Group's turnover and segment results by business segment is as follows:

Income statement for the six months ended 30th June, 2004

	Property development HK\$'000	Property investment HK\$'000	Sale of construction materials HK\$'000	Other operations HK\$'000	Consolidated HK\$'000
REVENUE	<u>669,457</u>	<u>11,259</u>	<u>199,094</u>	<u>7,411</u>	<u>887,221</u>
RESULTS					
Segment results	128,905	2,397	30,731	(3,289)	158,744
Other operating income	-	-	9,932	20,897	30,829
Unallocated corporate expenses					<u>(22,242)</u>
Profit from operations					167,331
Finance costs					(37,830)
Share of results of associates	(4,241)	-	-	195	(4,046)
Share of results of jointly controlled entities	(3,865)	1,784	-	(421)	<u>(2,502)</u>
Profit before taxation					122,953
Taxation					<u>(55,770)</u>
Profit after taxation					<u>67,183</u>

3. SEGMENTAL INFORMATION *(continued)*

Income statement for the six months ended 30th June, 2003

	Property development HK\$'000	Property investment HK\$'000	Sale of construction materials HK\$'000	Other operations HK\$'000	Consolidated HK\$'000
REVENUE	<u>250,708</u>	<u>9,999</u>	<u>145,043</u>	<u>10,218</u>	<u>415,968</u>
RESULTS					
Segment results	14,282	5,427	22,631	(920)	41,420
Other operating income	-	568	12,667	12,613	25,848
Unallocated corporate expenses					<u>(30,747)</u>
Profit from operations					36,521
Finance costs					(22,668)
Share of results of associates	(2,541)	3,475	-	421	1,355
Share of results of jointly controlled entities	7,628	21,586	-	(3,154)	<u>26,060</u>
Profit before taxation					41,268
Taxation					<u>(11,185)</u>
Profit after taxation					<u><u>30,083</u></u>

4. OTHER OPERATING INCOME

	(Unaudited)	
	Six months ended 30th June,	
	2004	2003
	HK\$'000	HK\$'000
Dividend income from listed shares	5,760	4,420
Interest income on bank deposits and loans receivable	2,426	1,962
Refund of PRC value-added tax	8,720	9,451
Net realised gain on disposal of investment properties	-	568
Net realised gain on disposal of subsidiaries	-	3,520
Net unrealised gain (loss) on trading securities	20	(36)
Allowance for doubtful debts written back	3,302	-
Waiver of interest expenses accrued in prior years	5,692	-
Other income	4,909	5,963
	<u><u>30,829</u></u>	<u><u>25,848</u></u>

5. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging:

	(Unaudited)	
	Six months ended 30th June,	
	2004	2003
	HK\$'000	HK\$'000
Depreciation of property, plant and equipment		
– Owned assets	9,282	8,181
– Assets held under finance leases	4	4
<i>Less:</i> amount capitalised on properties under development	(456)	(578)
	<u>8,830</u>	<u>7,607</u>
Amortisation of:		
Goodwill on consolidation (included in other operating expenses)	1,241	1,028
Goodwill on acquisition of associates and jointly controlled entities (included in other operating expenses)	91	116
	<u>91</u>	<u>116</u>

6. FINANCE COSTS

	(Unaudited)	
	Six months ended 30th June,	
	2004	2003
	HK\$'000	HK\$'000
Interest on		
Bank loans and overdrafts	48,165	38,966
Promissory notes	3,039	9,908
Loan notes	977	–
Obligations under finance lease	1	2
Other loans wholly repayable within five years	4,360	5,892
	<u>56,542</u>	<u>54,768</u>
<i>Less:</i> amount capitalised on properties under development	(18,712)	(32,100)
	<u>37,830</u>	<u>22,668</u>

7. TAXATION

The charge (credit) comprises:

	(Unaudited)	
	Six months ended 30th June,	
	2004	2003
	HK\$'000	HK\$'000
PRC income tax		
Company and subsidiaries		
– current period provision	19,086	10,239
– over-provision in prior years	(405)	(2,711)
Share of tax of associates	42	1,232
Share of tax of jointly controlled entities	338	1,762
	<u>19,061</u>	<u>10,522</u>
Deferred tax	36,709	663
	<u>55,770</u>	<u>11,185</u>

No provision for Hong Kong Profits Tax is made as the Group companies operating in Hong Kong do not have any assessable profit for both periods. Certain of the Company's subsidiaries operating in the PRC are eligible for tax exemptions and concessions. The PRC income tax is calculated at the rates applicable to respective subsidiaries.

In addition to the amount charged to the income statement, deferred tax credit of HK\$241,000 (six months ended 30th June, 2003: deferred tax charge of HK\$632,000) relating to the revaluation of the Group's investment properties during the six months ended 30th June, 2004 has been dealt with directly in equity.

8. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the following data:

	Six months ended 30th June,	
	2004	2003
	HK\$'000	HK\$'000
Earnings		
Earnings for the purposes of basic and diluted earnings per share	<u>52,274</u>	<u>13,160</u>

8. EARNINGS PER SHARE (continued)

	Six months ended 30th June,	
	2004	2003
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share (which has been adjusted for the consolidation of the Company's ordinary shares on 10th March, 2004)	786,598,115	849,070,458
Effect of dilutive potential ordinary shares:		
– Warrants	<u>25,352,058</u>	<u>–</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>811,950,173</u>	<u>849,070,458</u>

The computation of diluted earnings per share for the six months ended 30th June, 2004 does not assume the exercise of the outstanding share options of the subsidiary as the exercise price was higher than the average market price per share.

The computation of diluted earnings per share for the six months ended 30th June, 2003 does not assume the exercise of the Company's outstanding warrants as the exercise price was higher than the average market price per share.

