



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



**Interim Report 2004**

The Board of Directors (“the Board”) of Hong Kong Construction (Holdings) Limited (“the Company”) wishes to announce the unaudited condensed consolidated results of the Company and its subsidiaries (“the Group”) for the six months ended 30th June 2004 as follows:–

# **CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT**

*for the six months ended 30th June 2004*

		<b>Unaudited Six months ended 30th June</b>	
	<i>Note</i>	<b>2004</b>	<b>2003</b>
		<i>HK\$ Million</i>	<i>HK\$ Million</i>
<b>Turnover</b>	2	<b>580.8</b>	784.6
Cost of sales		<b>(555.4)</b>	(777.3)
Gross profit		<b>25.4</b>	7.3
Other revenue	3	<b>8.9</b>	6.0
Other net income/(expenses)	4(a)	<b>121.7</b>	(1.6)
Administrative expenses		<b>(22.1)</b>	(43.9)
Other operating expenses	4(b)	<b>(36.2)</b>	(45.7)
Profit/(loss) from operations		<b>97.7</b>	(77.9)
Finance costs	4(c)	<b>(29.7)</b>	(76.2)
Gain on debt restructuring	5	<b>360.5</b>	–
Share of profits less losses of associates		<b>(47.1)</b>	(7.4)
Share of profits less losses of jointly controlled entities		<b>1.0</b>	(2.8)
<b>Profit/(loss) from ordinary activities before taxation</b>	4	<b>382.4</b>	(164.3)
Taxation	6	<b>(4.8)</b>	1.2
Profit/(loss) from ordinary activities after taxation		<b>377.6</b>	(163.1)
Minority interests		–	0.5
<b>Profit/(loss) attributable to shareholders</b>		<b>377.6</b>	(162.6)
Earnings/(loss) per share			
Basic	7(a)	<b>31.7 cents</b>	(26.7) cents
Diluted	7(b)	<b>24.1 cents</b>	N/A

**CONDENSED CONSOLIDATED BALANCE SHEET**  
*as at 30th June 2004*

		<b>Unaudited As at 30th June 2004</b>	<b>Audited As at 31st December 2003 as restated</b>
	<i>Note</i>	<i>HK\$ Million</i>	<i>HK\$ Million</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Fixed assets	8		
– Investment properties		368.4	365.6
– Other property, plant and equipment		26.2	27.0
		<u>394.6</u>	<u>392.6</u>
Properties held for development		229.0	229.0
Interest in associates	9	1,646.2	1,788.3
Interest in jointly controlled entities	10	95.5	86.6
Non-current receivables		171.0	146.8
Other investments		23.3	18.4
Pledged deposits		6.7	9.2
		<u>2,566.3</u>	<u>2,670.9</u>
<b>Current assets</b>			
Properties held for sale	11	53.3	58.5
Trading securities		0.1	0.1
Trade and other receivables	12	572.3	644.4
Pledged deposits		1.0	134.5
Cash and cash equivalents	13	416.3	164.6
		<u>1,043.0</u>	<u>1,002.1</u>
<b>TOTAL ASSETS</b>		<u><b>3,609.3</b></u>	<u><b>3,673.0</b></u>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Share capital	14	1,948.4	607.9
Reserves	15	(115.1)	(491.5)
		<u>1,833.3</u>	<u>116.4</u>
<b>Minority interests</b>		<u>103.6</u>	<u>98.4</u>
<b>Non-current liabilities</b>			
Amount due to ultimate holding company	16	31.9	–
Bank loans	17	172.4	131.2
Other loan	17	194.1	–
Creditors and accrued expenses		237.1	213.5
Amounts due to associates	9	32.0	32.1
		<u>667.5</u>	<u>376.8</u>
<b>Current liabilities</b>			
Trade and other payables	18	706.3	1,083.2
Bank loans and overdraft	17	277.8	1,670.0
Other loan	17	–	120.0
Floating rate notes	17/19	–	180.6
Taxation		20.8	27.6
		<u>1,004.9</u>	<u>3,081.4</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><b>3,609.3</b></u>	<u><b>3,673.0</b></u>

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30th June 2004

		Unaudited Six months ended 30th June 2004		2003
	Note	HK\$ Million	HK\$ Million	
Shareholders' equity at 1st January		116.4	527.9	
Exchange differences on translation of the financial statements of foreign entities	15	0.7	–	
<b>Net profit not recognised in the profit and loss account</b>		0.7	–	
Net profit/(loss) for the period	15	377.6	(162.6)	
Movement in shareholders' equity arising from capital transactions with shareholders:				
Issue of shares	14	1,340.5	–	
Share issue expenses	15	(1.9)	–	
		1,338.6	–	
Shareholders' equity at 30th June		1,833.3	365.3	

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT***for the six months ended 30th June 2004*

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>30th June</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$ Million</i>	<i>HK\$ Million</i>
Net cash generated from/(used in) operating activities	6.1	(73.9)
Net cash used in investing activities	(89.1)	(64.3)
Net cash generated from/(used in) financing activities	334.7	(16.8)
Net increase/(decrease) in cash and cash equivalents	251.7	(155.0)
Cash and cash equivalents at 1st January	164.6	261.1
Cash and cash equivalents at 30th June	416.3	106.1

## NOTES TO CONDENSED ACCOUNTS

### 1. Basis of preparation

These unaudited condensed consolidated accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25, "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

These condensed accounts should be read in conjunction with the 2003 annual accounts.

