



**Lippo China Resources Limited**

**力寶華潤有限公司**

(Incorporated in Hong Kong with limited liability)

## **INTERIM REPORT**

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For the six months ended 30th June, 2004

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## **CORPORATE INFORMATION**

### **Board of Directors**

#### *Non-executive Directors*

Dr. Mochtar Riady (*Honorary Chairman*)  
Mr. Ning Gaoning

#### *Executive Directors*

Mr. James Riady (*Chairman*)  
Mr. Stephen Riady  
(*Deputy Chairman and Managing Director*)  
Mr. John Luen Wai Lee, J.P.

#### *Independent non-executive Directors*

Mr. Leon Nim Leung Chan  
Mr. Edwin Neo

### **Audit Committee**

Mr. Leon Nim Leung Chan  
Mr. Edwin Neo

### **Secretary**

Ms. Millie Yuen Fun Luk

### **Qualified Accountant**

Mr. Alex Shiu Leung Au

### **Auditors**

Ernst & Young

### **Principal Bankers**

International Bank of Asia Limited  
CITIC Ka Wah Bank Limited  
Standard Chartered Bank  
Agricultural Bank of China, Shanghai Branch  
CALYON, Hong Kong Branch  
United Overseas Bank Limited  
Merrill Lynch International Bank Limited

### **Solicitors**

Richards Butler

### **Registrars**

Tengis Limited  
G/F., Bank of East Asia Harbour View Centre  
56 Gloucester Road  
Wanchai  
Hong Kong

### **Registered Office**

Room 2301, 23rd Floor  
Tower One  
Lippo Centre  
89 Queensway  
Hong Kong

### **Stock Code**

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The Directors of Lippo China Resources Limited (the "Company") are pleased to present the unaudited consolidated interim financial statements of the Company and its subsidiaries (together, the "Group") for the six months ended 30th June, 2004.

### CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		<b>Six months ended 30th June,</b>	
		<b>2004</b>	2003
	<i>Note</i>	<b>HK\$'000</b>	<i>HK\$'000</i>
Turnover	3	<b>1,767,761</b>	794,816
Cost of sales		<b>(1,449,341)</b>	(573,104)
Gross profit		<b>318,420</b>	221,712
Administrative expenses		<b>(111,046)</b>	(103,668)
Other operating expenses		<b>(81,188)</b>	(54,349)
Net unrealised holding gain/(loss) on other investments in securities		<b>(86,431)</b>	5,042
Deficit on revaluation of investment properties		–	(41,440)
Provision against properties held for sale		–	(6,470)
Provision for impairment losses on fixed assets		–	(29,587)
Negative goodwill recognised as income		–	40,580
Net unrealised gain on transfer of investment securities and held-to-maturity securities to other investments in securities		–	20,483
Write-back of provision for loss on guaranteed return arrangement for fund management		–	10,868
Profit from operating activities	4	<b>39,755</b>	63,171
Finance costs		<b>(12,078)</b>	(20,493)
Share of results of associates		<b>25,080</b>	13,639
Profit before tax		<b>52,757</b>	56,317
Tax	5	<b>(17,655)</b>	(13,221)
Profit before minority interests		<b>35,102</b>	43,096
Minority interests		<b>(22,757)</b>	(18,439)
Net profit from ordinary activities attributable to shareholders		<b>12,345</b>	24,657
Earnings per share		<b>HK cents</b>	<i>HK cents</i>
Basic	6	<b>0.1</b>	0.3
Diluted		<b>N/A</b>	N/A

**CONDENSED CONSOLIDATED BALANCE SHEET**

	Note	30th June, 2004 HK\$'000	31st December, 2003 HK\$'000
<b>ASSETS</b>			
NON-CURRENT ASSETS			
Goodwill		83,652	80,155
Fixed assets		325,823	304,118
Investment properties		2,108,830	1,911,479
Properties under development		112,887	46,403
Interests in associates		529,910	510,312
Investment securities	7	322,036	358,238
Held-to-maturity securities	8	69,733	86,266
Loans and advances		25,555	26,553
Deferred tax assets		3,815	4,282
Assets less liabilities attributable to banking operations	9	<u>188,696</u>	<u>156,081</u>
		<b>3,770,937</b>	<b>3,483,887</b>
CURRENT ASSETS			
Properties held for sale		13,672	89,696
Inventories		94,872	120,801
Held-to-maturity securities	8	46,472	93,563
Other investments in securities	10	1,499,567	1,342,806
Loans and advances		111,988	99,907
Debtors, prepayments and deposits	11	360,681	515,564
Client trust bank balances		365,124	430,558
Pledged time deposits		155,831	155,102
Cash and bank balances		<u>1,801,354</u>	<u>1,962,892</u>
		<b>4,449,561</b>	<b>4,810,889</b>
<b>TOTAL ASSETS</b>		<b><u>8,220,498</u></b>	<b><u>8,294,776</u></b>
<b>EQUITY AND LIABILITIES</b>			
CAPITAL AND RESERVES			
Share capital	12	920,109	920,109
Reserves	13	<u>3,582,104</u>	<u>3,399,204</u>
		<b>4,502,213</b>	<b>4,319,313</b>
MINORITY INTERESTS		<u>1,682,767</u>	<u>1,654,587</u>
NON-CURRENT LIABILITIES			
Long term bank loans	14	727,994	700,262
Deferred tax liabilities		<u>160,691</u>	<u>160,624</u>
		<b>888,685</b>	<b>860,886</b>
CURRENT LIABILITIES			
Bank loans	14	287,106	277,723
Creditors, accruals and deposits received	15	793,370	1,118,546
Tax payable		<u>66,357</u>	<u>63,721</u>
		<b>1,146,833</b>	<b>1,459,990</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b><u>8,220,498</u></b>	<b><u>8,294,776</u></b>

**CONDENSED CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY**

	<b>Six months ended 30th June,</b>	
	<b>2004</b>	<b>2003</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Total equity as at 1st January	<b>4,319,313</b>	4,124,731
Deferred tax charge arising from change in statutory tax rate on revaluation surplus of leasehold properties	–	(381)
Surplus on revaluation of investment properties	<b>191,183</b>	17,799
Deferred tax charge arising from surplus on revaluation of investment properties	–	(19,131)
Release of deferred tax charge on revaluation surplus upon disposal of investment properties	–	4,434
Exchange differences on translation of the financial statements of foreign entities	<b>(2,226)</b>	(813)
Net gain not recognised in the condensed consolidated profit and loss account	<b>188,957</b>	1,908
Net profit from ordinary activities attributable to shareholders	<b>12,345</b>	24,657
Utilisation of tax loss included in investment property revaluation reserve	–	(6,517)
Release of investment property revaluation reserve upon disposal of investment properties	–	(3,762)
2003 final dividend, declared	<b>(18,402)</b>	–
Total equity as at 30th June	<b><u>4,502,213</u></b>	<b><u>4,141,017</u></b>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	<b>Six months ended 30th June,</b>	
	<b>2004</b>	<b>2003</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Net cash from/(used in) operating activities	<b>(98,027)</b>	907,932
Net cash from/(used in) investing activities	<b>(54,878)</b>	71,418
Net cash used in financing activities	<b>(8,593)</b>	(29,359)
Net increase/(decrease) in cash and cash equivalents	<b>(161,498)</b>	949,991
Cash and cash equivalents at 1st January ( <i>Note</i> )	<b>1,962,892</b>	1,228,940
Exchange realignments	<b>(40)</b>	(4,931)
Cash and cash equivalents at 30th June	<b><u>1,801,354</u></b>	<b><u>2,174,000</u></b>
<i>Note:</i> Balances of cash and cash equivalents at 1st January:		
Cash and bank balances with original maturity of three months or less	<b>1,962,892</b>	1,228,940
Placements with banks and other financial institutions with original maturity over three months	<b>–</b>	309,221
Total cash and bank balances at 1st January	<b><u>1,962,892</u></b>	<b><u>1,538,161</u></b>