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30th June, 2004, the Group acquired property, plant and equipment at a cost of HK\$62,825,000.

10. INVESTMENT PROPERTIES

During the six months ended 30th June, 2004,

- (a) the Group incurred expenditure in respect of improvements to investment properties of HK\$21,020,000.
- (b) investment properties of HK\$39,129,000 were disposed of and investment properties of HK\$283,954,000 were reclassified from properties for sale.
- (c) the investment properties at 30th June, 2004 were carried at their open market value as estimated by the Directors. The revaluation gave rise to a net revaluation surplus of HK\$11,055,000.

11. TRADE RECEIVABLES

The Group allows credit periods ranging from 30 to 120 days to its trade customers.

The following is an aged analysis of trade receivables, which are included in trade and other receivables, deposits and prepayments, at the reporting date:

	(Unaudited) 30th June, 2004 <i>HK\$'000</i>	(Audited) 31st December, 2003 <i>HK\$'000</i>
Not yet due	276,277	259,344
Overdue within 3 months	104,463	149,999
Overdue between 4 and 6 months	25,515	23,749
Overdue between 7 and 12 months	26,467	11,698
Overdue over 12 months	11,159	22,801
	<u>443,881</u>	<u>467,591</u>

12. TRADE PAYABLES

The following is an aged analysis of trade payables, which are included in trade and other payables, at the reporting date:

	(Unaudited) 30th June, 2004 <i>HK\$'000</i>	(Audited) 31st December, 2003 <i>HK\$'000</i>
Not yet due	586,257	496,305
Overdue within 3 months	70,480	26,354
Overdue between 4 and 6 months	41,359	2,048
Overdue between 7 and 12 months	14,831	49,492
Overdue over 12 months	97,879	70,341
	<u>810,806</u>	<u>644,540</u>

Included in trade payables is a secured trade payable of HK\$31,690,000 (31st December, 2003: HK\$35,463,000).

13. BORROWINGS

During the six months ended 30th June, 2004, the net decrease in borrowings amounted to HK\$7,328,000. The loans are repayable within 5 years and the majority of which bear interest at market rates. Proceeds from new borrowings were used to finance the payment of land use rights, progress payments for properties under development and the acquisition of new property projects in the PRC.

14. SHARE CAPITAL

	Number of ordinary shares	Nominal value HK\$'000
Authorised:		
At 1st January, 2004	20,000,000,000	4,000,000
Consolidation of every 10 ordinary shares of HK\$0.20 each to 1 ordinary share of HK\$2.00 each	(18,000,000,000)	–
Reduction of the nominal value of consolidated share of HK\$2.00 each to HK\$0.20 each	–	(3,600,000)
	<u>2,000,000,000</u>	<u>400,000</u>
At 30th June, 2004		
Issued and fully paid:		
At 1st January, 2004	7,837,341,953	1,567,468
Shares issued on exercise of warrants before share consolidation	38,596,200	7,719
Consolidation of every 10 ordinary shares of HK\$0.20 each to 1 ordinary share of HK\$2.00 each	(7,088,344,338)	–
Reduction of the nominal value of consolidated share of HK\$2.00 each to HK\$0.20 each	–	(1,417,669)
	<u>787,593,815</u>	<u>157,518</u>
Shares issued on exercise of warrants after share consolidation	<u>27,872</u>	<u>6</u>
At 30th June, 2004	<u>787,621,687</u>	<u>157,524</u>

Pursuant to the capital reorganisation of the Company effective on 10th March, 2004 as approved by the shareholders of the Company at the extraordinary general meeting held on 16th February, 2004, immediately before the capital reduction taking effect, every 10 issued and unissued ordinary shares of the Company of HK\$0.20 each were consolidated into 1 ordinary share of HK\$2.00 each and by virtue of the capital reduction as approved by the High Court of Hong Kong during the period, the nominal value of each consolidated share of HK\$2.00 was reduced to HK\$0.20.

15. RESERVES

	Share premium account HK\$'000	Special capital reserve HK\$'000	Capital redemption reserve HK\$'000	Exchange equalisation reserve HK\$'000	Investment property revaluation reserve HK\$'000	Investment revaluation reserve HK\$'000	Other reserves HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
At 1st January, 2003									
- as originally stated in last interim report	198,839	1,544,171	-	(27,901)	188,186	(23,000)	-	663,964	2,544,259
- prior period adjustment (Note (a))	-	-	-	-	-	-	-	(374,933)	(374,933)
- as restated	198,839	1,544,171	-	(27,901)	188,186	(23,000)	-	289,031	2,169,326
Surplus on revaluation	-	-	-	-	4,891	-	-	-	4,891
Deferred tax arising on revaluation	-	-	-	-	(632)	-	-	-	(632)
Realised on disposal of investment properties	-	-	-	-	(21,202)	-	-	-	(21,202)
Translation of financial statements of overseas operations	-	-	-	(124)	-	-	-	-	(124)
Profit for the period	-	-	-	-	-	-	-	13,160	13,160
Transfer to other reserves	-	-	-	-	-	-	451	(451)	-
At 30th June, 2003	198,839	1,544,171	-	(28,025)	171,243	(23,000)	451	301,740	2,165,419
Repurchase of shares	-	-	130,675	-	-	-	-	(102,590)	28,085
Surplus (deficit) on revaluation	-	-	-	-	119,998	(244)	-	-	119,754
Deferred tax arising on revaluation	-	-	-	-	(19,364)	-	-	-	(19,364)
Realised on disposal of investment properties	-	-	-	-	(2,349)	-	-	-	(2,349)
Realised on disposal of subsidiaries	-	-	-	(309)	-	-	-	-	(309)
Translation of financial statements of overseas operations	-	-	-	(420)	-	-	-	-	(420)
Profit for the period	-	-	-	-	-	-	-	89,260	89,260
Transfer to other reserves	-	-	-	-	-	-	1,318	(1,318)	-
At 31st December, 2003 and 1st January, 2004	198,839	1,544,171	130,675	(28,754)	269,528	(23,244)	1,769	287,092	2,380,076
Premium arising on shares issued on exercise of warrants	50	-	-	-	-	-	-	-	50
Surplus on revaluation	-	-	-	-	32,964	-	-	-	32,964
Deferred tax arising on revaluation	-	-	-	-	241	-	-	-	241
Transfer from special capital reserve to accumulated profits (Note (b))	-	(1,544,171)	-	-	-	-	-	1,544,171	-
Effect of reduction of share capital (Note (c))	-	1,417,669	-	-	-	-	-	-	1,417,669
Realised on disposal of investment properties	-	-	-	-	(3,267)	-	-	-	(3,267)
Translation of financial statements of overseas operations	-	-	-	(10)	-	-	-	-	(10)
Profit for the period	-	-	-	-	-	-	-	52,274	52,274
Transfer to other reserves	-	-	-	-	-	-	2,298	(2,298)	-
At 30th June, 2004	198,889	1,417,669	130,675	(28,764)	299,466	(23,244)	4,067	1,881,239	3,879,997