The accounting policies and methods of computation used in the preparation of these condensed accounts are consistent with those used in the annual accounts for the year ended 31st December 2003.

### 2. Segmental information

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

	Hong Kong HK\$ Million	The People's Republic of China HK\$ Million	Unallocated HK\$ Million	Consolidated HK\$ Million
Six months ended 30th June 2004 –				
Revenue from external customers	432.5	148.3	–	580.8
Other revenue	–	6.5	2.4	8.9
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenue	<u>432.5</u>	<u>154.8</u>	<u>2.4</u>	<u>589.7</u>
Segment profit	<u>6.8</u>	<u>7.9</u>		14.7
Unallocated operating income and expenses				<hr/> 83.0
Profit from operations				<hr/> 97.7

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

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

	Construction HK\$ Million	Property leasing HK\$ Million	Property development and sales HK\$ Million	Unallocated HK\$ Million	Consolidated HK\$ Million
Six months ended 30th June 2004 –					
Revenue from external customers	570.2	8.1	2.5	–	580.8
Other revenue	–	6.5	–	2.4	8.9
Total revenue	<u>570.2</u>	<u>14.6</u>	<u>2.5</u>	<u>2.4</u>	<u>589.7</u>
Segment profit/(loss)	<u>3.4</u>	<u>11.8</u>	<u>(0.5)</u>		14.7
Unallocated operating income and expenses					<u>83.0</u>
Profit from operations					<u>97.7</u>

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

### 3. Other revenue

	Six months ended 30th June	
	2004 <i>HK\$ Million</i>	2003 <i>HK\$ Million</i>
Interest income	1.0	1.1
Property fee income	6.5	4.2
Other income	<u>1.4</u>	<u>0.7</u>
	<u>8.9</u>	<u>6.0</u>



4. **Profit/(loss) from ordinary activities before taxation**

*Profit/(loss) from ordinary activities before taxation is arrived at after crediting/(charging):*

		Six months ended 30th June	
		2004	2003
		HK\$ Million	HK\$ Million
<b>(a)</b>	<b>Other net income/(expenses)</b>		
	Net unrealised loss on trading securities	–	(0.1)
	Exchange gain	5.4	0.3
	Gain/(loss) on disposal of fixed assets	0.5	(1.7)
	Gain on dissolution of other investment	0.5	–
	Provision written back on loan due from an associated company	62.9	–
	Provision written back on a subsidiary under liquidation	54.5	–
	Others	(2.1)	(0.1)
		<u>121.7</u>	<u>(1.6)</u>

		Six months ended 30th June	
		2004	2003
		HK\$ Million	HK\$ Million
<b>(b)</b>	<b>Other operating expenses</b>		
	Provision for properties held for sale	–	(20.0)
	Impairment loss on fixed assets	–	(9.3)
	Recovery of bad and doubtful debts	15.0	–
	Provision for bad and doubtful debts	(35.3)	(5.4)
	Tendering costs and other unallocated contract costs	(4.4)	(9.6)
	Provision for foreseeable losses	(7.5)	–
	Others	(4.0)	(1.4)
		<u>(36.2)</u>	<u>(45.7)</u>

		Six months ended 30th June	
		2004	2003
		HK\$ Million	HK\$ Million
<b>(c)</b>	<b>Finance costs</b>		
	Interest on bank advance and other borrowings repayable		
	Within five years	(27.8)	(76.2)
	Over five years	(1.9)	–
		<u>(29.7)</u>	<u>(76.2)</u>

	Six months ended 30th June	
	2004	2003
	HK\$ Million	HK\$ Million
(d) <b>Other items</b>		
Depreciation	(0.5)	(0.8)
Reversal of provision for restructuring cost	<u>8.9</u>	<u>—</u>

## 5. Gain on debt restructuring

On 11th February 2004, the Company and Creator Holdings Limited (“Creator”) entered into a debt conversion and share subscription agreement (“the Debt Conversion Agreement”) and a sale and purchase agreement (“the Yangpu Agreement”) relating to the share interest in Hainan Yangpu Development (H.K.) Limited (“Yangpu Development”).

The Debt Conversion Agreement and the Yangpu Agreement were approved at the extraordinary general meeting of shareholders on 3rd April 2004. The indebtedness of approximately HK\$1,640.5 million was settled in full by the Company by issuance of 1,340,555,276 ordinary shares and assignment of the Company’s share interest in Yangpu Development, both to Creator.

The gain on debt restructuring was aggregated from the gain on disposal of the share interest in Yangpu Development of HK\$242.7 million and waiver of interest upon the completion of debt conversion of HK\$117.8 million as at 13th April 2004.

## 6. Taxation

	Six months ended 30th June	
	2004	2003
	HK\$ Million	HK\$ Million
Taxation in the People’s Republic of China (“the PRC”)	(4.6)	0.8
Share of associates’ taxation	<u>(0.2)</u>	<u>0.4</u>
Tax (charge)/credit	<u>(4.8)</u>	<u>1.2</u>

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

## 7. Earnings/(loss) per share

### (a) Basic earnings/(loss) per share

The calculation of basic earnings per share is based on profit attributable to shareholders of HK\$377.6 million (2003: loss of HK\$162.6 million) and the weighted average of 1,189.7 million (2003: 607.9 million) ordinary shares in issue during the period.

