



深圳控股有限公司
SHENZHEN INVESTMENT LIMITED



Interim Report

2004

Corporate Information

Executive Directors

Mr. HU Aimin, *Chairman*

Mr. LIU Zixian, *President*

Mr. LIU Jianhua

Ms. ZHAO Mingfeng

Mr. LIANG Kaiping

Mr. XU Ruxin

Mr. ZHU Huoyang

Independent Non-Executive Directors

Mr. WONG Po Yan

Mr. LEE Yip Wah, Peter

Mr. Wu Wai Chung, Michael

Company Secretary

Mr. CHEUNG Wing Yui, Edward

Authorised Representative

Mr. LIU Zixian

Auditors

Ernst & Young

Certified Public Accountants

Hong Kong

Legal Adviser

Woo, Kwan, Lee & Lo, Solicitors & Notaries

Principal Bankers

The Bank of East Asia, Ltd.

The Hongkong & Shanghai Banking
Corporation Ltd.

Hang Seng Bank Ltd.

Nanyang Commercial Bank Ltd.

Industrial and Commercial Bank of
China (Asia) Ltd.

Registered Office

8th Floor, New East Ocean Centre

9 Science Museum Road

Tsimshatsui, Kowloon

Hong Kong

Share Registrar and Transfer Office

Standard Registrars Ltd.

G/F BEA Harbour View Centre

56 Gloucester Road

Wanchai

Hong Kong

Interim Results

The board of directors (the “Directors”) of Shenzhen Investment Limited (the “Company”) present the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2004 together with the comparative figures. These interim financial statements have not been audited, but have been reviewed by the Company’s audit committee and the auditors, Ernst & Young.

Condensed Consolidated Income Statement

	Notes	Six months ended 30 June	
		2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
TURNOVER	2	981,508	804,684
Cost of sales		(629,878)	(542,376)
Gross profit		351,630	262,308
Other revenue and gains		97,135	78,434
Selling and distribution costs		(25,594)	(28,586)
Administrative expenses		(184,281)	(175,019)
Other operating expenses		(33,674)	(27,545)
PROFIT FROM OPERATING ACTIVITIES	3	205,216	109,592
Finance costs	4	(50,145)	(50,927)
Share of profits and losses of associates		153,462	128,190
PROFIT BEFORE TAX		308,533	186,855
Tax	5	(52,687)	(43,309)
PROFIT BEFORE MINORITY INTERESTS		255,846	143,546
Minority interests		(82,512)	(27,831)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		173,334	115,715
EARNINGS PER SHARE	6		
Basic		HK7.03 cents	HK4.76 cents
Diluted		HK7.01 cents	HK4.72 cents
INTERIM DIVIDEND PER SHARE		HK2.00 cents	HK1.50 cents

Condensed Consolidated Balance Sheet

		30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
	Notes		
NON-CURRENT ASSETS			
Fixed assets		722,186	729,142
Intangible assets		27,784	28,419
Negative goodwill		(119,769)	(126,369)
Properties under development		1,201,513	1,211,385
Investment properties		2,219,772	2,148,975
Interests in associates		2,490,322	1,894,482
Long term investments		30,562	30,875
Long term receivables		19,179	14,547
Deposits paid for the acquisition of subsidiaries		–	1,267
Deferred tax assets		1,425	1,505
		6,592,974	5,934,228
CURRENT ASSETS			
Inventories		517,083	516,812
Properties under development for sale		271,316	84,839
Accounts receivable	7	172,899	166,160
Prepayments and other receivables		463,742	408,088
Amounts due from minority shareholders		141,438	122,889
Cash and cash equivalents		3,231,185	2,580,390
		4,797,663	3,879,178
CURRENT LIABILITIES			
Interest-bearing bank loans	9	1,984,131	1,347,666
Accounts and notes payable	8	235,751	316,249
Other payables and accruals		1,047,729	928,305
Tax payable		64,545	11,582
		3,332,156	2,603,802
NET CURRENT ASSETS			
		1,465,507	1,275,376