15. RESERVES (continued)

Notes:

- (a) When preparing the interim report for the six months ended 30th June, 2003, the Directors believed that the adoption of SSAP 12 (Revised) required a prior period adjustment to the original calculation of deferred tax and of the fair value, upon acquisition of a property holding company in prior years, attributable to the underlying property. In the preparation of the annual financial statements for the year ended 31st December, 2003, the Directors re-considered the case and were of the opinion that the fair value of the underlying property had already been determined at the date of the acquisition of the company, which should not be changed as a result of the recognition of additional deferred tax liabilities under SSAP 12 (Revised). Accordingly, the effect has been charged to retained profits.
- (b) The special capital reserve of HK\$1,544,171,000, which arose on the reduction of the nominal value of the Company's shares approved by the High Court of Hong Kong in 1998, became distributable and was transferred to accumulated profits as all of the liabilities of the Company at the date of court order on 14th July, 1998, had been fully settled.
- (c) The credit of HK\$1,417,669,000 arising on the reduction of the Company's capital, as described in note 14, was transferred to the special capital reserve and that reserve is not to be regarded as distributable until all of the liabilities of the Company as at the date of the court order, 9th March, 2004, are settled.

16. CONTINGENT LIABILITIES

- (a) At 30th June, 2004, the Group had the following guarantees:

	(Unaudited) 30th June, 2004 HK\$'000	(Audited) 31st December, 2003 HK\$'000
Guarantees given to banks in respect of banking facilities utilised by jointly controlled entities	179,191	131,184
Guarantees given to banks in respect of mortgage loans granted to property purchasers	723,055	492,324
Guarantees given to banks in respect of banking facilities granted to third parties	47,170	28,302
Guarantee given to a bank in respect of a banking facility granted to a vendor of land use rights to a property development subsidiary	13,016	13,016
Guarantee given to a bank in respect of a performance bond given to a vendor of land use rights	-	18,868
Bills of exchange discounted with recourse	58,142	50,061

16. CONTINGENT LIABILITIES *(continued)*

- (b) During the year ended 31st December, 2002, the National Tax Bureau in the PRC issued a notice to all local tax bureaux requiring them to impose land appreciation tax on property developers. In the opinion of the Directors, after consulting the tax consultants and the tax bureaux of certain relevant cities, land appreciation tax will not be made in respect of properties already completed in those cities. Accordingly, no provisions for land appreciation tax have been made in the financial statements. The Company has not, however, been able to secure written confirmation of those individual city policies, and the Directors consider that there is a small possibility that land appreciation tax might be levied. Should such levies take place, then land appreciation tax of subsidiaries attributable to the Group amounts to HK\$72,454,000 (31st December, 2003: HK\$51,796,000) and share of land appreciation tax of a jointly controlled entity attributable to the Group amounts to HK\$52,325,000 (31st December, 2003: HK\$52,325,000).
- (c) Certain property purchasers have taken legal action against a subsidiary of the Company and are claiming for compensation totalling approximately HK\$7,800,000 as a result of alleged late issue of title deeds of properties sold to them. The Group has assessed the claims and considers that the final outcome of the claims will not have material effect on the financial statements.
- (d) A property purchaser who previously purchased a property in Shenzhen initiated legal proceedings against a wholly owned subsidiary of the Company to rescind the sale contract and claim for sales proceeds paid of approximately HK\$49,368,000 together with compensation. Inventories of completed properties with carrying value of HK\$35,376,000 are held in the custody of the court. The Group had appealed pending acceptance by the court in the PRC. Subsequent to the balance sheet date, this property purchaser initiated another legal proceeding claiming for sales proceeds of another storey of the same shopping arcade and the underground carpark with the compensation amounting to approximately HK\$59,150,000. This case is under trial by the court in the PRC. Based on legal opinion, the Group considers that it has a strong defence to the claim and it is not expected to have a material effect on the financial statements.
- (e) A former tenant has taken legal action against a jointly controlled entity of the Group claiming for resettlement compensation amounting to approximately HK\$14,000,000 due to the repossession of the property's land use rights by the local government. The case is being tried by the courts in the PRC. The Group believes that it is too early to assess the range of possible liability at this stage, if any, and no amount has been provided for such case in the financial statements.