(b) *Diluted earnings per share*

For the period ended 30th June 2004, the calculation of diluted earnings per share is based on profit attributable to shareholders of HK\$377.6 million and the weighted average number of ordinary shares of 1,189.7 million plus the weighted average number of 380.0 million ordinary shares deemed to be issued at no consideration if the outstanding call options had been exercised. There are no dilutive potential ordinary shares in existence during the six months ended 30th June 2003.

8. **Fixed assets**

Investment properties were not revalued at 30th June 2004 as the directors considered that the value of investment properties did not differ significantly between 30th June 2004 and 31st December 2003.

9. **Interest in associates**

	As at 30th June 2004 <i>HK\$ Million</i>	As at 31st December 2003 as restated <i>HK\$ Million</i>
Share of net deficits	(500.9)	(506.3)
Amounts due from associates, less provision	<u>2,147.1</u>	<u>2,294.6</u>
	1,646.2	1,788.3
Amounts due to associates	<u>(32.0)</u>	<u>(32.1)</u>
	<u>1,614.2</u>	<u>1,756.2</u>

The balances with associates are unsecured and have no fixed terms of repayment.

The amounts due from associates include HK\$58.6 million (at 31st December 2003: HK\$57.2 million) which is interest-bearing with interest rate fixed at Hong Kong dollar prime rate.

The Group's interest in Hong Kong Construction Kam Lung Limited which holds interest in The Peninsula Palace Hotel in Beijing, is regarded as a long term investment. The Group is exercising its right to be an active shareholder in this investment and accordingly the Group's interest has been reclassified under interest in associates.

As part of the debt restructuring arrangement, the Group had disposed 17% share interest in First Choice International Development Limited ("First Choice"). The Group currently owns 8% share interest in First Choice and regards First Choice as other investments.

**10. Interest in jointly controlled entities**

	<b>As at 30th June 2004</b>	<b>As at 31st December 2003</b>
	<b>HK\$ Million</b>	<b>HK\$ Million</b>
Share of net deficits	<b>(66.6)</b>	(67.6)
Amounts due from jointly controlled entities, less provision	<b>162.1</b>	154.2
	<b><u>95.5</u></b>	<b><u>86.6</u></b>

The balances with jointly controlled entities are unsecured, interest-free and have no fixed terms of repayment.

**11. Properties held for sale**

Properties held for sale are stated at estimated net realisable value.

**12. Trade and other receivables**

	<b>As at 30th June 2004</b>	<b>As at 31st December 2003</b>
	<b>HK\$ Million</b>	<b>HK\$ Million</b>
Gross amount due from customers for contract work	<b>65.8</b>	20.1
Amount due from associates	<b>75.0</b>	158.3
Amount due from a jointly controlled entity	<b>–</b>	15.0
Debtors, deposits and prepayments	<b>431.5</b>	451.0
	<b><u>572.3</u></b>	<b><u>644.4</u></b>

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

	<b>As at 30th June 2004</b>	<b>As at 31st December 2003</b>
	<b>HK\$ Million</b>	<b>HK\$ Million</b>
0 to less than 2 months	<b>137.2</b>	128.2
2 to less than 6 months	<b>0.2</b>	0.7
6 to less than 12 months	<b>0.5</b>	4.2
12 months and more	<b>3.1</b>	108.0
	<b><u>141.0</u></b>	<b><u>241.1</u></b>
Retention monies receivable due within one year	<b>53.0</b>	103.1
	<b><u>194.0</u></b>	<b><u>344.2</u></b>

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

### 13. Cash and cash equivalents

	As at 30th June 2004 <i>HK\$ Million</i>	As at 31st December 2003 <i>HK\$ Million</i>
Deposits with banks and other financial institutions	96.0	9.9
Cash at bank and in hand	<u>320.3</u>	<u>154.7</u>
	<u><b>416.3</b></u>	<u><b>164.6</b></u>

### 14. Share capital

	No. of shares	<i>HK\$ Million</i>
<i>Issued and fully paid:</i>		
At 1st January 2004	607,853,996	607.9
Shares issued	<u>1,340,555,276</u>	<u>1,340.5</u>
At 30th June 2004	<u><b>1,948,409,272</b></u>	<u><b>1,948.4</b></u>

Pursuant to the Debt Conversion Agreement dated 11th February 2004 between the Company and Creator, 1,340,555,276 new ordinary shares were issued to Creator at a consideration of HK\$1,340.5 million on 13th April 2004.

The Company has a share option scheme which was adopted on 22nd January 1998 whereby the Board at any time within 10 years after 22nd January 1998 are authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up options to subscribe for shares of the Company (the "Old Option Scheme"). The exercise price of options is determined by the Board in accordance with Chapter 17 of the Listing Rules. The options vest after 6 months and are exercisable for various periods of not exceeding 9½ years commencing 6 months after the date on which the grant of the option is accepted, or up to 21st January 2008, whichever is earlier. The maximum number of shares in respect of which options may be granted under the Old Option Scheme may not exceed 10% of the issued share capital of the Company from time to time excluding any shares issued pursuant to the scheme.

On 3rd June 2004, the Company terminated the Old Option Scheme and had adopted a new share option scheme (the “New Option Scheme”). The Old Option Scheme expired on 3rd June 2004 and no further share options can be granted under such scheme. However, share options granted under the Old Option Scheme are still exercisable.