Condensed Consolidated Balance Sheet *(continued)*

		30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
	Notes		
TOTAL ASSETS LESS CURRENT LIABILITIES		8,058,481	7,209,604
NON-CURRENT LIABILITIES			
Interest-bearing bank loans	9	3,137,074	2,350,606
Deferred tax liabilities		83,221	103,420
		3,220,295	2,454,026
MINORITY INTERESTS		1,328,776	1,384,432
		3,509,410	3,371,146
CAPITAL AND RESERVES			
Issued capital		123,421	122,215
Reserves	10	3,336,621	3,187,824
Proposed dividend		49,368	61,107
		3,509,410	3,371,146

Condensed Consolidated Statement of Changes in Equity

	Notes	Six months ended 30 June	
		2004	2003
		(Unaudited) HK\$'000	(Unaudited) HK\$'000
Total shareholders' equity at 1 January		3,371,146	3,200,805
Surplus/(deficit) on revaluation of investments in securities	10	(615)	949
Disposal of an investment property		(653)	–
Disposal of subsidiaries		(4,361)	–
Under accrual of 2003 final dividend	10	(603)	(500)
Exchange difference on translation of the financial statements of foreign entities, net	10	16,244	(2,275)
Net gain/(loss) not recognised in the income statement		10,012	(1,826)
Net profit for the period attributable to shareholders		173,334	115,715
Dividends paid		(61,107)	(60,357)
Issue of new shares		16,025	12,309
Total shareholders' equity at 30 June		3,509,410	3,266,646

Condensed Consolidated Cash Flow Statement

	Six months ended 30 June	
	2004	2003
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
CASH INFLOW FROM OPERATING ACTIVITIES	95,540	163,499
CASH OUTFLOW FROM INVESTING ACTIVITIES	(877,764)	(190,763)
CASH INFLOW FROM FINANCING ACTIVITIES	1,433,019	197,149
INCREASE IN CASH AND CASH EQUIVALENTS	650,795	169,885
Cash and cash equivalents at beginning of period	2,580,390	2,012,296
CASH AND CASH EQUIVALENTS AT END OF PERIOD	3,231,185	2,182,181

Notes to Condensed Consolidated Financial Statements

1. Basis of preparation and accounting policies

The unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) No. 25 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and Appendix 16 of the Rules Governing the Listing Securities on The Stock Exchange of Hong Kong Limited. The accounting policies and basis of preparation used in the preparation of the interim financial statements are the same as those used in the preparation of the audited financial statements ended 31 December 2003.

2. Segmental information

The Company is an investment holding company and the following tables present revenue, profit/(loss) and expenditure information for the Group's business segments. Substantially, all of the Group's operating businesses are with customers based in the Mainland China. Accordingly, no segment analysis by geographical area of operations is provided.

	For the six months ended 30 June 2004								
	Property development	Property investment	Property management	Transportation service	Manufacturing	Infrastructure investment	Information technology	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:									
Sales to external Customers	441,890	141,028	114,516	71,241	188,324	-	-	24,509	981,508
Segment results	106,919	60,830	9,898	9,649	(9,393)	11,334	-	(1,638)	187,599
Investment income									52,341
Unallocated expenses									(34,724)
Finance costs									(50,145)
Share of profit and losses of associates	(3,654)	-	-	2,865	3,482	143,102	7,613	54	153,462
Profit before tax									308,533
Tax									(52,687)
Profit before minority interests									255,846
Minority interests									(82,512)
Net profit from ordinary activities attributable to shareholders									173,334

2. Segmental information (continued)

	For the six months ended 30 June 2003								
	Property development	Property investment	Property management	Transportation service	Manufacturing	Infrastructure investment	Information technology	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:									
Sales to external Customers	367,467	107,639	101,148	66,629	149,044	-	-	12,757	804,684
Segment results	64,591	59,033	7,101	11,098	(27,403)	-	-	(8,411)	106,009
Investment income									27,966
Unallocated expenses									(24,383)
Finance costs									(50,927)
Share of profit and losses of associates	25,469	-	-	282	6,249	87,671	8,465	54	128,190
Profit before tax									186,855
Tax									(43,309)
Profit before minority interests									143,546
Minority interests									(27,831)
Net profit from ordinary activities attributable to shareholders									115,715

3. Profit from operating activities

The Group's profit from operating activities is arrived at after charging/(crediting):