16. CONTINGENT LIABILITIES *(continued)*

- (f) A bank has taken legal action against a jointly controlled entity of the Group, which has acted as a guarantor for mortgage loans granted to 6 property purchasers, claiming for the defaulted repayment amounting to approximately HK\$6,154,000. The case is under trial by the court. The Group has assessed the claims and considers that the final outcome of the claims will not have material effect on the financial statements.
- (g) A contractor has sued a subsidiary of the Company for additional construction costs of approximately HK\$5,355,000 which is being disputed. This contractor has also sued the same subsidiary and a tenant jointly for the outstanding fitting-out costs of approximately HK\$33,696,000, which have been included in trade payable and are being disputed, and the interest amounting to approximately HK\$13,322,000. These cases are under trial by the court in the PRC and assets of this subsidiary with carrying value of approximately HK\$37,736,000 were, pursuant to the order of the court and upon the application by the plaintiff, seized and in the custody of the court. These cases constitute an event of default in a loan agreement with a bank and the bank has taken legal action against this subsidiary for an early repayment of bank loans amounting to HK\$38,679,000. The bank loans are secured on the investment properties of this subsidiary. The case is under trial by the court in the PRC. The Group has assessed the claims and considers that the final outcome of the claims will not have material effect on the financial statements.
- (h) Certain property purchasers initiated legal proceedings against subsidiaries of the Company claiming for the proceeds of properties returned to those subsidiaries amounting to approximately HK\$8,083,000. The Group has assessed the claims and considers that the final outcome of the claims will not have material effect on the financial statements.

17. PLEDGE OF ASSETS

At 30th June, 2004,

- (a) The Group's 54.7% (31st December, 2003: 54.7%) interest in Shanghai Allied Cement Limited with consolidated net assets of HK\$151,519,000 (31st December, 2003: HK\$159,350,000) was pledged against a bank overdraft facility granted to the Group.

17. PLEDGE OF ASSETS *(continued)*

- (b) The Group's 100% (31st December, 2003: nil) interest in Tian An Land (Shanghai) Limited ("Tian An Land") with consolidated net assets of HK\$463,636,000 (31st December, 2003: nil) was pledged against a banking facility granted to the Company. Properties for sale and investment properties held by a subsidiary of Tian An Land with carrying values of HK\$411,294,000 (31st December, 2003: nil) and HK\$264,189,000 (31st December, 2003: nil) respectively were pledged against a banking facility granted to that subsidiary.
- (c) The Group's 48% (31st December, 2003: 48%) interest in Jack Rock Development Limited with a carrying value of HK\$359,015,000 (31st December, 2003: HK\$354,515,000) was pledged against a bank overdraft facility granted to the Company.
- (d) Bank deposits, properties for development, properties under development, properties for sale and investment properties of certain subsidiaries with carrying values of HK\$19,229,000 (31st December, 2003: HK\$5,915,000), HK\$211,441,000 (31st December, 2003: HK\$215,871,000), HK\$304,708,000 (31st December, 2003: HK\$992,238,000), HK\$115,746,000 (31st December, 2003: HK\$190,734,000) and HK\$278,124,000 (31st December, 2003: HK\$305,054,000) respectively were pledged to banks for banking facilities granted to the Group.
- (e) Properties under development with carrying values of HK\$134,252,000 (31st December, 2003: HK\$125,905,000) were pledged against other loans.
- (f) Properties for development and under development with carrying values of HK\$43,197,000 (31st December, 2003: HK\$43,197,000) and HK\$48,005,000 (31st December, 2003: HK\$46,301,000) respectively were pledged against a trade payable of HK\$31,690,000 (31st December, 2003: HK\$35,463,000).
- (g) Investment properties with carrying values of HK\$47,539,000 (31st December, 2003: HK\$54,300,000) were pledged to a bank for a banking facility granted to a jointly controlled entity.
- (h) Investment properties with carrying values of HK\$205,604,000 (31st December, 2003: HK\$205,604,000) were pledged to a bank for a banking facility granted to a trade creditor.

18. RELATED PARTY TRANSACTIONS AND BALANCES

During the six months ended 30th June, 2004, the Group had the following material transactions and balances with related parties:

	(Unaudited)	
	Six months ended 30th June,	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
(a) Sun Hung Kai & Co. Limited ("SHK"), a substantial shareholder of the Company		
– Rent, property management and air-conditioning fees paid	–	468
– Interest on promissory notes	2,831	6,436
– Interest on loan note	972	–
(b) Allied Properties (H.K.) Limited ("APL"), which is a controlling shareholder of SHK and has common directors with the Company		
– Rent, property management and air-conditioning fees paid	717	408
– Rent, property management and air-conditioning fees paid to a jointly controlled entity of APL	–	154
– Interest on promissory notes	208	1,771
(c) Minority shareholders		
– Rental expenses for cement production facilities	2,390	2,625
(d) A company of which an independent non-executive director of the Company is a partner		
– Legal and professional fee	703	398
	<u>703</u>	<u>398</u>

18. RELATED PARTY TRANSACTIONS AND BALANCES *(continued)*

	(Unaudited) 30th June, 2004 HK\$'000	(Audited) 31st December, 2003 HK\$'000
(e) SHK		
– Outstanding promissory notes payable	87,000	185,419
– Outstanding loan note payable	78,000	–
– Amounts payable	3,438	23,119
(f) APL		
– Outstanding promissory notes payable	–	57,144
– Amounts payable	718	6,646
(g) Jointly controlled entities of the Group		
– Guarantees provided by jointly controlled entities to banks for banking facilities granted to the Group	27,358	17,925
– Pledge of investment properties by a jointly controlled entity to banks for banking facilities amounting to HK\$70.7 million (31st December, 2003: HK\$70.7 million) granted to the Group	79,070	79,070
– Pledge of investment properties of the Group to a bank for a banking facility granted to a jointly controlled entity	<u>47,539</u>	<u>54,300</u>

19. POST BALANCE SHEET EVENT

Upon the completion of a connected transaction of the Company on 5th August, 2004 as approved by the shareholders of the Company at the extraordinary general meeting held on 19th July, 2004, the Group has acquired an additional interest in an associate from a subsidiary of SHK at a consideration of HK\$28,000,000. HK\$3,000,000 of the consideration is payable in cash and the remaining is payable by the issuance of a promissory note in the principal amount of HK\$25,000,000 in favour of the vendor bearing interest at a rate of 5% per annum and repayable on 5th August, 2005.