The Company adopted the New Option Scheme which was adopted by the shareholders at the annual general meeting on 3rd June 2004 (the “Adoption Date”) accordingly. Under the New Option Scheme, the Board may at its discretion grant options to the eligible persons to subscribe for shares provided that the total number of shares which may be issued upon exercise of all options to be granted under the New Option Scheme and the Old Option Scheme shall not in aggregate exceed ten (10) per cent. of the shares in issue as at the Adoption Date. Such ten (10) per cent. shall represent 194,840,927 shares on the basis of 1,948,409,272 shares in issue as at the Adoption Date. The exercise price of options is determined by the Board in accordance with Chapter 17 of the Listing Rules. The options are exercisable for various periods commencing on the Adoption Date, or up to 2nd June 2014, whichever is earlier. Each option gives the holder the right to subscribe for one share.

On 30th June 2004, terms of unexpired and unexercised share options were:

<b>Date granted</b>	<b>Exercise period</b>	<b>Exercise price HK\$</b>	<b>Number</b>
20th May 1998	20th November 1998 to 19th May 2005	3.48	10,050,000
18th June 1998	18th December 1998 to 18th June 2005	2.29	2,950,000
28th September 1998	28th March 1999 to 28th September 2005	1.48	3,000,000

On 30th June 2004, the following call options were granted to Creator to subscribe at no consideration for 380,000,000 bonus shares credited as fully paid at HK\$1.00 each:

<b>Date granted</b>	<b>Exercise period</b>	<b>Number</b>
13th April 2004	13th April 2004 to 12th April 2009	380,000,000

## 15. Reserves

	Share premium HK\$ Million	Capital redemption reserve HK\$ Million	Capital reserve HK\$ Million	Exchange reserve HK\$ Million	Investment properties revaluation reserve HK\$ Million	Accumulated losses HK\$ Million	Total HK\$ Million
At 1st January 2004	1,369.6	14.6	151.3	(23.0)	2.4	(2,006.4)	(491.5)
Exchange differences on translation of financial statement of foreign entities	-	-	-	0.7	-	-	0.7
Share issue expenses	(1.9)	-	-	-	-	-	(1.9)
Profit for the period	-	-	-	-	-	377.6	377.6
At 30th June 2004	<u>1,367.7</u>	<u>14.6</u>	<u>151.3</u>	<u>(22.3)</u>	<u>2.4</u>	<u>(1,628.8)</u>	<u>(115.1)</u>

## 16. Amount due to ultimate holding company

The amount due to ultimate holding company is secured, interest bearing and not expected to be settled within one year.

## 17. Interest-bearing borrowings

On 30th June 2004, the interest-bearing borrowings were shown as follows:

	As at 30th June 2004 HK\$ Million	As at 31st December 2003 as restated HK\$ Million
<b>Loans</b>		
Unsecured	332.9	258.7
Secured	<u>311.4</u>	<u>1,843.1</u>
	644.3	2,101.8
Current portion of long-term liabilities	<u>(277.8)</u>	<u>(1,970.6)</u>
	<u>366.5</u>	<u>131.2</u>

As at 30th June 2004, the Group's bank loans and other borrowings were repayable as follows:

	<b>Bank loans and overdraft</b>		<b>Other loans and floating rate notes</b>	
	<b>As at 30th June 2004</b>	<b>As at 31st December 2003</b>	<b>As at 30th June 2004</b>	<b>As at 31st December 2003</b>
	<i>HK\$ Million</i>	<i>HK\$ Million</i>	<i>HK\$ Million</i>	<i>HK\$ Million</i>
Within one year	277.8	1,670.0	–	300.6
In the second year	22.8	112.4	194.1	–
In the third to fifth year	21.3	18.8	–	–
After the fifth year	128.3	–	–	–
	<u>450.2</u>	<u>1,801.2</u>	<u>194.1</u>	<u>300.6</u>

The other loan of HK\$120.0 million as at 31st December 2003 under current liabilities was from a shareholder, China Everbright Holdings Company Limited, and was unsecured, interest-bearing and repayable on demand. This loan was fully repaid during the period ended 30th June 2004.

#### 18. Trade and other payables

	<b>As at 30th June 2004</b>	<b>As at 31st December 2003</b>
	<i>HK\$ Million</i>	<i>HK\$ Million</i>
Creditors and accrued expenses	615.9	1,006.6
Gross amount due to customers for contract work	90.4	76.6
	<u>706.3</u>	<u>1,083.2</u>

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

	<b>As at 30th June 2004</b>	<b>As at 31st December 2003</b>
	<i>HK\$ Million</i>	<i>HK\$ Million</i>
0 to less than 2 months	104.6	108.4
2 to less than 6 months	3.9	7.4
6 to less than 12 months	5.8	6.5
12 months and more	60.7	68.9
	<u>175.0</u>	<u>191.2</u>
Retention monies payable due within one year	83.3	84.9
	<u>258.3</u>	<u>276.1</u>



## **19. Floating rate notes**

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

On 20th December 2003, the floating rate notes holders ("the FRN holders") entered into a debt transfer and exchange agreement with Creator, under which Creator purchased from the FRN holders substantially all of the indebtedness owed by the Company.

## **20. Contingent liabilities**

- (a) Contingent liabilities at the balance sheet date in respect of guarantees given to banks and other lenders to secure loans and advances to associates amounted to HK\$59.5 million (at 31st December 2003: HK\$70.3 million).
- (b) The Group has contingent liabilities in respect of performance bonds and guarantees under contracts and other agreements entered into in the normal course of business.
- (c) The Group has contingent liabilities in respect of banking facilities granted to certain buyers of properties of the Group and its associates.