	Six months ended 30 June	
	2004	2003
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Depreciation	37,944	34,937
Amortisation of intangible assets	759	768
Loss/(gain) on disposal of fixed assets	504	(343)

4. Finance Costs

	Six months ended 30 June	
	2004	2003
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on:		
Bank loans	65,230	58,272
Less: Amounts capitalised under properties development projects	(15,085)	(7,345)
	50,145	50,927

5. Tax

No Hong Kong Profits tax has been provided in the financial statements as the Group did not derive any assessable profit during the period. Taxes on profits assessable elsewhere in the People's Republic of China (the "PRC") are calculated at the rates of tax prevailing in the locations in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Six months ended 30 June	
	2004	2003
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Group:		
Current – Hong Kong	–	–
Current – the PRC	51,993	27,652
Deferred PRC Corporate Income Tax	(20,541)	(6,450)
	31,452	21,202
Share of tax attributable to:		
Associates	21,235	22,107
Tax charge for the period	52,687	43,309

6. Earnings per share

The calculation of basic earnings per share was based on the net profit attributable to shareholders of HK\$173,334,000 (2003: HK\$115,715,000) and the weighted average number of 2,464,403,045 (2003: 2,429,929,325) shares in issue during the period.

The calculation of diluted earnings per share was based on the net profit attributable to shareholders of HK\$173,334,000 (2003: HK\$115,715,000). The weighted average number of ordinary shares used in the calculation is the 2,464,403,045 (2003: 2,429,929,325) shares in issue during the period, as used in basic earnings per share calculation; and the weighted average number of 9,293,282 (2003: 20,987,233) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the period.

7. Accounts receivable

The ageing analysis of accounts receivable was as follows:

	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
Within 1 year	173,669	163,637
1 to 2 years	11,657	9,563
2 to 3 years	8,265	11,868
Over 3 years	7,167	1,917
Total	200,758	186,985
Less: Provisions for bad and doubtful debts	(27,859)	(20,825)
	172,899	166,160

Under normal circumstances, the Group grants a credit period ranging from 30 days to 90 days to its trade customers. The Group seeks to maintain strict control over its outstanding receivables and to minimise credit risk. Overdue balance are regularly reviewed by management.

8. Accounts and notes payable

The ageing analysis of accounts payable was as follows:

	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
Within 1 year	147,011	267,923
1 to 2 years	43,742	20,093
2 to 3 years	19,763	7,248
Over 3 years	25,235	20,985
Total	235,751	316,249

9. Interest-bearing bank loans

	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
Bank loans:		
Secured	266,847	125,856
Unsecured	4,854,358	3,572,416
	5,121,205	3,698,272
Bank loans repayable:		
Within one year	1,984,131	1,347,666
In the second year	94,996	370,531
In the third to fifth years, inclusive	3,042,078	1,980,075
	5,121,205	3,698,272
Portion classified as current liabilities	(1,984,131)	(1,347,666)
Long term portion	3,137,074	2,350,606

10. Reserves

	Investment		Assets revaluation reserve	Investment revaluation reserve	Capital reserve	Exchange fluctuation reserve	Statutory reserves	Retained profits	Total
	Share premium account	property revaluation reserve							
	HK\$'000	HK\$'000							
At 1 January 2004	1,472,906	176,290	43,665	(6,679)	45,893	(3,676)	557,397	902,028	3,187,824
Shares issued at premium	14,819	-	-	-	-	-	-	-	14,819
Exchange realignments	-	-	-	-	-	13,524	-	-	13,524
Disposal of an investment property	-	(609)	-	-	-	-	-	-	(609)
Deficit on revaluation	-	-	-	(579)	-	101	-	-	(478)
Disposal of subsidiaries	-	-	-	-	(2,525)	-	(1,836)	-	(4,361)
Reserve attributable to minority shareholders	-	298	-	44	-	(2,735)	-	-	(2,393)
Share of reserves from associates	-	-	-	-	-	5,354	-	-	5,354
Deferred tax impact	-	(342)	-	(80)	-	-	-	-	(422)
Net profit for the period	-	-	-	-	-	-	-	173,334	173,334
Under accrual of 2003 final dividend	-	-	-	-	-	-	-	(603)	(603)
Proposed 2004 interim dividend	-	-	-	-	-	-	-	(49,368)	(49,368)
Transfer from retained profits	-	-	-	-	-	-	12,945	(12,945)	-
At 30 June 2004	1,487,725	175,637	43,665	(7,294)	43,368	12,568	568,506	1,012,446	3,336,621