INTERIM DIVIDEND

The Directors consider that it is prudent to retain an appropriate level of funds to take advantage of business opportunities as and when they arise, and therefore do not intend to declare an interim dividend (2003: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group's net profit attributable to shareholders for the period under review was HK\$52,274,000 (2003: HK\$13,160,000), representing a 297% increase over the previous period. The increase in turnover and operating profit to HK\$887,221,000 (2003: HK\$415,968,000) and HK\$167,331,000 (2003: HK\$36,521,000) respectively, representing increase of 113% and 358% respectively, were mainly the result of contributions from property development and sale of construction materials. Earnings per share was HK6.6 cents (2003: HK1.5 cents), representing an increase of 340% compared to the corresponding period of last year.

PROPERTY DEVELOPMENT AND INVESTMENT

During the period under review, total sales attributable to the Group of 120,100m² GFA from residential/commercial properties were recorded (2003: 146,920m²), whereas 438,800m² GFA were under construction (2003: 481,000m²) and 90,550m² GFA residential/commercial properties were completed (2003: 26,070m²). The segment result for property development was HK\$128,905,000 (2003: HK\$14,282,000) representing an increase of 803%. Properties sold in the PRC such as Shanghai Tian An Centre, Wuxi Redhill Peninsula (Phase 2) and Shanghai Tian An Villa (Phase 1) contributed significantly to the satisfactory performance of the Group during the period.

SALE OF CONSTRUCTION MATERIALS

The segment result for sale of construction materials brought contribution to the Group of HK\$30,731,000 (2003: HK\$22,631,000), representing an increase of 36% compared to the corresponding period of last year.

FINANCIAL POSITION

Liquidity and Financing

As at 30th June, 2004, the Group maintained its liquidity at a healthy level with a well-balanced portfolio of financial resources. The total bank balances and cash reserves of the Group were maintained at over HK\$525 million, providing sufficient working capital for the daily operations of the Group.

As at 30th June, 2004, the total borrowings of the Group amounted to approximately HK\$2,442 million (31st December, 2003: HK\$2,450 million), including current liabilities and non-current liabilities of HK\$1,579 million (31st December, 2003: HK\$1,565 million) and HK\$863 million (31st December,

2003: HK\$885 million) respectively. The gearing ratio (net debt over shareholders' equity) of the Group was around 47% (31st December, 2003: 53%). The borrowings were used to finance the landbank and properties under construction.

Approximately 67% of outstanding debts will expire within 2 years. Since the investments and operation of the Group are located in the PRC, most of the bank borrowings are obtained from PRC banks in Renminbi which will be repaid in the same currency. At the same time, bank borrowings in Hong Kong dollar have increased so as to lower the interest. Around 88% of the Group's bank borrowings bear interest at fixed rates while the remaining is at floating rates.

Pledge of Assets

Details regarding pledging of assets are set out in Note 17 to the financial statements.

Contingent Liabilities

Details of contingent liabilities are set out in Note 16 to the financial statements.

Employees

As at 30th June, 2004, the Group, including its subsidiaries but excluding associates and jointly controlled entities, employed 2,062 persons. The staff costs for the period under review amounted to approximately HK\$35,894,000. The Group ensures that the remuneration packages for employees are competitive and employees are rewarded on performance related basis including salary and bonus.

OPERATIONS REVIEW

PRC's Overall Economy

Continuing the growth trend in the third and fourth quarters of the previous year, the gross domestic product (GDP) amounted to RMB2,710.6 billion in the first quarter of 2004, an increase of 9.7% compared to the corresponding period of 2003, which was 0.2 percentage point lower than the corresponding period of last year. In the real estate sector, statistics collected in 35 key cities showed that property prices and land transaction prices rose by 10.4% and 11.5% in the second quarter respectively, as compared to the corresponding period of last year, while property rentals were up 1%. Besides, the accumulated real estate development and investment in the PRC in the first half year amounted to RMB492.4 billion, an increase of 28.7%, which was 5.3 percentage points lower than the growth rate in the corresponding period of last year. The total area of land of which development was completed in the PRC was 79.2 million m², an increase of 11.5%, which was down by 28.5 percentage points as compared to the growth rate in the corresponding period of last year. These figures reflect a possible cooling down of the real estate market.

Land Policy

During the first half of 2004, a series of radical land policies concerted to the needs of macro-economic control were implemented, including “Notification of Clear-up and Rectification of Development Zones of All Categories to Strengthen the Management of Construction Land” and “Emergent Notification of Intensifying the Land Management for the Improvement and Rectification of the Land Market” as promulgated by the State Council in order to strictly tighten the control in land supply and transfer, in particular the conversion of agricultural land into construction land, which is almost frozen. On the one hand, the policies lead to a decrease in land supply, giving pressures to those developers who have insufficient land reserves. On the other hand, the policies strike on illegal land use and abuses of land resources, enhance the transparency of market operations, and help develop a healthy market which is beneficial to well-managed enterprises like Tian An.

Real Estate Financing Policy

To ensure the effectiveness of the control measures, the State has taken action on two fronts. Apart from strictly executing on the scale of bank credit facility to real estates, it has further raised the entrance barrier for real estate developers by adjusting the capital requirements. These moves have caused liquidity problem for the whole industry. Some developers with insufficient working capital have been suffering from cash flow problems. Fortunately, Tian An took action in the first quarter in strengthening its sales capacity. Sales of about RMB800 million were realised in the first half year and greatly relieved the pressure caused by the credit squeeze in the real estate industry.