## **21. Material related party transactions**

- (a) During the six months ended 30th June 2003, the Group had several construction contracts with a group, which can exercise significant influence over the Group in making financial and operating decisions ("the related group"), for the provision of construction services to the Group and charged progress payment amounting to HK\$41.8 million and no service was provided to the Group during the six months ended 30th June 2004. The net amount due to this related group at the period end amounted to HK\$30.0 million (at 31st December 2003: HK\$33.1 million).

In addition, at the period end, the related group provided corporate guarantee to the Group on bank loans amounted to HK\$93.8 million (at 31st December 2003: HK\$93.8 million) which was fully repaid in July 2004.

- (b) As at 30th June 2004, properties of an associate of HK\$260.6 million (at 31st December 2003: HK\$334.7 million) were used to secure the bank loans of the Group. The bank loans secured by these properties amounted to HK\$260.8 million (at 31st December 2003: HK\$271.9 million).

- (c) During the six months ended 30th June 2003, the Group provided construction services to certain of its joint ventures and charged progress payments amounting to HK\$23.4 million. No service was provided to these joint ventures during the six months ended 30th June 2004. The net amount due from these joint ventures at the period end amounted to HK\$8.5 million (at 31st December 2003: HK\$9.2 million).
- (d) On 31st December 2003, there was a loan amount of HK\$120.0 million included in other loan. The amount was repaid during the period (see note 17). During the six months ended 30th June 2003, interest paid and payable to this related party amounted to HK\$4.2 million. No interest was paid or payable during the period.

## **22. Post balance sheet event**

The Company has entered into a sale and purchase agreement on 7th July 2004 to dispose the land and building amounting to HK\$19.6 million for a consideration of US\$5.5 million. This transaction was completed on 13th July 2004.

On 13th July 2004, the Company entered into a tenancy agreement with the purchaser of the above land and building, pursuant to which the purchaser had agreed to lease the land and building to the Company for a period of three years at a rental of HK\$179,000 per month, exclusive of management fee, government rent, rates and all other outgoings.

## **23. Comparative figures**

Certain comparative figures have been reclassified to conform with the current period's presentation.

## **24. Approval of interim financial report**

The interim financial report was approved and authorised for issue by the Board on 24th September 2004.

# **FINANCIAL REVIEW AND ANALYSIS**

## **Results**

The Board reports that the unaudited consolidated profit attributable to shareholders for the six months ended 30th June 2004 was HK\$377.6 million, compared to the loss attributable to shareholders of HK\$162.6 million for the corresponding period of the previous year. It is mainly due to the gain of HK\$360.5 million arisen from the completion of debt conversion and disposal of the share interests in Yangpu Development.

The turnover was HK\$580.8 million for the first six months of 2004 as compared with HK\$784.6 million in the last corresponding period after the completion of Shanghai Outer Ring Tunnel project in the first half of 2003. The gross profit was HK\$25.4 million compared with HK\$7.3 million for the same period in the last year due to the stringent costs control of the construction contracts implemented by the management. The other net income was HK\$121.7 million for the first half of 2004 as compared

with the other net expenses of HK\$1.6 million for same period in last year which was resulted from the written back of over-provision of claims and the amount due from an associated company.

The finance costs for the current period was reduced to HK\$29.7 million from HK\$76.2 million of the same period of 2003 as a result of the completion of the debt restructuring. The share of losses of associates was increased to HK\$47.1 million as compared with the HK\$7.4 million for the same period of the last year mainly due to additional provisions made by an associated company in the PRC.

Basic earnings per share for the first half of 2004 was 31.7 cents, compared with the loss per share of 26.7 cents for the same period of previous year.

### **Debt Restructuring**

On 20th December 2003, the bank creditors and the FRN holders entered into a debt transfer and exchange agreement with Creator, an unrelated third party at the relevant time and now the controlling shareholder of the Group, under which Creator purchased from the bank creditors and the FRN holders substantially all of the indebtedness owed by the Company.

On 19th January 2004, the Company entered into a sale and purchase agreement, which was supplemented by a supplemental deed dated 3rd February 2004, to dispose 17% share interest in First Choice in return of 30.8% share interest in Yangpu Development. The transaction was completed on 26th February 2004. The Group currently owns 8% share interest in First Choice.

On 11th February 2004, the Company and Creator entered into the Debt Conversion Agreement and the Yangpu Agreement related to the share interest in Yangpu Development.

The Debt Conversion Agreement and the Yangpu Agreement were approved at the extraordinary general meeting of the shareholders on 3rd April 2004. The indebtedness of approximately HK\$1,640.5 million was settled in full by the Company by issuance of 1,340,555,276 ordinary shares and assignment of the share interest in Yangpu Development, both to Creator.

### **Liquidity and Financial Resources**

As a result of completion of the debt conversion, the Group's total borrowing at the balance sheet date was reduced to HK\$644.3 million from HK\$2,101.8 million as of 31st December 2003. All these borrowings are interest bearing with interest rates fixed at market rates plus margin at various intervals of time from one month to one year. As of the balance sheet date, the foreign currency borrowings included RMB borrowings of 46.9% and USD borrowings of 30.1%. The Group had pledged deposits of HK\$7.7 million and cash and cash equivalent of HK\$416.3 million at the balance sheet date. The Group has not used financial instruments for currency hedging purposes.