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

### 1. PRINCIPAL ACCOUNTING POLICIES

The interim financial statements are unaudited, condensed and have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice 25 (revised) "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants.

The accounting policies adopted in the preparation of the interim financial statements are consistent with those adopted in the Group's audited financial statements for the year ended 31st December, 2003.

### 2. SEGMENT INFORMATION

Segment information is presented by way of business segment as the primary reporting format.

The Group's operating businesses are structured and managed separately, according to the nature of their operations. The Group's business segments represent different strategic business units which are subject to risks and returns that are different from those of the other business segments. Descriptions of the business segments are as follows:

- (a) the treasury investment segment includes investments in cash and bond markets;
- (b) the property investment and development segment includes letting of properties and sale of completed properties;
- (c) the securities investment segment includes dealings in securities and disposals of investments;
- (d) the food businesses segment engages in food manufacturing, wholesale distribution of food and allied fast-moving consumer goods;
- (e) the corporate finance and securities broking segment provides securities and futures brokerage, investment banking, underwriting and other related advisory services;
- (f) the banking business segment engages in the provision of commercial and retail banking; and
- (g) the "other" segment comprises principally the underwriting of general insurance business, the development of computer hardware and software, money lending and the provision of property and fund management services.



**NOTES TO THE INTERIM FINANCIAL STATEMENTS** *(continued)*

**2. SEGMENT INFORMATION** *(continued)*

An analysis of the Group's segment information by business segment is set out below:

	Six months ended 30th June, 2004								Consolidated HK\$'000
	Treasury investment HK\$'000	Property investment and develop- ment HK\$'000	Securities investment HK\$'000	Food businesses HK\$'000	Corporate finance and securities broking HK\$'000	Banking business HK\$'000	Other HK\$'000	Inter- segment elimination HK\$'000	
Revenue									
External	12,732	172,540	1,101,597	424,149	36,155	9,723	10,865	-	1,767,761
Inter-segment	6,973	2,322	-	-	-	-	163	(9,458)	-
<b>Total</b>	<b>19,705</b>	<b>174,862</b>	<b>1,101,597</b>	<b>424,149</b>	<b>36,155</b>	<b>9,723</b>	<b>11,028</b>	<b>(9,458)</b>	<b>1,767,761</b>
Segment results	11,402	80,534	(18,789)	12,419	2,579	3,809	(3,135)	(990)	87,829
Unallocated corporate expenses									(50,142)
Finance costs									(10,010)
Share of results of associates	-	117	-	-	-	836	24,127	-	25,080
Profit before tax									52,757
Tax									(17,655)
Profit before minority interests									35,102
Minority interests									(22,757)
Net profit from ordinary activities attributable to shareholders									<b>12,345</b>

**NOTES TO THE INTERIM FINANCIAL STATEMENTS** *(continued)*

**2. SEGMENT INFORMATION** *(continued)*

	Six months ended 30th June, 2003								Consolidated HK\$'000
	Treasury investment HK\$'000	Property investment and develop- ment HK\$'000	Securities investment HK\$'000	Food businesses HK\$'000	Corporate finance and securities broking HK\$'000	Banking business HK\$'000	Other HK\$'000	Inter- segment elimination HK\$'000	
Revenue									
External	32,347	143,638	282,804	285,093	22,139	6,968	21,827	-	794,816
Inter-segment	3,062	2,491	-	-	-	-	-	(5,553)	-
<b>Total</b>	<b>35,409</b>	<b>146,129</b>	<b>282,804</b>	<b>285,093</b>	<b>22,139</b>	<b>6,968</b>	<b>21,827</b>	<b>(5,553)</b>	<b>794,816</b>
<b>Segment results</b>	<b>31,508</b>	<b>2,959</b>	<b>42,873</b>	<b>5,160</b>	<b>(2,005)</b>	<b>1,024</b>	<b>15,437</b>	<b>(383)</b>	<b>96,573</b>
Unallocated corporate expenses <i>(Note)</i>									(35,249)
Finance costs									(18,646)
Share of results of associates	-	53	-	-	-	2,777	10,809	-	13,639
Profit before tax									56,317
Tax									(13,221)
Profit before minority interests									43,096
Minority interests									(18,439)
Net profit from ordinary activities attributable to shareholders									<b>24,657</b>

*Note:* Amount included provision for impairment losses for fixed assets of HK\$29,587,000 and negative goodwill of HK\$40,580,000 recognised as income.

**NOTES TO THE INTERIM FINANCIAL STATEMENTS** *(continued)*

**3. TURNOVER**

Turnover represents the aggregate of gross income on treasury investment which includes interest income on bank deposits and held-to-maturity securities, gross rental income, gross proceeds from sales of properties and investments, gross income from underwriting and securities broking, sales income from food businesses, interest and other income from money lending business, gross income from property management, gross income from fund management, gross premiums from insurance business, dividend income and net interest income, commissions, dealing income and other revenues from a banking subsidiary, after eliminations of all significant intra-group transactions.

An analysis of the turnover of the Group by principal activity is as follows:

	<b>Six months ended 30th June,</b>	
	<b>2004</b>	<b>2003</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Treasury investment	<b>12,732</b>	32,347
Property investment and development	<b>172,540</b>	143,638
Securities investment	<b>1,101,597</b>	282,804
Food businesses	<b>424,149</b>	285,093
Corporate finance and securities broking	<b>36,155</b>	22,139
Banking business	<b>9,723</b>	6,968
Other	<b>10,865</b>	21,827
	<b><u>1,767,761</u></b>	<b><u>794,816</u></b>

Turnover attributable to banking business represents turnover generated from The Macau Chinese Bank Limited ("MCB"), a licensed credit institution under the Financial System Act of the Macao Special Administrative Region of the People's Republic of China. Turnover attributable to banking business is analysed as follows:

	<b>Six months ended 30th June,</b>	
	<b>2004</b>	<b>2003</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Interest income	<b>5,356</b>	5,626
Interest expenses	<b>(868)</b>	(836)
Commission income	<b>4,577</b>	1,766
Net dealing income and other revenues	<b>658</b>	412
	<b><u>9,723</u></b>	<b><u>6,968</u></b>