11. Commitments

	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
Commitments in respect of acquisition of land and buildings, and development costs attributable to properties under development:		
– Contracted, but not provided for	320,075	132,404
Commitments in respect of a capital injection to a joint venture in the PRC:		
– Contracted, but not provided for	–	21,116

12. Contingent liabilities

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
(i) Guarantees for credit facilities granted to associates	7,069	7,039
(ii) Maximum extent of guarantees given to banks for housing loans extended by the banks to the purchasers of the Group's properties	642,269	950,790

13. Other matters

As disclosed in note 36 (iii) (2) to the Company's financial statements of 2003, an application for arbitration dated 9 August 2002 was issued by Shenzhen Special Economic Zone Estate (Group) Co., Ltd. (the "Applicant") as the applicant and Shumyip Group (Shenzhen) Co., Ltd ("Shumyip Shenzhen"), the wholly owned subsidiary of the Company, as the respondent in an arbitration case. The Applicant claimed against Shumyip Shenzhen for damages aggregating to approximately RMB137 million suffered by the Applicant as a result of the breach of the terms of a co-operation agreement entered into between the Applicant and Shumyip Shenzhen on 9 November 1993.

This case was heard on 21 March 2003 and the arbitration award was delivered in June 2004. Pursuant to the arbitration award, Shumyip Shenzhen is required to pay a compensation loss and arbitration costs aggregating to RMB25.7 million (equivalent to approximately HK\$24.2 million) as the result of the breach of the co-operation agreement dated 9 November 1993. Pursuant to a deed (the "Deed") entered into on 12 February 1997 by Shum Yip Holdings Limited, the ultimate holding company of the Company, as covenantor in favour of the Company as covenantee in connection with the listing of the Company, the Company is able to claim indemnity from Shum Yip Holdings Limited as the circumstance which gave rise to the above litigation was already in existence at the time of execution of the Deed. The board of directors of Shum Yip Holdings Limited has approved on 9 July 2004 to fully settle the amount of the compensation.

14. Related party transactions

	Six months ended 30 June	
	2004	2003
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Acquisition of 90% interest in a subsidiary from ultimate holding company	–	15,720

The consideration was arrived at based on the discounted estimated net asset value acquired.

15. Pledge of assets

Certain of the Group's bank loans outstanding as at 30 June 2004 were secured by certain of the Group's land and buildings which have an aggregate net book value of approximately HK\$32,300,000 (31 December 2003: HK\$36,197,000), investment properties of the Group with an aggregate value of approximately HK\$13,283,000 (31 December 2003: HK\$13,893,000), and properties held for development with a net book value of HK\$428,706,000 (31 December 2003: HK\$329,340,000).

16. Approval of interim financial statements

These condensed interim financial statements were approved and authorised for issue by the Board of the Company on 17 September 2004.

Independent Auditors' Review Report



安永會計師事務所

To the Board of Directors of Shenzhen Investment Limited

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 2 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 ("HKICPA") 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 HKICPA. A review consists principally of making enquiries of Group's 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 Group's interim financial report for the six months ended 30 June 2004.

Ernst & Young

Certified Public Accountants

Hong Kong, 17 September 2004

Business Review

During the first half of 2004, with the concerted efforts of our entire staff, the Group attained phenomenal results in its overall operations. During the period, the Group achieved turnover of HK\$981.5 million, representing an increase of 22% over that of the corresponding period last year. Profit from operating activities amounted to HK\$205.2 million, a 87% increase as compared to that of the corresponding period last year. Net profit attributable to shareholders was HK\$173.3 million, 50% up from the corresponding period last year.

Property Development and Investment Operations

During the first half of the year, the property operations of the Group made satisfactory progress and the sales figures of its key projects were encouraging. During the period, turnover from property development recorded HK\$441.9 million, 20% up from the corresponding period last year. A total floor area of 82,000 square metres were sold by the Group's real estate subsidiaries, of which 60,000 square metres were attributable to the Group. At the same time, owing to the average selling price of properties was higher than as expected during the period, the average gross profit margin of property operations increased over the corresponding period of last year.