### **Details of Charges on Group Assets**

As at 30th June 2004, the Group has pledged certain properties as security for the bank loans.

## **Gearing Ratio**

The Borrowings to Equity Ratio of the Group as at 30th June 2004 was 12.0% as compared with 1,540.8% at 31st December 2003, being the ratio of “total borrowings less cash and cash equivalents and pledged deposits” divided by “shareholders’ equity”.

## **Contingent Liabilities**

Details of the Group’s contingent liabilities are set out in note 20 on the interim financial report.

## **BUSINESS REVIEW**

### **Construction**

The Group had in hand contracts valued at HK\$3.3 billion at the end of August 2004 (excluding the share of joint venture partners). They included a construction contract for residential development in Tung Chung, a construction contract for residential development in Lai Chi Kok, a Chinese Shenzhen government contract for main construction of the Shenzhen Convention and Exhibition Centre and a Chinese government contract for main construction of the National Grand Theatre in Beijing. In addition, the Group is providing construction contract management services for Zhuhai Ocean Hot Spring Resort Development Project and Thames Town Project, Songjiang, Shanghai, both in the PRC.

### **Property**

The Group maintains a property investment portfolio in the first class commercial and residential developments in Shenzhen, Guangzhou and Beijing. The portfolio provides a steady stream of rental revenue. The Group also has interest in The Peninsula Palace Hotel in Beijing which is regarded as long term investment and has been reclassified as an associated company.

### **Employees**

At the end of June 2004, there were a total of approximately 155 employees employed by the Group. The employees are remunerated according to the nature of jobs, their and the Group’s performance, and market conditions.

## **OUTLOOK**

Due to the previous financial difficulties, the Company has been suspended from tendering with the Works Bureau. As the financial position of the Company has been improved significantly after the debt restructuring, the Board has been taking active steps to fulfill the requirements of the Works Bureau. We are confident that the Works Bureau will reinstate our status in tendering in the near future.

Under the second round of the Closer Economic Partnership Arrangement and the first Pan-Pearl River Delta Regional Cooperation and Development Forum of the nine provinces in the Western and Southern China with Hong Kong and Macau, the investment opportunities for highways, ports and other infrastructure facilities in the Region are increasing. The Company’s well established reputation and excellent track records will enable it to be benefited from these opportunities.

In addition, the hosting of the 2008 Olympic Games in Beijing and the 2010 World Expo in Shanghai provide ample opportunities for construction of infrastructure and related facilities. The Company has formed joint ventures with reputable partners and pre-qualified to participate in the bidding of the construction of the new CCTV Tower and the National Stadium for the Olympic Games, both in Beijing.

To tackle with the increasingly challenging market ahead, the Group will continue the corporate strategy of maintaining stringent cost controls and streamlining the operation platform to enhance its cost competitiveness.

In the years to come, the Group will explore the business and investment diversification opportunities by venturing into the different geographical markets where sound business opportunities are identified, with our primary focus on the market of the PRC and investments generating stable earnings.

Mr. OEI Tjie Goan, the Chairman of the Group, is a distinguished entrepreneur with extensive business in various industries in Asia and other parts of the world and Mr. OEI Kang Eric, Managing Director and Chief Executive Officer of the Group, has extensive experiences in finance and general management and previously worked in various multinational corporations in Asia as well as the USA. Their valuable experiences and business network will enhance the Group's opportunity to be invited to participate in various business and investment opportunities.

## **INTERIM DIVIDEND**

The Directors do not recommend the payment of any interim dividend for the first half of 2004 (2003: Nil).

## **ADVANCES AND GUARANTEES TO AFFILIATED COMPANIES AND OTHER ENTITY – DISCLOSURE PURSUANT TO RULES 13.13 TO 13.22 OF THE LISTING RULES**

### **Affiliated companies**

The Company itself and through its subsidiaries have entered into contractual joint venture agreements with several joint venture members and have undertaken substantial investments for development of certain properties and infrastructure projects, and construction works. Pursuant to these agreements, investments were made to joint venture companies in the form of capital and advances in proportion to the respective joint venture members' capital contribution ratio or in accordance with the terms of the joint venture agreements. These investments were classified under the headings "Interest in jointly controlled entities" and "Interest in associates"

in the consolidated balance sheet of the Company and its subsidiaries. Details of such investments as at 30th June 2004 are disclosed below:

<u>Affiliated companies</u>	<u>% interest attributable to the Group</u>	<u>Amounts due from affiliated companies</u> <i>HK\$ Million</i>	<u>Guarantee given for facilities utilised by affiliated companies</u> <i>HK\$ Million</i>	<u>Annual interest rate on advances</u>
Karbohy Investment Ltd (note d)	50%	682.3	59.5	Interest free
Hong Kong Construction SMC Development Ltd	40%	90.7	–	Interest free
Hainan Yangpu Merchant Co. Ltd	25%	22.8	–	Interest free
Right Choice International Ltd	27.5%	226.1	–	Interest free
Dorboy Investment Ltd	50%	401.6	–	Interest free
Quick Wealth Investments Ltd	50%	437.1	–	Partial interest free/Partial bearing interest at HK\$ prime rate
Hong Kong Construction Kam Lung Ltd (note d)	45%	468.2	–	Interest free
Hong Kong Construction Maeda-Yokogawa- Hitachi Joint Venture	25%	0.3	–	Interest free
Hong Kong Construction- AMEC Joint Venture (note d)	55%	92.3	–	Interest free
Hong Kong Construction- Maeda-CRABC Joint Venture	34%	5.3	–	Interest free
HK ACE Joint Venture	30%	18.7	–	Interest free
AMEC-Hong Kong Construction CC-202 Joint Venture	35%	50.8	–	Interest free
		<u>2,496.2</u>	<u>59.5</u>	