**NOTES TO THE INTERIM FINANCIAL STATEMENTS** *(continued)*

**4. PROFIT FROM OPERATING ACTIVITIES**

Profit from operating activities is arrived at after crediting/(charging):

	<b>Six months ended 30th June,</b>	
	<b>2004</b>	<b>2003</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Interest income – <i>Note (a)</i> :		
Listed investments	<b>1,104</b>	10,323
Unlisted investments	<b>1,470</b>	7,967
Other	<b>10,158</b>	17,442
Dividend income from investments:		
Listed	<b>8,154</b>	9,683
Unlisted	<b>88</b>	976
Net realised and unrealised holding gain/(loss) on other investments in securities:		
Listed	<b>(31,472)</b>	10,975
Unlisted	<b>(475)</b>	1,149
Other investment income:		
Listed	<b>10,960</b>	4,209
Unlisted	<b>6,373</b>	250
Gain on disposal of investment securities:		
Listed	–	2,468
Unlisted	<b>211</b>	–
Net unrealised gain on transfer of investment securities and held-to-maturity securities to other investments in securities:		
Listed	–	12,946
Unlisted	–	7,537
Depreciation:		
Banking operations	<b>(392)</b>	(190)
Other	<b>(10,997)</b>	(10,860)
Gain/(Loss) on disposal of fixed assets	<b>885</b>	(180)
Gain on disposal of properties	<b>34,834</b>	10,826
Cost of inventories sold	<b>(328,286)</b>	(216,126)
Amortisation of goodwill arising from acquisition of subsidiaries – <i>Note (b)</i>	<b>(4,169)</b>	(1,620)
	<b>_____</b>	<b>_____</b>

*Note:*

- (a) The amounts exclude income relating to banking operations of the Group.
- (b) The amortisation of goodwill recognised for the period is included under “Other operating expenses” on the face of the condensed consolidated profit and loss account.

**NOTES TO THE INTERIM FINANCIAL STATEMENTS** *(continued)*

**5. TAX**

	<b>Six months ended 30th June,</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Hong Kong:		
Charge for the period	<b>230</b>	1,189
Underprovisions in prior years	<b>52</b>	189
Deferred	<b>914</b>	(3,752)
	<b>1,196</b>	(2,374)
Overseas:		
Charge for the period	<b>10,173</b>	10,705
Underprovisions in prior years	<b>3,114</b>	3,450
Deferred	<b>(374)</b>	780
	<b>12,913</b>	14,935
Share of tax attributable to associates:		
Hong Kong	<b>610</b>	–
Overseas	<b>2,936</b>	660
	<b>3,546</b>	660
Total charge for the period	<b>17,655</b>	13,221

Hong Kong profits tax has been provided for at the rate of 17.5 per cent. (2003 – 17.5 per cent.) on the estimated assessable profits arising in Hong Kong for the period. Overseas taxes have been calculated on the estimated assessable profits for the period at the tax rates prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

**6. EARNINGS PER SHARE**

**(a) Basic earnings per share**

Basic earnings per share is calculated based on (i) the net profit from ordinary activities attributable to shareholders of HK\$12,345,000 (2003 – HK\$24,657,000); and (ii) the number of 9,201,089,000 shares (2003 – 9,201,089,000 shares) in issue during the period.

**(b) Diluted earnings per share**

No diluted earnings per share is presented for the periods ended 30th June, 2004 and 2003 as there were no dilutive potential ordinary shares during these periods.

**NOTES TO THE INTERIM FINANCIAL STATEMENTS** *(continued)*

**7. INVESTMENT SECURITIES**

	<b>30th June, 2004 HK\$'000</b>	31st December, 2003 HK\$'000
Equity securities, at cost:		
Listed in Hong Kong	29,077	29,077
Listed outside Hong Kong	427,445	427,445
Unlisted	259,492	269,712
	716,014	726,234
Provisions for impairment losses	(499,123)	(506,705)
	216,891	219,529
Debt securities, at cost:		
Listed outside Hong Kong	4,535	–
Unlisted	40,433	13,223
	44,968	13,223
Unlisted investment funds, at cost	89,808	156,969
Provisions for impairment losses	(29,631)	(31,483)
	60,177	125,486
Total	322,036	358,238
Market value of listed investments at the balance sheet date	162,495	75,194
An analysis of the issuers of investment securities is as follows:		
Equity securities:		
Banks and other financial institutions	709	709
Corporate entities	216,182	218,820
	216,891	219,529
Debt securities:		
Club debentures	10,975	10,975
Corporate entities	33,993	2,248
	44,968	13,223

**NOTES TO THE INTERIM FINANCIAL STATEMENTS** *(continued)*

**8. HELD-TO-MATURITY SECURITIES**

	<b>30th June, 2004 HK\$'000</b>	31st December, 2003 HK\$'000
Debt securities, at amortised cost:		
Listed outside Hong Kong	<b>50,309</b>	41,275
Unlisted	<b>65,896</b>	138,554
	<b>116,205</b>	179,829
Portion included under current assets	<b>(46,472)</b>	(93,563)
Non-current portion	<b>69,733</b>	86,266
Market value of listed securities at the balance sheet date	<b>50,061</b>	42,135
An analysis of the issuers of held-to-maturity securities is as follows:		
Banks and other financial institutions	<b>6,277</b>	3,882
Corporate entities	<b>109,928</b>	175,947
	<b>116,205</b>	179,829

**9. ASSETS LESS LIABILITIES ATTRIBUTABLE TO BANKING OPERATIONS**

Due to the dissimilar nature of banking and non-banking operations, assets less liabilities attributable to banking operations are shown separately in the consolidated interim financial statements. The financial information in respect of banking operations shown below is based on the unaudited financial statements of MCB for the six months ended 30th June, 2004.

	<i>Note</i>	<b>30th June, 2004 HK\$'000</b>	31st December, 2003 HK\$'000
Cash and short-term funds	(a)	<b>86,128</b>	254,807
Placements with banks and other financial institutions maturing between one and twelve months		<b>15,584</b>	368,320
Other investments in securities	(b)	<b>25,977</b>	13,646
Advances and other accounts	(c)	<b>161,312</b>	156,079
Held-to-maturity securities	(d)	<b>9,350</b>	9,672
Fixed assets	(e)	<b>26,665</b>	27,057
		<b>325,016</b>	829,581
Current, fixed, savings and other deposits of customers		<b>(127,426)</b>	(666,290)
Other accounts and provisions		<b>(8,894)</b>	(7,210)
		<b>(136,320)</b>	(673,500)
		<b>188,696</b>	156,081

**NOTES TO THE INTERIM FINANCIAL STATEMENTS** *(continued)*

**9. ASSETS LESS LIABILITIES ATTRIBUTABLE TO BANKING OPERATIONS** *(continued)*

Note:

**(a) Cash and short-term funds**

	<b>30th June, 2004 HK\$'000</b>	31st December, 2003 HK\$'000
Cash and balances with banks and other financial institutions	<b>86,128</b>	219,402
Treasury bills	–	35,405
	<b>86,128</b>	<b>254,807</b>

**(b) Other investments in securities**

	<b>30th June, 2004 HK\$'000</b>	31st December, 2003 HK\$'000
Listed equity securities, at market value:		
Hong Kong	<b>2,019</b>	–
Overseas	<b>723</b>	–
	<b>2,742</b>	–
Debt securities:		
Listed outside Hong Kong, at market value	<b>8,603</b>	13,646
Unlisted, at fair value	<b>10,737</b>	–
	<b>19,340</b>	13,646
Unlisted investment funds, at fair value	<b>3,895</b>	–
	<b>25,977</b>	<b>13,646</b>
An analysis of the issuers of the other investments in securities is as follows:		
Equity securities:		
Corporate entities	<b>2,742</b>	–
Debt securities:		
Corporate entities	<b>11,549</b>	13,646
Banks and other financial institutions	<b>7,791</b>	–
	<b>19,340</b>	<b>13,646</b>



**NOTES TO THE INTERIM FINANCIAL STATEMENTS** *(continued)*

**9. ASSETS LESS LIABILITIES ATTRIBUTABLE TO BANKING OPERATIONS** *(continued)*

**(c) Advances and other accounts**

	<b>30th June, 2004 HK\$'000</b>	31st December, 2003 HK\$'000
Advances to customers	163,893	156,643
Other accounts	1,696	3,190
Accrued interest	773	1,296
Provisions for bad and doubtful debts	<b>(5,050)</b>	<b>(5,050)</b>
	<b>161,312</b>	<b>156,079</b>

Non-performing loans, which represent the gross amount of advances, net of suspended interest, on which interest has been placed in suspense or on which interest accrual has ceased, are rescheduled as follows:

	<b>30th June, 2004 HK\$'000</b>	31st December, 2003 HK\$'000
Rescheduled advances	<b>3,479</b>	3,464
Market value of collateral held	<b>3,631</b>	3,627

**(d) Held-to-maturity securities**

	<b>30th June, 2004 HK\$'000</b>	31st December, 2003 HK\$'000
Debt securities, at amortised cost: Listed outside Hong Kong	<b>9,350</b>	9,672
Market value of listed debt securities	<b>10,574</b>	10,891
An analysis of the issuers of the held-to-maturity securities is as follows: Banks and other financial institutions	<b>9,350</b>	9,672

**(e) Fixed assets**

	<b>Land and buildings HK\$'000</b>	<b>Furniture, fixtures, equipment and motor vehicles HK\$'000</b>	<b>Total HK\$'000</b>
<b>Cost:</b>			
At 1st January, 2004 and 30th June, 2004	<b>25,047</b>	<b>5,267</b>	<b>30,314</b>
<b>Accumulated depreciation:</b>			
At 1st January, 2004	21	3,236	3,257
Provided for the period	125	267	392
At 30th June, 2004	<b>146</b>	<b>3,503</b>	<b>3,649</b>
<b>Net book value:</b>			
At 30th June, 2004	<b>24,901</b>	<b>1,764</b>	<b>26,665</b>
At 31st December, 2003	25,026	2,031	27,057

**NOTES TO THE INTERIM FINANCIAL STATEMENTS** *(continued)*

**10. OTHER INVESTMENTS IN SECURITIES**

	<b>30th June, 2004 HK\$'000</b>	31st December, 2003 HK\$'000
Listed equity securities, at market value:		
Hong Kong	494,819	415,969
Overseas	<u>103,880</u>	<u>84,491</u>
	<u>598,699</u>	<u>500,460</u>
Debt securities:		
Listed, at market value:		
Hong Kong	–	8,441
Overseas	249,638	299,669
Unlisted, at fair value	<u>168,355</u>	<u>256,661</u>
	<u>417,993</u>	<u>564,771</u>
Investment funds:		
Listed overseas, at market value	208,477	–
Unlisted, at fair value	<u>274,398</u>	<u>277,575</u>
	<u>482,875</u>	<u>277,575</u>
	<u>1,499,567</u>	<u>1,342,806</u>
An analysis of the issuers of other investments in securities is as follows:		
Equity securities:		
Public sector entities	5,212	15,507
Banks and other financial institutions	138,613	207,841
Corporate entities	<u>454,874</u>	<u>277,112</u>
	<u>598,699</u>	<u>500,460</u>
Debt securities:		
Central governments and central banks	8,940	16,948
Banks and other financial institutions	117,732	199,957
Corporate entities	233,395	332,618
Other	<u>57,926</u>	<u>15,248</u>
	<u>417,993</u>	<u>564,771</u>

**NOTES TO THE INTERIM FINANCIAL STATEMENTS** *(continued)*

**11. DEBTORS, PREPAYMENTS AND DEPOSITS**

Included in the balances are trade debtors with the aged analysis as follows:

	<b>30th June, 2004 HK\$'000</b>	31st December, 2003 HK\$'000
Outstanding balances with ages:		
Repayable on demand	<b>40,865</b>	274,775
Within 30 days	<b>109,699</b>	85,773
Between 31 and 60 days	<b>55,688</b>	46,032
Between 61 and 90 days	<b>31,983</b>	25,027
Between 91 and 180 days	<b>12,303</b>	4,182
Over 180 days	<b>7,330</b>	14,543
	<b>257,868</b>	450,332

Trading terms with customers are either on cash basis or on credit. For those customers who trade on credit, invoices are normally payable within 90 days of issuance. Credit limits are set for customers. The Group seeks to maintain tight control over its outstanding receivables in order to minimise credit risk. Overdue balances are regularly reviewed by senior management.

**12. SHARE CAPITAL**

**Shares**

	<b>30th June, 2004 HK\$'000</b>	31st December, 2003 HK\$'000
Authorised:		
28,000,000,000 (31st December, 2003 – 28,000,000,000) ordinary shares of HK\$0.10 each	<b>2,800,000</b>	2,800,000
Issued and fully paid:		
9,201,088,716 (31st December, 2003 – 9,201,088,716) ordinary shares of HK\$0.10 each	<b>920,109</b>	920,109

**Share options**

Pursuant to the Share Option Scheme for Employees of the Company (the "Scheme") approved and adopted by its shareholders on 2nd May, 1994 (the "Adoption Date"), the Directors of the Company might, at their discretion, grant to any employees (including Directors) of the Group options to subscribe for shares in the Company. Under the rules of the Scheme, no more options could be granted from the tenth anniversary of the Adoption Date.

As at 1st January, 2004, certain directors and employees of the Group held a total of 5,800,000 share options under the Scheme. The holder of each option is entitled to subscribe for six ordinary shares of HK\$0.10 each in the Company on or before 23rd June, 2007 at an exercise price of HK\$0.883 per share (subject to adjustment). The above share options were granted on 23rd June, 1997 at a consideration of HK\$1.00 per grantee under the Scheme. During the six months ended 30th June, 2004, no share options were cancelled or exercised. The exercise in full of the 5,800,000 share options would, under the capital structure of the Company as at 30th June, 2004, result in the issue of 34,800,000 ordinary shares of HK\$0.10 each in the Company and cash proceeds, before expenses, of HK\$30,728,000.

## NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

## 13. RESERVES

	Share premium account HK\$'000	Special capital reserve (Note (a)) HK\$'000	Legal reserve (Note (b)) HK\$'000	Capital reserve HK\$'000	Investment property revaluation reserve HK\$'000	Other asset revaluation reserve (Note (c)) HK\$'000	Exchange equalisation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st January, 2004	785,257	2,075,948	621	93,691	7,732	253,478	(174,581)	357,058	3,399,204
Transfer of portion of depreciation charge on leasehold properties attributable to the related revaluation surplus to retained profits	-	-	-	-	-	(2,888)	-	2,888	-
Surplus on revaluation of investment properties	-	-	-	-	191,183	-	-	-	191,183
Transfer of reserve	-	-	886	-	-	-	-	(886)	-
Exchange differences on consolidation	-	-	-	-	-	-	(2,226)	-	(2,226)
Profit for the period	-	-	-	-	-	-	-	12,345	12,345
2003 final dividend, declared	-	-	-	-	-	-	-	(18,402)	(18,402)
<b>At 30th June, 2004</b>	<b>785,257</b>	<b>2,075,948</b>	<b>1,507</b>	<b>93,691</b>	<b>198,915</b>	<b>250,590</b>	<b>(176,807)</b>	<b>353,003</b>	<b>3,582,104</b>

Note:

## (a) Special capital reserve

Pursuant to a special resolution passed at an extraordinary general meeting of the Company on 2nd December, 1997 and the subsequent confirmation by the court on 22nd December, 1997, the then entire amount standing to the credit of the share premium account of the Company in the amount of HK\$849,149,000 was cancelled on 23rd December, 1997 (the "Cancellation").

The credit arising from the Cancellation was transferred to a special capital reserve account. A summary of the terms of the undertaking given by the Company (the "Undertaking") in respect of the application of the special capital reserve is set out below:

- (1) The reserve is to be used for eliminating goodwill which has already arisen on the acquisition of subsidiaries and associates at the date of the Cancellation and that arising as a result of future acquisitions.
- (2) The reserve (a) shall not be treated as realised profits; and (b) shall be treated as an undistributable reserve for so long as there shall remain any outstanding debts or claims which were in existence on the date of the Cancellation provided that:
  - (i) the Company shall be at liberty to apply the reserve for the same purposes as a share premium account may be applied; and
  - (ii) the amount of the reserve may be reduced by the amount of any future increase in the share capital and the share premium account. Any part of the reserve so reduced is released from the terms of the Undertaking.

Pursuant to a special resolution passed at an extraordinary general meeting of the Company on 23rd December, 1998 and the subsequent confirmation by the court on 26th January, 1999, the then issued and fully paid-up share capital of the Company was reduced from approximately HK\$1,533,498,000 divided into 3,066,996,246 shares of HK\$0.50 each to approximately HK\$306,700,000 divided into 3,066,996,246 shares of HK\$0.10 each and an amount standing to the credit of the share capital account of the Company of approximately HK\$1,226,799,000 was cancelled and transferred to a special capital reserve account, the application of which is subject to the same conditions as specified in (2)(a) and (2)(b)(ii) of the terms of the Undertaking above.

During the period, there was no movement of the special capital reserve subject to the Undertaking which amounted to HK\$679,156,000 as at 30th June, 2004 (31st December, 2003 – HK\$679,156,000).

**NOTES TO THE INTERIM FINANCIAL STATEMENTS** *(continued)*

**13. RESERVES** *(continued)*

**(b) Legal reserve**

Legal reserve represents the part of reserve generated by a banking subsidiary of the Company which may only be distributable in accordance with certain limited circumstances prescribed by the statute of the country in which the subsidiary operates.

**(c) Other asset revaluation reserve**

The other asset revaluation reserve comprises revaluation surplus in respect of leasehold land and buildings which were reclassified from investment properties.

**14. BANK LOANS**

	<b>30th June, 2004 HK\$'000</b>	31st December, 2003 HK\$'000
Bank loans:		
Secured (Note)	1,000,100	967,985
Unsecured	15,000	10,000
	<b>1,015,100</b>	977,985
Repayable within one year	<b>(287,106)</b>	(277,723)
Non-current portion	<b>727,994</b>	700,262
Bank loans repayable:		
Within one year	287,106	277,723
In the second year	268,996	202,631
In the third to fifth years, inclusive	38,998	77,631
After five years	420,000	420,000
	<b>1,015,100</b>	977,985

*Note:* The bank loans are secured by shares in certain subsidiaries of the Group, first legal mortgages over certain properties, fixed assets and certain securities owned by the Group.

**15. CREDITORS, ACCRUALS AND DEPOSITS RECEIVED**

Included in the balances are trade creditors with the aged analysis as follows:

	<b>30th June, 2004 HK\$'000</b>	31st December, 2003 HK\$'000
Outstanding balances with ages:		
Repayable on demand	385,909	691,367
Within 30 days	125,371	142,093
Between 31 and 60 days	32,762	34,321
Between 61 and 90 days	3,647	8,338
Between 91 and 180 days	8,644	9,856
Over 180 days	2,686	15,189
	<b>559,019</b>	901,164

The outstanding balances that are repayable on demand include client payable relating to cash balances held on trust for the customers in respect of the Group's securities broking business. As at 30th June, 2004, total client trust bank balances amounted to HK\$365,124,000 (31st December, 2003 – HK\$430,558,000).

**NOTES TO THE INTERIM FINANCIAL STATEMENTS** (continued)**16. MATURITY PROFILE OF ASSETS AND LIABILITIES**

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

	Repayable on demand HK\$'000	3 months or less HK\$'000	1 year or less but over 3 months HK\$'000	5 years or less but over 1 year HK\$'000	After 5 years HK\$'000	Undated HK\$'000	Total HK\$'000
<b>At 30th June, 2004</b>							
<b>Assets</b>							
Debt securities:							
Investment securities	–	4,535	–	29,458	–	10,975	44,968
Held-to-maturity securities	–	22,675	23,797	60,726	9,007	–	116,205
Other investments in securities	–	7,655	15,246	242,790	88,172	64,130	417,993
Loans and advances	93,485	4,482	812	14,896	23,868	–	137,543
Client trust bank balances	56,763	308,361	–	–	–	–	365,124
Pledged time deposits	–	155,831	–	–	–	–	155,831
Cash and bank balances	251,882	1,549,472	–	–	–	–	1,801,354
Assets less liabilities attributable to banking operations:							
Cash and short-term funds	86,128	–	–	–	–	–	86,128
Placements with banks and other financial institutions maturing between one and twelve months	–	15,584	–	–	–	–	15,584
Debt securities:							
Held-to-maturity securities	–	–	–	–	9,350	–	9,350
Other investments in securities	–	10,737	–	8,603	–	–	19,340
Advances to customers	26,263	65,829	20,155	28,512	18,084	–	158,843
	<b>514,521</b>	<b>2,145,161</b>	<b>60,010</b>	<b>384,985</b>	<b>148,481</b>	<b>75,105</b>	<b>3,328,263</b>
<b>Liabilities</b>							
Bank loans	–	63,399	223,707	307,994	420,000	–	1,015,100
Assets less liabilities attributable to banking operations:							
Current, fixed, savings and other deposits of customers	16,308	105,015	4,648	1,455	–	–	127,426
	<b>16,308</b>	<b>168,414</b>	<b>228,355</b>	<b>309,449</b>	<b>420,000</b>	<b>–</b>	<b>1,142,526</b>

## NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

## 16. MATURITY PROFILE OF ASSETS AND LIABILITIES (continued)

	Repayable on demand HK\$'000	3 months or less HK\$'000	1 year or less but over 3 months HK\$'000	5 years or less but over 1 year HK\$'000	After 5 years HK\$'000	Undated HK\$'000	Total HK\$'000
At 31st December, 2003							
<b>Assets</b>							
Debt securities:							
Investment securities	–	–	–	2,248	–	10,975	13,223
Held-to-maturity securities	–	51,329	42,234	82,384	3,882	–	179,829
Other investments in securities	5,486	52,694	23,610	373,640	97,462	11,879	564,771
Loans and advances	98,395	1,051	461	2,605	23,948	–	126,460
Client trust bank balances	207,923	222,635	–	–	–	–	430,558
Pledged time deposits	–	155,102	–	–	–	–	155,102
Cash and bank balances	276,450	1,686,442	–	–	–	–	1,962,892
Assets less liabilities attributable to banking operations:							
Cash and short-term funds	219,402	35,405	–	–	–	–	254,807
Placements with banks and other financial institutions maturing between one and twelve months	–	368,320	–	–	–	–	368,320
Debt securities:							
Held-to-maturity security	–	–	–	–	9,672	–	9,672
Other investments in securities	–	–	–	–	4,735	8,911	13,646
Advances to customers	25,312	99,037	10,418	3,240	13,586	–	151,593
	<u>832,968</u>	<u>2,672,015</u>	<u>76,723</u>	<u>464,117</u>	<u>153,285</u>	<u>31,765</u>	<u>4,230,873</u>
<b>Liabilities</b>							
Bank loans	–	64,342	213,381	280,262	420,000	–	977,985
Assets less liabilities attributable to banking operations:							
Current, fixed, savings and other deposits of customers	566,394	92,381	7,515	–	–	–	666,290
	<u>566,394</u>	<u>156,723</u>	<u>220,896</u>	<u>280,262</u>	<u>420,000</u>	<u>–</u>	<u>1,644,275</u>

**NOTES TO THE INTERIM FINANCIAL STATEMENTS** *(continued)*

**17. CONTINGENT LIABILITIES**

At the balance sheet date, the Group had the following contingent liabilities:

- (a) Guarantees in respect of banking facilities

	<b>30th June, 2004 HK\$'000</b>	31st December, 2003 HK\$'000
Guarantees provided in respect of banking facilities granted to:		
An associate	–	11,320
Investee companies	<b>2,925</b>	2,911
	<b>2,925</b>	14,231

- (b) As at 30th June, 2004, the Group had entered into certain foreign exchange contracts. Pursuant to the contracts, the Group is committed to sell Japanese Yen with a principal sum of HK\$122,188,000 (31st December, 2003 – HK\$9,002,000) and to purchase United States Dollars with a principal sum of HK\$125,467,000 (31st December, 2003 – HK\$8,899,000). The transactions committed as at 31st December, 2003 were fully settled during the period.

- (c) Details of the off-balance sheet exposures relating to banking operations

As at 30th June, 2004, the Group had contingent liabilities relating to its banking subsidiary of HK\$51,614,000 (31st December, 2003 – HK\$40,073,000), comprising guarantees and other endorsements of HK\$12,986,000 (31st December, 2003 – HK\$11,337,000) and liabilities under letters of credit on behalf of customers of HK\$38,628,000 (31st December, 2003 – HK\$28,736,000).

**18. CAPITAL COMMITMENTS**

At the balance sheet date, the Group had the following commitments:

	<b>30th June, 2004 HK\$'000</b>	31st December, 2003 HK\$'000
Capital commitments in respect of property, plant and equipment:		
Contracted, but not provided for	<b>95</b>	123
Other capital commitments:		
Contracted, but not provided for	<b>166,436</b>	72,794
	<b>166,531</b>	72,917

**19. RELATED PARTY TRANSACTIONS**

- (a) As at 30th June, 2004, the Group had amounts due from associates in a total of HK\$47,648,000 (31st December, 2003 – HK\$51,781,000) and amounts due to associates in a total of HK\$2,195,000 (31st December, 2003 – HK\$2,213,000). The balances with the associates are unsecured, interest-free and have no fixed terms of repayment.

- (b) During the period, the Group received rental income from Lippo Limited, an intermediate holding company of the Company, of HK\$1,059,000 (2003 – HK\$1,059,000). The rental was determined by reference to open market rentals.



**SUPPLEMENTARY INFORMATION**

**(a) Disclosure pursuant to Rule 13.22 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited**

Set out below is a proforma combined balance sheet of the Group's affiliates as at 31st July, 2004 (being the latest practicable date for determining the relevant figures) required to be disclosed under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited:

	<b>Pro forma combined balance sheet as at 31st July, 2004 HK\$'000</b>	<b>Group's attributable interest as at 31st July, 2004 HK\$'000</b>
Fixed assets	4,786,200	1,192,946
Trade debtors	357,619	87,531
Cash and bank balances	316,404	79,866
Trade creditors	(246,785)	(60,054)
Short term bank loans	(80,605)	(19,947)
Long term bank loans and other borrowings	(3,800,684)	(947,206)
Shareholders' advance	(203,860)	(48,221)
Other net assets	27,018	10,512
	<b>1,155,307</b>	<b>295,427</b>

The Group's attributable interest in the respective assets and liabilities represents that portion attributable to the Group before minority interests included therein.

**(b) Management of risks**

The Group established policies and procedures for risk management which were reviewed regularly by the Executive Directors and senior management of the Group to ensure the proper monitoring and control of all major risks arising from the Group's activities at all times. The risk management function was carried out by individual business units and regularly overseen by the Group's senior management with all the risk limits approved by the Directors of the Group.

**(i) Credit risk**

Credit risk arose from the possibility that the counterparty in a transaction may default. It arose from lending, treasury, investment and other activities undertaken by the Group.

**SUPPLEMENTARY INFORMATION** *(continued)*

**(b) Management of risks** *(continued)*

**(i) Credit risk** *(continued)*

The credit policies for banking and margin lending businesses set out in details the credit approval and monitoring mechanism, the loan classification criteria and provision policy. Credit approval was conducted in accordance with the credit policies, taking into account the type and tenor of loans, creditworthiness and repayment ability of prospective borrowers, collateral available and the resultant risk concentration in the context of the Group's total assets. Day-to-day credit management was performed by management of individual business units.