Market Performance

All indications show that the control measures have affected Eastern China most. Take Shanghai as an example, the three most significant real estate policies, namely “online-announcement,” “transfer restriction on uncompleted flats” and “lowering of pre-sale standard” launched in April have greatly affected the expectation of purchasers. According to the China Real Estate Index, the Shanghai residential housing index climbed 6.9% to 78 points from January to May this year, which was apparently slower than the 10.2% rise for the corresponding period in last year. Other cities in the region like Wuxi, Changzhou and Nantong had maintained favourable performance until mid-May.

Compared to other regions, the impact of the macro-economic control in Northern China in the first half year was relatively low. Both the total area sold and total sales amount during the period increased significantly over the preceding year. Among the property projects, Changchun Tian An City One performed well both in terms of pricing and brand image, and has set a strong foundation for the Group’s further investment in Northern China.

The situation in Southern China was similar to Northern China as both were not the main targets of the control measures. The market remained relatively stable.

Project Development

Eastern China is still the investment focus of the Group. Shanghai Tian An Centre, a Grade A office building situated at Nanjing West Road, was put onto the market in the first half year. Owing to its unique location with all the advantages of the Central Business District and its high quality, it was popular amongst multinational corporations after its launch on the market. Sales were satisfactory and the project became the most important profit centre of the Group. All the remaining 30 units of Shanghai Tian An Villa (Phase 1) were sold at favourable prices. Wuxi Redhill Peninsula (Phase 2), Changzhou New City Garden (Phase 4), and Nantong Tian An Garden (Phase 2) were also important profit centres of the Group as they performed well in the market. Dalian Tian An Seaview Garden (Phase 2) and Changchun Tian An City One performed satisfactorily in the first half year. Upon the completion of certain properties in Shenzhen Tian An Cyber Park and Guangzhou Panyu Energy Conservation Scientific Technology Park in Southern China in the latter half of the year, they will bring profit contribution to the Group.

Strategically, the Group has expanded the volume of development of villas. The 5 projects launched have all received positive market response. It seems that with the economic growth in the mainland, many affluent people desire to live in luxurious detached houses for better environment and more privacy. The Group is well-positioned to grasp this opportunity to promote Tian An villas to be the premier residence for the affluent people in all regions.

Operations Highlights

During the period, the Group made reasonable allocation of resources by better utilization of assets, cultivated more sources of income and reduced its costs through innovation and streamlining of operating procedures. The Group also stressed on strengthening management measures, and faced all changes both internally and externally in a positive manner, and worked out the best solutions in caring for the interests of shareholders, management and staff, which has been implemented in Eastern China and the Hong Kong headquarters.

The Group has reviewed its operating procedures to enhance efficiency. More authorities were delegated to the profit centres in order to put more pressure and responsibilities on them. At the same time, the Group has strengthened its compliance requirements to ensure a healthy business development. To shape Tian An into a knowledge-oriented enterprise and to maintain its leading position in design concept, construction style of residential estate development in the industry, the management keeps close communication with its staff through training to consolidate its business concepts.

In respect of assets utilization, the Group revitalized those projects like Beijing Fu Hua Building, Fuzhou Dengyun Resort, Shanghai Tian An Sunshine Peninsula, and Dalian Tian An Seaview Garden (Phase 3) to create more profit centres to the Group.

OUTLOOK

At the macro level, the series of control measures adopted in the first half year aiming at resolving economic problems like excessive construction, unplanned investments focusing on scale rather than benefits, is expected to continue for some time in the latter half year. However, with these measures gradually taking effect and the overheated economy reasonably cooled down, such pressure will be relieved accordingly. Consumers will also have digested the uncertainties arising from the measures. The property market is expected in the second half to maintain a stable development after slight adjustments. The Group will take this opportunity in streamlining its internal resources, reorganize its investment structure and strengthen customer services, to position itself for the forthcoming new heights of the property market.

OTHER INFORMATION

Advances to an entity and financial assistance to affiliated companies

In accordance with Rules 13.13 and 13.16 of the Listing Rules, the Company sets out in details (i) the advances to an entity and (ii) the aggregate financial assistance and guarantees to affiliated companies, both as at 30th June, 2004, which exceed 8% of the market capitalisation of the Company. The market capitalisation of the Company as at 30th June, 2004 amounted to approximately HK\$1,320,054,000 based on the total number of 787,621,687 shares of the Company in issue as at 30th June, 2004 and the average closing price of HK\$1.676 for the five business days immediately preceding the aforesaid date.

(i) Advances to an entity

Name of entity	Attributable interest held by the Company	Advances as at 30th June, 2004 HK\$'000
Beijing Nanhu Huayuan Apartment Co., Ltd. ("Beijing Nanhu") (Note 1)	55%	159,775 (Note 2)

(ii) Financial assistance and guarantees to affiliated companies

Name of affiliated companies	Attributable interest held by the Company	Financial assistance and guarantees as at 30th June, 2004 HK\$'000
深圳天安物業管理有限公司	50%	1,509 (Note 3)
Wuhan Tian An Hotel Co., Ltd.	55%	38,617 (Note 3)
Beijing Nanhu	55%	159,775 (Note 2)
Shenzhen ITC Tian An Co., Ltd.	50%	33,525 (Note 4)
Changzhou Tianan Real Estate Development Co., Ltd. ("Changzhou Tianan")	51%	18,911 (Note 5)
Shenzhen Tian An Cyberpark Co., Ltd.	50%	39,543 (Note 4)
Shanghai Min Hoong Real Estate Development Co., Ltd. ("Min Hoong")	N/A (Note 6)	93,964 (Note 7)
Shanghai New Union Building Co., Ltd.	50%	59,632 (Note 3)
Jack Rock Development Limited	48.82%	6,996 (Note 3)
Conesco Investment Company Limited	31.25%	19,500 (Note 3)
Ensen Investment Limited	30%	14,516 (Note 3)
CBI Lakeside Development Limited	33.77%	1,204 (Note 3)
Bonson Properties Limited	30%	4,385 (Note 3)
Hinloon Investments Limited	30%	5,865 (Note 3)
Kinnon Investments Limited	30%	2,766 (Note 3)
Global Smart Investment Limited	48.60%	2,018 (Note 3)
Total:		<u>502,726</u>