Notes:

- (a) The advances are unsecured, without fixed repayment terms and are repayable in cash out of net cash surplus from operation of the affiliated companies.
- (b) The advances made were funded by internal resources and by bank borrowings for general working capital purposes.
- (c) Save for those mentioned above, no guarantee has been given by the Group for facilities granted to the above mentioned affiliated companies.
- (d) The amounts due from and guarantees given on behalf of these affiliated companies, the aggregate of which is individually exceeds 25% of the net asset value of the Group, are related to these companies' property development/investment projects/working capital funds.

As at 30th June 2004, total committed capital injections, advances made, committed advances to be made to affiliated companies and guarantees given by the Group for facilities utilised by affiliated companies, in aggregate, amounted to approximately HK\$2,555.7 million which represented approximately 139.4% of the net asset value of the Group as at 30th June 2004.

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

A proforma combined balance sheet of the affiliated companies as at 30th June 2004 is presented below:

	<b>Combined total</b>	
	<u>HK\$ Million</u>	<u>HK\$ Million</u>
<b>Fixed assets</b>		
Investment properties		2,549.7
Hotel properties		1,453.8
Others		5.7
		<hr/>
		4,009.2
<b>Other non-current assets</b>		1,167.6
<b>Current assets</b>		
– Properties held for sale	53.3	
– Other current assets	1,784.1	
	<hr/>	
		1,837.4
		<hr/>
<b>Total assets</b>		<b>7,014.2</b>
		<hr/>
Share capital	26.7	
Reserves	(1,356.5)	(1,329.8)
	<hr/>	
<b>Non-current liabilities</b>		
– Advances from shareholders	4,694.9	
– Bank and other loans	469.9	
– Other non-current liabilities	124.0	5,288.8
	<hr/>	
<b>Current liabilities</b>		
– Amounts due to shareholders/joint ventures	747.2	
– Current portion of bank loans	298.5	
– Other current liabilities	2,009.5	3,055.2
	<hr/>	<hr/>
<b>Equity and liabilities</b>		<b>7,014.2</b>
		<hr/>

Attributable interest of the affiliated companies to the Group as at 30th June 2004 amounted to a deficit of HK\$560.2 million.

#### **Other entity**

On 8th June 2004, Hong Kong Construction (Shenzhen) Limited (“HKC (Shenzhen)”), a subsidiary of the Group entered into an agreement with Xing Ye Bank, Shenzhen Branch (“Xing Ye Bank”), pursuant to which Xing Ye Bank agreed to act as the entrustment agent of HKC (Shenzhen) to on-lend a sum of RMB160 million to 海南漿林貿易有限公司, an independent third party in the PRC for the purpose of generating higher interest income. The advance was unsecured with interest charged at a rate of 4.779% per annum and repayable on the expiry of a three-month period following the drawdown on 9th June 2004. The advance of RMB160 million, together with interest accrued thereon up to 27th July 2004 of approximately RMB1.04 million, was fully settled on 28th July 2004.



## SHARE OPTION SCHEME

The Company has a share option scheme which was adopted on 22nd January 1998 whereby the Board at any time within 10 years after 22nd January 1998 are authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up options to subscribe for shares of the Company. The exercise price of options is determined by the Board in accordance with Chapter 17 of the Listing Rules. The options vest after 6 months and are exercisable for various periods of not exceeding  $9\frac{1}{2}$  years commencing 6 months after the date on which the grant of the option is accepted, or up to 21st January 2008, whichever is earlier. The maximum number of shares in respect of which options may be granted under the Old Option Scheme may not exceed 10% of the issued share capital of the Company from time to time excluding any shares issued pursuant to the scheme.

On 3rd June 2004, the Company terminated the Old Option Scheme and had adopted the New Option Scheme. The Old Option Scheme expired on 3rd June 2004 and no further share options can be granted under such scheme. However, share options granted under the Old Option Scheme are still exercisable.

The Company adopted the New Option Scheme which was adopted by the shareholders at the annual general meeting on 3rd June 2004 accordingly. Under the New Option Scheme, the Board may at its discretion grant options to the eligible persons to subscribe for shares provided that the total number of shares which may be issued upon exercise of all options to be granted under the New Option Scheme and the Old Option Scheme shall not in aggregate exceed ten (10) per cent. of the shares in issue as at the Adoption Date. Such ten (10) per cent. shall represent 194,840,927 shares on the basis of 1,948,409,272 shares in issue as at the Adoption Date. The exercise price of options is determined by the Board in accordance with Chapter 17 of the Listing Rules. The options are exercisable for various periods commencing on the Adoption Date, or up to 2nd June 2014, whichever is earlier. Each option gives the holder the right to subscribe for one share.

During the six months ended 30th June 2004, there were no share options being granted under the New Option Scheme. Whereas, regarding the Old Option Scheme, the movements for the period were as follows:-

- (a) Movement of share options to directors and chief executives of the Company was disclosed in the following section headed "Directors' Interests".