During the period, property under development and on sale primarily comprised premium projects including Cloud Pine Building, Azure Mangrove Garden Phase I, Azure Mangrove Garden Phase II, Wonder Peak Court and Green Legend. Newly-commenced constructions of residential estates and commercial premises included mainly Shum Yip Xin'anxian, Jizhi Centre, Sea Pine Building, IT Square Phase II and Prosperous City. It is anticipated that the property operations of the Group will sustain its steady growth momentum in the latter half of the year.

Notwithstanding the ferocious market competition, property rental business of the Group recorded stable growth and turnover amounted to HK\$141.0 million during the first half of the year, representing an increase of 31% as compared to the corresponding period last year. An overall occupancy rate exceeding 90% was recorded.

Property Management

Leveraging on its prestige as the well-known property management brand, the Group's professional management companies endeavored to expand the domestic market. During the period, over 1 million square metres of gross floor area were added to the management portfolio, the turnover of property management amounted to HK\$114.5 million, representing a rise of 13% over the corresponding period last year.

Transportation Operations

The Group's transportation operations were managed to sustain stable revenue for the first half of the year. The turnover was 7% up from the previous year. It is expected that the turnover derived from transportation operations in the second half of the year would keep up with the level in the first half of the year.

Infrastructure Investment

On 19 January 2004, the Group successfully acquired a 25% stake of Road King Infrastructure Limited, a company listed in Hong Kong, which further enhanced the Group's investment in infrastructure arena. It laid a solid foundation for the Group's industry structure refinement and realignment. Benefited by the rapid economic growth in the PRC, both the volume of domestic motor vehicle and the flow of motor vehicle on road continued to surge which in turn benefited Road King Infrastructure to achieve outstanding results in the first half of the year. It generate a net profit contribution of HK\$40.0 million for the Group.

During the period, Shenzhen Mawan Power, an investment entity of the Group, contributed a net profit of HK\$44.8 million to the Group, maintaining a similar level to that of the corresponding period last year. It is expected that the efficient operations of the power plant in the coming peak season of electricity consumption will bring about a tremendous return to the Group in the latter half of the year.

Information Technology

Shenzhen Topway Video Communication Co., Ltd., in which the Group held a stake, recorded stable growth in operations during the first half of the year and contributed a net profit of HK\$6.8 million, which was similar to that of the corresponding period last year.

Industrial Manufacturing

During the period, the Group's industrial manufacturing arm was engaged in strengthening cost control and product structure realignment and a turnover of HK\$188.3 million was achieved, representing an increase of 26% over the corresponding period last year. The operating loss was significantly reduced as compared with that of the last year.

Financial Position

As at 30 June 2004, the Group maintained a sound financial position, with its net assets amounting to HK\$3,509.4 million, cash on hand amounting to HK\$3,231.2 million and total borrowings amounting to HK\$5,121.2 million, in which HK\$3,137.1 million was long-term borrowings. The ratio of net borrowings to net assets was 53.9%.

The majority of the Group's revenues, expenses and cashflow are denominated in RMB as all of the Group's operating businesses are located in the PRC. Assets and liabilities of the Group are mostly denominated in RMB and US Dollars. As such, the Group has limited foreign exchange exposure. No instrument has been applied for hedging purposes during the period.

Liquidity

On 2 April 2004, an arrangement was entered into between the Company and five leading bankers (including HSBC) in respect of a US\$100 million fixed-term syndicated loan. The loan is for a term of five years, repayable on a one-off basis on the maturity date and is interest-bearing at LIBOR plus 63 basis points, representing a record low lending rate which was the same as the arrangement entered on 19 August 2003 for the Company. The loan will be used as general working capital. The financings will not only reduce the finance costs of the Company, but will also further improve its loan structure.