The Group had established guidelines to ensure that all new debt investments were properly made, taking into account the credit rating requirements, the maximum exposure limit to a single corporate or issuer; etc. All relevant departments within the Group were involved to ensure that appropriate processes, systems and controls were set in place before and after the investments were acquired.

**(ii) Liquidity risk**

The Group managed the liquidity structure of its assets, liabilities and commitments in view of market conditions and its business needs, as well as to ensure that its operations met with the statutory requirement on minimum liquidity ratio whenever applicable.

Management comprising Executive Directors and senior managers monitored the liquidity position of the Group on an ongoing basis to ensure the availability of sufficient liquid funds to meet all obligations as they fell due and to make the most efficient use of the Group's financial resources.

**(iii) Interest rate risk**

Interest rate risk primarily resulted from timing differences in the repricing of interest bearing assets, liabilities and commitments. The Group's interest rate positions arose mainly from treasury, commercial banking and other investment activities undertaken.

The Group monitors its interest-sensitive products and investments and net repricing gap and limits interest rate exposure through management of maturity profile, currency mix and choice of fixed or floating interest rates. The interest rate risk was managed and monitored regularly by senior managers of the Group.

**(iv) Foreign exchange risk**

Foreign exchange risk was the risk to earnings or capital arising from movements of foreign exchange rates. The Group's foreign exchange risk primarily arose from currency exposures originating from its commercial banking activities, foreign exchange dealings and other investment activities.

**SUPPLEMENTARY INFORMATION** *(continued)*

**(b) Management of risks** *(continued)*

**(iv) Foreign exchange risk** *(continued)*

The Group monitors the relative foreign exchange positions of its assets and liabilities and allocates accordingly to minimise foreign exchange risk. When appropriate, hedging instruments including forward contracts, swaps and currency loans are used to manage the foreign exchange exposure. The foreign exchange risk was managed and monitored on an ongoing basis by senior managers of the Group.

**(v) Market risk**

Market risk was the risk that changes in interest rates, foreign exchange rates, equity or commodity prices would affect the prices of financial instruments taken or held by the Group. Financial instruments included foreign exchange contracts, interest rate contracts, equity and fixed income securities.

Market risk limits were approved by the Directors of the Group. Actual positions were compared with approved limits and monitored regularly by the Executive Directors and senior managers of the Group. Exposures were measured and monitored on the basis of principal and notional amounts, outstanding balances and pre-determined stop-loss limits. All market risk trading positions were subject to periodic mark-to-market valuation, which was monitored and managed by senior managers of the Group. With respect to the investment accounts, the Group had established evaluation procedures for the selection of investments and fund managers and the Executive Directors and senior managers of the Group perform regular reviews of the operation and performance of these investment accounts and ensure compliance with the market risk limits and guidelines adopted by the Group.

## MANAGEMENT DISCUSSION AND ANALYSIS

The year 2004 started with an improving global and regional economic outlook. During the first half of 2004, the local economy was on the road to recovery, reflected in gradually rising property prices, increasing consumer demand and business activity. However, volatile securities markets have created a challenging investment environment. Against this background, the Group continued to strengthen its existing core businesses and achieved a net profit attributable to shareholders of HK\$12.3 million for the six months ended 30th June, 2004 (2003 – HK\$24.7 million).

### Results for the period

Turnover for the first six months of 2004 totalled HK\$1,768 million which was 122 per cent. higher than the HK\$795 million recorded for the same period of 2003. Property investment, food businesses and securities investment remained the principal sources of revenue of the Group, contributing 10 per cent. (2003 – 18 per cent.), 24 per cent. (2003 – 36 per cent.) and 62 per cent. (2003 – 36 per cent.), respectively, of the total turnover.

### Property

Turnover from property investment increased 20 per cent. to HK\$173 million (2003 – HK\$144 million). The Group's properties were mainly located in Hong Kong and China Mainland ("China").

With the upturn of the Hong Kong property market in the first half of 2004, the Group was able to dispose of certain of its properties held for sale at a satisfactory profit. In addition, rising property prices also resulted in a surplus of HK\$191 million arising on revaluation of the local properties, which was credited to the Group's revaluation reserve.

In China, the Group participated in a project to develop commercial properties in 北京經濟技術開發區 (Beijing Economic-Technological Development Area). This joint venture enables the Group to explore the long term benefits from the China property market in light of the coming 2008 Olympics to be held in Beijing. The Group's total capital commitment for this project amounted to US\$19.2 million. The project is expected to commence in or about December 2004 and did not have a significant impact on the results for the period.

Notwithstanding the sale of four office floors at Lippo Plaza, Shanghai, China ("Lippo Plaza") in 2003, rental income from China's property portfolio continued to increase, being 12 per cent. higher than that for the same period in 2003, as a result of higher occupancy and renewed rental rates. Lippo Plaza achieved almost full occupancy throughout the period. On the other side, the leasing of local properties also progressed well with high occupancy rates given the quality and the strategic location. Rental income remained as a stable recurrent revenue of the Group.

This segment achieved an overall profit of HK\$81 million, being 58 per cent. higher than the HK\$51 million (adjusted to exclude the impact from property revaluation) recorded in 2003.

## **MANAGEMENT DISCUSSION AND ANALYSIS** *(continued)*

### **Food businesses**

Turnover from food businesses increased 49 per cent. to HK\$424 million (2003 – HK\$285 million). Food businesses mainly comprise wholesale and distribution of food and allied fast-moving consumer goods and food manufacturing in Singapore and Malaysia. When compared to the corresponding period last year, turnover from wholesale and distribution for the period was 58 per cent. higher whereas that from manufacturing was almost the same.

Turnover for 2004 included that of the new subsidiaries acquired by the Group in December 2003. These subsidiaries are engaged in food distribution and manufacturing in Malaysia and food distribution in Singapore. The acquisition enables the Group to achieve food business growth in Malaysia which has a larger market than Singapore, and enlarge its distribution network in Singapore.

During the period, the Group also completed the acquisition of a subsidiary in China which was engaged in the business of processing and selling dairy products. The acquisition represents a strategic move to grow and expand its food businesses into the China market.

For the first half of 2004, this segment continued to produce improved results, contributing a profit of HK\$12 million (2003 – HK\$5.2 million) to the Group, reflecting improved cost and operational efficiencies.

### **Securities investment**

Total turnover from securities investment increased 290 per cent. to HK\$1,102 million (2003 – HK\$283 million). Entering 2004, the Group took advantage of the improving global and local market conditions and actively realised the investment gains which had accumulated in previous periods. This resulted in an increase in securities trading activities. However, at the beginning of the second quarter, improvement in the US economy suggested that a rise in interest rates was imminent and bond prices started to fall. Additionally, stock markets were dragged down by a drop in investor confidence driven by the increasing uncertainties on the pace of global economic recovery. The Group's investment portfolio inevitably suffered from the poor market sentiment and uncertainties. Against this, the Group has taken necessary steps to adjust its investment portfolio to mitigate the adverse impact. Together with the gradual pick up near the end of the period, the net loss from this segment was HK\$19 million (2003 – profit of HK\$43 million), after taking into account an unrealised loss of HK\$86 million (2003 – gain of HK\$5 million). Notwithstanding the volatility of the investment markets, the bond portfolio continued to contribute high and stable interest income to the Group.