(b) Movement of share options to employees and other participants are as follows:

	Number of options outstanding at 1st January 2004	Number of options cancelled during the period	Number of options outstanding at 30th June 2004	Date of grant	Exercise period	Exercise price per share HK\$	Closing price per share immediately before the date of grant HK\$
Employees in aggregate	4,240,000	(1,190,000)	3,050,000	20/5/1998	20/11/1998 to 19/5/2005	3.48	4.28
	950,000	-	950,000	18/6/1998	18/12/1998 to 18/6/2005	2.29	2.90
Other participants	3,000,000	-	3,000,000	20/5/1998	20/11/1998 to 19/5/2005	3.48	4.28

No options were exercised during the six months ended 30th June 2004.

## DIRECTORS' INTERESTS

On 30th June 2004, the interests of the directors in the shares and share options of the Company as recorded in the register maintained under section 352 of Part XV of the Securities and Futures Ordinance (the "SFO") were as follows:

### (i) Shares

Directors	Nature of interests	Long position	Short position	Approximate % of the issued share capital
OEI Kang Eric	Corporate	1,242,261,905 <sup>#</sup>	-	63.76%
CHEN Libo	Personal	3,800,000	-	0.20%
TANG Sau Wai Tom	Personal	100,000	-	0.0051%

### (ii) Options to subscribe for shares of HK\$1.00 each in the Company granted

Directors	Number of options outstanding on 1st January 2004	Number of options outstanding on 30th June 2004	Date of grant	Exercise period	Exercise price per share HK\$	Closing price per share immediately before the date of grant HK\$	Consideration paid for the options granted HK\$
OEI Kang Eric	-	380,000,000 <sup>#</sup>	13/4/2004	13/4/2004 to 12/4/2009	-	0.55	1
	-	98,293,371 <sup>1#</sup>	13/4/2004	13/4/2005 to 21/4/2005 and 13/5/2005 to 24/5/2005	0.50	0.55	-

Directors	Number of options outstanding on 1st January 2004	Number of options outstanding on 30th June 2004	Date of grant	Exercise period	Exercise price per share HK\$	Closing price per share immediately before the date of grant HK\$	Consideration paid for the options granted HK\$
CHEN Libo	4,000,000	4,000,000	20/5/1998	20/11/1998 to 19/5/2005	3.48	4.28	1
	2,000,000	2,000,000	18/6/1998	18/12/1998 to 18/6/2005	2.29	2.90	1
	3,000,000	3,000,000	28/9/1998	28/3/1999 to 28/9/2005	1.48	1.88	1

# *These interests are held by Creator, a wholly owned company of Mr. OEI Kang Eric. Mr. OEI Kang Eric is also the sole director of Creator.*

\* *A call option for Creator to subscribe at no consideration for 380,000,000 bonus shares credited as fully paid at HK\$1.00 each shares at any time in whole or in part during the period of 5 years from 13th April 2004.*

Δ *A put option for Creator to buy back 98,293,371 shares from bank creditors and FRN holders, pursuant to Debt Transfer and Exchange Agreement dated 20th December 2003 entered into between Creator, bank creditors and the FRN holders.*

The options are held by Mr. OEI Kang Eric under corporate interests.

The options are held by Mr. CHEN Libo under personal interests.

No options were exercised during the six months ended 30th June 2004.

Other than as disclosed, none of the directors was interested or had any short position in any shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as at 30th June 2004.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30th June 2004, the following companies were interested in more than 5% of the issued share capital of the Company as recorded in the register maintained under section 336 of Part XV of the SFO:

Name of company	Capacity	Number of ordinary shares held	Percentage of total issued capital	Number of underlying shares outstanding under equity derivatives	Percentage of total issued shares
Creator Holdings Limited	Beneficial owner	1,242,261,905	63.76%	380,000,000	19.50%
Shanghai Construction (Group) General Co.	Beneficial owner	149,000,000	7.65%	–	–

Save as stated above, no person was interested in or held a short position in the shares or underlying shares which need to be disclosed to the Company under section 336 of Part XV of the SFO.

#### **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

During the six months ended 30th June 2004, there was no purchase, sale or redemption of the listed securities of the Company by the Company or any of its subsidiaries.

#### **CODE OF BEST PRACTICE**

The Company has complied throughout the six months ended 30th June 2004 with the Code of Best Practice as set out by The Stock Exchange of Hong Kong Limited in Appendix 14 of the Listing Rules.

#### **CODE FOR DEALING IN THE COMPANY'S SECURITIES BY DIRECTORS**

The directors of the Company has complied throughout the six months ended 30th June 2004 with the Stock Exchange's Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the amended Listing Rules which came into effect on 31st March 2004.

#### **AUDIT COMMITTEE**

The audit committee comprises two independent non-executive directors and one non-executive director with written terms of reference in accordance with the requirements of the Listing Rules, and reports to the Board. The audit committee has reviewed the Group's interim results for the six months ended 30th June 2004.

#### **ACKNOWLEDGEMENT**

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

By order of the Board  
**OEI KANG ERIC**

*Managing Director and Chief Executive Officer*

Hong Kong, 24th September 2004

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

*(Incorporated in Hong Kong with limited liability)*

### **Introduction**

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

### **Respective responsibilities of directors and auditors**

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with SSAP 25 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

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

### **Review work performed**

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants.

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

### **Review conclusion**

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30th June 2004.

**PricewaterhouseCoopers**  
*Certified Public Accountants*

Hong Kong, 24th September 2004