Material Acquisition of Associate

On 19 January 2004, the Company entered into a Sale and Purchase Agreement with Stagecoach Group plc, a limited liability company incorporated in Scotland, the shares of which are listed on the London Stock Exchange, and Stagecoach Asia Limited, a limited liability company incorporated in Scotland, being a wholly owned subsidiary of Stagecoach Group plc, an independent third party, to acquire a 25% equity interest in Road King Infrastructure Limited, a limited liability company incorporated in Bermuda, the shares of which are listed on the Main Board of the Hong Kong Stock Exchange for a consideration of HK\$730,346,000 resulting in negative goodwill on acquisition of approximately HK456,268,000.

Details of the Sale and Purchase Agreement are set out in the Company's announcement dated 9 February 2004.

Other Matters

With reference to note 36 (iii) (2) to the Company's financial statements of 2003, the arbitration relating to the Company's subsidiary was heard on 21 March 2003 and the award was delivered in June 2004. According to the arbitration award, the Company's subsidiary is required to pay a compensation loss and arbitration costs aggregating to RMB25.7 million (equivalent to approximately HK\$24.2 million). Pursuant to a deed entered into on 12 February 1997 between the Company and Shum Yip Holdings Company Limited ("Shum Yip"), the ultimate holding company of the Company, Shum Yip is required to indemnify the Company and such indemnification has been approved by the board of Shum Yip on 9 July 2004.

Purchase, Sale or Redemption of the Company's Listed Securities

During the period under review, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

Capital Structure

During the period under review, a total of 24,120,000 share options were exercised at a price of HK\$0.665 each.

Accordingly, the issued share capital of the Company increased from 2,444,293,966 shares as at the beginning of the period to 2,468,413,966 shares as at 30 June 2004.

Headcount and Remuneration

As at 30 June 2004, the Group had a total of over 10,000 employees, 22 of whom, mainly administration and finance staff, are based in Hong Kong whilst the remaining are stationed in the PRC.

Employees of the Group are remunerated based on their individual performance, professional qualifications, experience in the industry and relevant market trends. The management regularly reviews the Group's remuneration policy and appraises work performance of its staff.

Employee remunerations include salaries, allowances, medical benefits and mandatory provident fund. Depending on the performances of individual staff members and the Group's operations, employees may be granted bonus in monetary terms and granted share options under the Group's share option scheme.

Prospects

The implementation of Closer Economic Partnership Arrangement (“CEPA”) will fortify a more comprehensive and frequent cooperation between Hong Kong and Shenzhen and further facilitate the economic exchange and integration of the two places. All of the above will bring forth more opportunities for the Group’s development of its core businesses encompassing the property, transportation and logistics segments.

The large-scale residential development located on the waterfront of the new central area of Baoan District, Shenzhen is one of the key projects of the Group’s property arm in recent years. The core construction has commenced as scheduled. In light of the commencement of construction of the Hong Kong-Shenzhen Western Corridor, it is anticipated that the value for investment of the region will see gradual appreciation and will contribute meaningful revenue to the Group in the years ahead.

During the period, the Tairan Branch of B & Q, a world-renowned construction materials chain store, has formally commenced operation. The encouraging sales of Cloud Pine Building at Tairan Golden Valley No. 1. has boosted the value for investment property in the Tairan area and the “Tairan Business Community” became more prosperous.

The completion of renovation of infrastructure amenities of Sungang Logistics Park of the Group has upgraded the various functions of the consumption-based logistics park. Meanwhile, the completion of land acquisition for the Qing Shui River Logistics Park has driven the further development of the Group’s logistics operations. Currently, Shum Yip Logistics is actively developing outside the special economic zone and seeking opportunities to develop new logistics park for the resources consolidation of its third party logistics business.

The Group will uphold the development of its traditional industries, endeavor the property development strategy of public infrastructure project expansion, actively reserve land bank and increase its investment in projects of water, electricity and road constructions, in an attempt to better rationalize its industry structure for the purpose of sustainable and proper development of the Group.