Notes:

- Beijing Nanhu is a jointly controlled entity of the Group as at the date of this report. 55% of the registered capital of Beijing Nanhu is owned by Hong Kong East World Investments Limited ("HK East World"), a wholly-owned subsidiary of the Company, and the remaining 45% is held by 北京朝陽公園開發經營公司 which is an Independent Third Party (as defined in the Listing Rules). Pursuant to an agreement dated 10th October, 2003, HK East World has agreed to acquire the 45% registered capital of Beijing Nanhu from 北京朝陽公園開發經營公司 and the acquisition shall be completed on 30th September, 2004. Upon completion of the acquisition, Beijing Nanhu shall become a wholly-owned subsidiary of the Company.

2. This amount comprises (i) a shareholder's loan of approximately HK\$4,358,000 which is unsecured, non-interest bearing and have no fixed term of repayment; (ii) a guarantee of HK\$50,000,000 given by the Company to secure the loan facility granted to Beijing Nanhu, of which the entire amount of the facility has been utilized by Beijing Nanhu; and (iii) a guarantee of US\$5,000,000 given by a subsidiary of the Company to secure the loan facility granted to Beijing Nanhu, of which approximately US\$3,259,000 (equivalent to approximately HK\$25,417,000) of the facility has been utilized by Beijing Nanhu. The Group's investment properties with carrying value of approximately HK\$47,539,000 were pledged against the loan facility referred in (iii) above.
3. These advances are unsecured, non-interest bearing and have no fixed term of repayment.
4. These amounts represent dividends receivable.
5. This amount represents (i) advance by a subsidiary of the Company of approximately HK\$43,000 which is unsecured, non-interest bearing and has no fixed term of repayment; and (ii) guarantee of RMB20,000,000 (equivalent to approximately HK\$18,868,000) given by a subsidiary of the Company to secure the loan facilities granted to Changzhou Tianan, of which the entire amount of the facility has been utilized by Changzhou Tianan.
6. The Group is entitled to 60% of the profit share in certain phases of the development properties of Min Hoong.
7. This amount represents (i) advance by a subsidiary of the Company of approximately HK\$9,058,000 which is unsecured, non-interest bearing and has no fixed term of repayment; and (ii) guarantee of RMB90,000,000 (equivalent to approximately HK\$84,906,000) given by a subsidiary of the Company to secure the loan facilities granted to Min Hoong, of which the entire amount of the facility has been utilized by Min Hoong.

Save as disclosed above, there are no other financial assistance and/or guarantees given by the Company (or any of its subsidiaries) to its affiliated companies as at 30th June, 2004.

In accordance with Rule 13.22 of the Listing Rules, the following is a summary of unaudited combined balance sheet of the above affiliated companies prepared from their financial statements as at 30th June, 2004 and adjusted, where appropriate, to conform with the Group's accounting policies and to reflect the fair value adjustments upon acquisition of these affiliated companies:

	<i>HK\$'000</i>
Non-current assets	3,837,732
Current assets	1,045,238
Current liabilities	(1,062,022)
Non-current liabilities	(1,386,990)
Net assets	<u>2,433,958</u>
Net assets attributable to the Group	<u><u>1,181,463</u></u>

DIRECTORS' INTERESTS IN SECURITIES

Save as disclosed below, as at 30th June, 2004, none of the Directors or chief executives of the Company has 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 Securities and Futures Ordinance (“SFO”)) as recorded in the register required to be kept under section 352 of the SFO; or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies:

(a) The Company

Name of Director	Nature of interests	Number of shares and underlying shares held	Percentage to the relevant issued share capital
Ma Sun	Personal	62,550 <i>(Note)</i>	0.00

Note: The interests held by Mr. Ma Sun as beneficial owner include the holding of 52,125 shares (representing 0.00% of the relevant issued share capital) and 10,425 listed physically settled warrants of the Company giving rise to an interest in 10,425 underlying shares (representing 0.00% of the relevant issued share capital) of the Company. The warrants are exercisable at any time during the period from 5th December, 2001 to 3rd December, 2004 at an exercise price of HK\$2.00 per share.

(b) Associated Corporation – Shanghai Allied Cement Limited (“SAC”)

Name of Director	Nature of interests	Number of shares and underlying shares held	Percentage to the relevant issued share capital
Ng Qing Hai	Personal	4,000,000 <i>(Note 1)</i>	0.54
Ma Sun	Personal	100,000 <i>(Note 2)</i>	0.01
Li Chi Kong	Personal	600,000 <i>(Note 3)</i>	0.08

Notes:

1. The interests held by Mr. Ng Qing Hai as beneficial owner are all interests in underlying shares relating to share options.
2. The interests held by Mr. Ma Sun as beneficial owner are all interests in shares.
3. The interests held by Mr. Li Chi Kong as beneficial owner are all interests in underlying shares relating to share options.

The interests of the Directors of the Company in the share options of SAC are detailed in the section “Share Options” as disclosed below.

All the interests stated above represent long positions. As at 30th June, 2004, no short positions were recorded in the register required to be kept under section 352 of the SFO.