DIRECTORS' INTERESTS IN SHARES

As at 30 June 2004, the interests and short positions of each director and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (as defined in Part XV of the Securities and Futures Ordinance (“SFO”)) as recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:–

Long positions in shares and underlying shares of the Company

Name of director	Capacity	Nature of interests	Number of shares	Number of underlying shares pursuant to share options	Aggregate interests	Percentage of the Company in issue
LIU Zixian	Beneficial owner	Personal	–	2,400,000	2,400,000	0.10
LIU Jianhua	Beneficial owner	Personal	–	2,000,000	2,000,000	0.08
XU Ruxin	Beneficial owner	Personal	–	2,000,000	2,000,000	0.08
ZHU Huoyang	Beneficial owner	Personal	–	2,000,000	2,000,000	0.08
WONG Po Yan	Beneficial owner	Personal	–	2,000,000	2,000,000	0.08
LEE Yip Wah, Peter	Beneficial owner	Personal	–	2,000,000	2,000,000	0.08
WU Wai Chung, Michael	Beneficial owner	Personal	–	1,200,000	1,200,000	0.05

Details of the directors' interests in share options granted by the Company are set out under the heading “Share Option Scheme”.

Save as disclosed above, no other interests or short positions of the Directors and chief executive of the Company in any shares, underlying shares or debentures of the Company or any associated corporations were recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

SHARE OPTION SCHEME

The Company has adopted a share option scheme (the “1997 Share Option Scheme”) pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company held on 12 February 1997. Owing to the recent changes of the Listing Rules in relation to share option schemes, the Company has adopted a new share option scheme (the “2002 Share Option Scheme”) and terminated the 1997 Share Option Scheme pursuant to the ordinary resolutions passed at an extraordinary general meeting of the Company held on 5 June 2002. Upon termination of the 1997 Share Option Scheme, no further options may be offered but in respect of the outstanding options, the provisions of the 1997 Share Option Scheme shall remain in force. Any outstanding options under the 1997 Share Option Scheme shall continue to be subject to the provisions of the 1997 Share Option Scheme and the adoption of the 2002 Share Option Scheme will not in any event affect the terms of the grant of such outstanding options. The 2002 Share Option Scheme shall remain in force for a period of 10 years commencing on 5 June 2002 after which period no further options may be granted thereunder.

During the period, movements of share options granted to the directors and employees under the 1997 Share Option Scheme and 2002 Share Option Scheme are as follows:–

Name or category of participant	Date of grant of share options	Exercise period of share options	Exercise price of share options HK\$	At 1 January 2004	Number of share options exercised during the period	Lapsed during the period	At 30 June 2004
Directors							
LIU Zixian	27/6/2002	27/6/2002 – 26/6/2007	1.265	2,400,000	–	–	2,400,000
LIU Jianhua (Note 3)	5/7/2002	5/7/2002– 4/7/2007	1.265	2,000,000	–	–	2,000,000
ZHU Qiyi (Note 1)	27/6/2002	27/6/2002– 26/6/2007	1.265	2,400,000	–	2,400,000 (Note 7)	–
YANG Yefang (Note 2)	9/7/2002	9/7/2002– 8/7/2007	1.265	2,000,000	–	2,000,000 (Note 8)	–
ZHANG Luzheng (Note 4)	27/6/2002	27/6/2002– 26/6/2007	1.265	2,000,000	–	–	2,000,000 (Note 9)
XU Ruxin	27/6/2002	27/6/2002– 26/6/2007	1.265	2,000,000	–	–	2,000,000
ZHU Huoyang	27/6/2002	27/6/2002– 26/6/2007	1.265	2,000,000	–	–	2,000,000
WONG Po Yan	27/6/2002	27/6/2002– 26/6/2007	1.265	2,000,000	–	–	2,000,000

Name or category of participant	Date of grant of share options	Exercise period of share options	Exercise price of share options HK\$	At 1 January 2004	Number of share options Exercised during the period	Lapsed during the period	At 30 June 2004
LEE Yip Wah, Peter	27/6/2002	27/6/2002– 26/6/2007	1.265	2,000,000	–	–	2,000,000
WU Wai Chung, Michael	5/7/2002	5/7/2002– 4/7/2007	1.265	1,200,000	–	–	1,200,000
				20,000,000	–	4,400,000	15,600,000
Other employees							
In aggregate	29/9/2000	29/3/2001– 28/3/2004	0.665	24,120,000	24,120,000 (Notes 5&6)	–	–
	8/1/2001	8/7/2001– 7/7/2004	0.595	14,000,000	–	–	14,000,000
	3/7/2002	3/7/2002 – 2/7/2007	1.265	16,400,000	–	–	16,400,000
	5/7/2002	5/7/2002– 4/7/2007	1.265	20,000,000	–	–	20,000,000
	8/7/2002	8/7/2002– 7/7/2007	1.265	1,000,000	–	–	1,000,000
				75,520,000	24,120,000	–	51,400,000
				95,520,000	24,120,000	4,400,000	67,000,000