SHARE OPTIONS

(a) The Company

The Company's share option scheme was adopted pursuant to a resolution passed on 27th January, 1999. No option was granted under the share option scheme of the Company during the six months ended 30th June, 2004, nor was there any option outstanding as at 1st January, 2004, and 30th June, 2004.

(b) SAC

The share option scheme of SAC was adopted on 23rd May, 2002 for the participants (including directors and consultants) of SAC and any of its subsidiaries.

The following table discloses movements in the share options of SAC during the six months ended 30th June, 2004:

	Date of grant	Exercisable period	Exercise price per share HK\$	Number of share options		
				As at 1st January, 2004	Granted during the period	As at 30th June, 2004
Directors of the Company						
Ng Qing Hai	28th July, 2003	28th January, 2004 to 27th July, 2013	0.70	4,000,000	-	4,000,000
Li Chi Kong	28th July, 2003	28th January, 2004 to 27th July, 2013	0.70	600,000	-	600,000
David Hui Yip Wing*	28th July, 2003	28th January, 2004 to 27th July, 2013	0.70	2,000,000	-	2,000,000
Employees of SAC						
	28th July, 2003	28th January, 2004 to 27th July, 2013	0.70	17,100,000	-	17,100,000
Total				<u>23,700,000</u>	<u>-</u>	<u>23,700,000</u>

* Mr. David Hui Yip Wing resigned as Non-Executive Director of the Company effective on 20th May, 2004.

No share options were granted, exercised, cancelled and lapsed under the share option scheme of SAC during the period under review.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

Set out below are the interests or short positions of persons in the shares or underlying shares of the Company as at 30th June, 2004 as recorded in the register required to be kept under section 336 of the SFO:

Name of Shareholders	Number of shares and underlying shares held			Percentage of total interests to the relevant issued share capital
	Personal interests (held as beneficial owner)	Corporate interests (interest of corporation)	Total interests	
Sun Hung Kai & Co. Limited ("SHK")	369,825,474	77,839,048 <i>(Note 1)</i>	447,664,522 <i>(Note 2)</i>	56.83
Allied Properties (H.K.) Limited ("APL")	-	447,664,522 <i>(Note 3)</i>	447,664,522 <i>(Note 4)</i>	56.83
Allied Group Limited ("AGL")	-	447,664,522 <i>(Note 5)</i>	447,664,522 <i>(Note 4)</i>	56.83
Lee and Lee Trust ("LL Trust")	-	447,664,522 <i>(Note 6)</i>	447,664,522 <i>(Note 4)</i>	56.83
China Online (Bermuda) Limited (now known as COL Capital Limited) ("COBL")	-	39,863,700 <i>(Note 7)</i>	39,863,700 <i>(Note 8)</i>	5.06

Notes:

- The interests include the holding of (i) 32,452,660 shares and underlying shares held by Sun Hung Kai International Limited, an indirect wholly-owned subsidiary of SHK; (ii) 45,050,388 shares and underlying shares held by Sun Hung Kai Securities Capital Markets Limited, also an indirect wholly-owned subsidiary of SHK; and (iii) 336,000 shares and underlying shares held by China Direction Investments Limited (in liquidation), an indirect 66.67% owned subsidiary of SHK.
- The interests include the holding of 379,407,936 shares (representing approximately 48.17% of the relevant issued share capital) and 68,256,586 listed physically settled warrants of the Company giving rise to an interest in 68,256,586 underlying shares (representing approximately 8.66% of the relevant issued share capital) of the Company.
- Through AP Jade Limited and AP Emerald Limited, direct and indirect wholly-owned subsidiaries of APL respectively, APL owned approximately 74.98% interest in the issued share capital of SHK and was therefore deemed to have an interest in the shares and underlying shares in which SHK was interested.
- The figure refers to the same interest of SHK in 447,664,522 shares and underlying shares.
- AGL owned approximately 74.62% interest in the issued share capital of APL and was therefore deemed to have an interest in the shares and underlying shares in which APL was interested.

6. Mr. Lee Seng Hui, Ms. Lee Su Hwei and Mr. Lee Seng Huang are the trustees of the LL Trust, being a discretionary trust, who together owned approximately 38.62% interest in the issued share capital of AGL. They were therefore deemed to have an interest in the shares and underlying shares in which AGL was interested.
7. The 39,863,700 shares and underlying shares were held by Honest Opportunity Limited (“HOL”), a wholly-owned subsidiary of Classic Fortune Limited which in turn was a wholly-owned subsidiary of COBL. COBL was therefore deemed to have an interest in the 39,863,700 shares and underlying shares in which HOL was interested.
8. The interests include the holding of 27,698,700 shares (representing approximately 3.52% of the relevant issued share capital) and 12,165,000 listed physically settled warrants of the Company giving rise to an interest in 12,165,000 underlying shares (representing approximately 1.54% of the relevant issued share capital) of the Company.

All the interests stated above represent long positions. As at 30th June, 2004, no short positions were recorded in the register required to be kept under section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities during the six months ended 30th June, 2004.

CODE OF BEST PRACTICE

None of the Directors is aware of any information that would reasonably indicate that the Company was not for any part of the six months ended 30th June, 2004, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

AUDIT COMMITTEE

The audit committee of the Company (the “Audit Committee”) has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a general review of the unaudited interim financial statements for the six months ended 30th June, 2004. In carrying out this review, the Audit Committee has relied on a review conducted by the Group’s external auditors in accordance with Statement of Auditing Standards 700 issued by the Hong Kong Society of Accountants as well as obtaining reports from management. The Audit Committee has not undertaken detailed independent audit checks.

By Order of the Board
Patrick Lee Seng Wei
Chairman

Hong Kong, 23rd August, 2004