- Notes:
1. Mr. ZHU Qiyi resigned as a director of the Company on 12 March, 2004.
 2. Mr. YANG Yefang resigned as a director of the Company on 12 March, 2004.
 3. Mr. LIU Jianhua was appointed as director on 12 March, 2004.
 4. Mr. ZHANG Luzheng retired as a director of the Company on 3 June, 2004.

5. On 18 March, 2004, a total of 14,000,000 share options were exercised at a price of HK\$0.665 each. These share options were granted on 29 September, 2000.
6. On 24 March, 2004, a total of 10,120,000 share options were exercised at a price of HK\$0.665 each. These share options were granted on 29 September, 2000.
7. On 12 June, 2004, a total of 2,400,000 share options granted to a director of the Company at a price of HK\$1.265 each lapsed. These share options were granted on 27 June, 2002.
8. On 12 June, 2004, a total of 2,000,000 share options granted to a director of the Company at a price of HK\$1.265 each lapsed. These share options were granted on 9 July, 2002.
9. Although Mr. ZHANG Luzheng retired as a director of the Company, he still remain as an employee of the Company so the share options held by him still exist.

No share options had been granted or cancelled during the period.

The weighted average closing price of the shares of the Company on 17 March, 2004 and 23 March, 2004 being the trading dates immediately before the respective dates on which the options were exercised were HK\$1.29 and HK\$1.28 respectively.

DIRECTORS' RIGHT TO ACQUIRE SHARES

Saved as disclosed above, at no time during the period was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debts securities (including debentures) of, the Company or its associated corporations and none of the directors, or their spouse or children under the age of 18, had any rights to subscribe for equity or debt securities of the Company or its associated corporations, or had exercised any such rights.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2004, the interests and short positions of the shareholders other than a director or chief executive of the Company in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:–

Long positions in shares and underlying shares of the Company

Name	Capacity	Number of shares	Percentage of shares of the Company in issue
Shum Yip Holdings Company Limited	Beneficial owner	1,388,741,966	56.26

Save as disclosed above, as at 30 June 2004, no other interests or short positions in shares and underlying shares of the Company were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

INTERIM DIVIDEND

The board of directors of the Company have resolved to declare an interim dividend of HK2.00 cents per share for the six months ended 30 June 2004 (2003: HK1.50 cents). The total amount of the dividend will be HK\$49,368,279 (2003: HK\$36,514,409). The dividend will be payable on 29 October 2004 to shareholders whose names appear on the Register of Members on 18 October 2004.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Monday, 18 October 2004, to Wednesday, 20 October 2004 (both dates inclusive). In order to qualify for the interim dividend, all completed transfers, accompanied by the relevant share certificates, must be lodged with the Company's Registrar, Standard Registrars Limited, G/F, Bank of East Asia Harbour Centre, 56 Gloucester Road, Wanchai, Hong Kong no later than 4 p.m. on Friday, 15 October 2004.

AUDIT COMMITTEE

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the unaudited consolidated interim financial statements and the interim report for the six months ended 30 June 2004. The audit committee comprises three independent non-executive directors namely Mr. Wong Po Yan, Mr. Lee Yip Wah, Peter and Mr. Wu Wai Chung, Michael so as to ensure that the Code of Best Practice as set out in Appendix 14 of the Listing Rules can be duly complied with. Meetings of the audit committee will be held at least twice annually.

CODE OF BEST PRACTICE

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30 June 2004, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited except that the non-executive directors are not appointed for a specific term as they are subject to retirement by rotation and re-election at Annual General Meeting in accordance with the Company's Articles of Association.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to extend my gratitude to all shareholders, the public and our employees of the Group for their unfailing support, assistance and dedication.

By Order of the Board

Hu Aimin

Chairman

Hong Kong, 17 September 2004