### **Infrastructure investment**

The Group had a 25 per cent. interest in a power plant in Fujian Province, China whose operating performance had continued to improve during the period. Turnover was 14 per cent. higher than that for the same period in 2003 as a result of higher dispatch level of electricity. Profit from the project company has been included under the Group's share of results of associates as the main contributor of the income. In June 2004, the refinancing arrangement with certain domestic banks in China was successfully completed. The new financing arrangement replaced foreign currency denominated loans with Renminbi, which matched with the electricity income and reduced the project company's exposure to exchange rate risk. In September 2004, the Group increased its stake in the power plant to 26.3 per cent.

## **MANAGEMENT DISCUSSION AND ANALYSIS** *(continued)*

### **Finance costs**

Total finance costs for the period amounted to HK\$12 million (2003 – HK\$20 million), representing a 41 per cent. reduction from the same period last year. The drop was as a result of the average borrowing during the period being approximately HK\$200 million lower when compared with that over the same period in 2003.

### **Other costs**

Administrative expenses increased by HK\$7 million to HK\$111 million (2003 – HK\$104 million) whilst other operating expenses increased by HK\$27 million to HK\$81 million (2003 – HK\$54 million). The increase was in line with business needs, incorporating the expenses incurred by newly acquired subsidiaries.

### **Financial position**

As at 30th June, 2004, total assets of the Group amounted to HK\$8.2 billion (31st December, 2003 – HK\$8.3 billion). The Group's financial position remained strong throughout the period with liquidity ratio rising to 3.9 to 1 at the end of June 2004 (31st December, 2003 – 3.3 to 1). As a result of the aforementioned surplus arising on property revaluation, the net asset value of the Group increased to HK\$4.5 billion (31st December, 2003 – HK\$4.3 billion), equivalent to HK\$0.49 (31st December, 2003 – HK\$0.47) per share.

With the increase in net asset value, the Group's gearing ratio (total borrowings, net of minority interests, to shareholders' equity) reduced to 20.4 per cent. (31st December, 2003 – 20.7 per cent.) which was well below the average among companies in the same industry. Total borrowings increased slightly by 3.8 per cent. to HK\$1,015 million (31st December, 2003 – HK\$978 million), comprising secured and unsecured bank loans of HK\$1,000 million (31st December, 2003 – HK\$968 million) and HK\$15 million (31st December, 2003 – HK\$10 million) respectively. Certain properties, fixed assets, shares in certain subsidiaries and certain securities owned by the Group were pledged against secured banking facilities. Almost all the bank loans were denominated in United States dollars or Hong Kong dollars, carrying interest at floating rates and 28 per cent. (31st December, 2003 – 28 per cent.) of which was repayable within one year. When appropriate and at times of interest rate or exchange rate uncertainty or volatility, hedging instruments including forward contracts, swaps and currency loans are used to manage the exposure to interest rate and exchange rate fluctuations.

Other than those relating to the banking operations, the Group had no material contingent liabilities outstanding as at 30th June, 2004 (31st December, 2003 – Nil).

### **Staff and remuneration**

The Group had approximately 920 employees as at 30th June, 2004 (2003 – 730 employees). Staff levels were managed in line with business needs and market opportunities. Total staff costs during the period amounted to HK\$100 million (2003 – HK\$95 million). The Group ensures that its employees are offered competitive remuneration packages. Certain employees of the Group were granted options under share option schemes of their respective companies.

**MANAGEMENT DISCUSSION AND ANALYSIS** *(continued)***Outlook**

In light of the instability and uncertainties in the global economic conditions, the operating environment remains challenging. While aiming to improving internal operational efficiencies, the Group will continue to refine its existing core business and respond to new investment opportunities which have long term growth potential. Although the central government has implemented certain macro-economic tightening measures in China to the overheated economy, the Group believes that the overall adjustment is healthy and fundamental to sustain a long-term growth momentum and the Group's businesses in China would eventually benefit from these measures. The Group is cautiously optimistic about the global and regional economic prospects in the future year. Given its strong financial position, the Group is confident that it will be able to take advantage of any strategic opportunities in its pursuit of enhancing shareholders' value.

## **BUSINESS REVIEW AND PROSPECTS**

### **Business review**

Business activity and the investment climate continued to improve in the first half of the year. Supported by the improving global economy and the central government's favourable policies such as the extension of China Mainland's individual visitor scheme and Closer Economic Partnership Arrangement ("CEPA") between China Mainland ("China") and Hong Kong, the local economy enjoyed a discernible recovery during the period under review. Lower unemployment rate and the upturn of the property market boosted both consumer confidence and investment sentiment, however, fluctuating global and local securities markets together with the implementation of macro-economic measures designed to cool down the economy in China during the period have created a challenging investment environment. Against this background, the Group achieved a consolidated net profit attributable to shareholders of HK\$12.3 million for the period under review, compared to a consolidated net profit of HK\$24.7 million for the last corresponding period.

The local property market continued on its recovery path with significant increases in both price levels and turnover. The Group's investment properties maintained a high level of occupancy and as a result of the improving market conditions, the level of rental incomes from these properties increased during the period and provided a solid recurrent earnings base. Lippo Plaza, a grade A office and retail complex situated at Huaihai Zhong Road, Shanghai, China continued to achieve almost full occupancy at satisfactory rental rates. The Group has a 66.5 per cent. effective interest in this investment.

During the period under review, the Group successfully disposed of its retail properties within World Trade Plaza, Chungking Mansion, Tsimshatsui, for an aggregate consideration of HK\$110 million. The Group has a 37 per cent. effective interest in the investment.

The overall performance of the 724 megawatt (net) coal-fired Meizhou Wan power plant project in Putian City, Fujian Province, China, in which the Group has a 26.3 per cent. interest, was satisfactory during the period due to strong electricity demand in Fujian Province. During the period, the project company successfully amended the power purchase agreement with the local power company and completed refinancing arrangement with certain domestic banks in China, which have solidified its operations and future performance.

The economies of Singapore and its neighbouring countries continued to improve during the period. Auric Pacific Group Limited ("Auric"), a listed subsidiary of the Company in Singapore, achieved a consolidated net profit of S\$3.1 million for the period under review, compared to a consolidated net profit of S\$1.4 million for the last corresponding period. Auric completed the acquisition of a 75 per cent. interest in Foshan Ausoon Dairy Co., Ltd ("Ausoon"), a Chinese-foreign equity joint venture enterprise established in China. Ausoon is engaged in dairy production business procuring raw fresh milk from cow breeders and processing it into milk and yogurt beverages. These processed products are then packaged and sold in China through various channels, including supermarkets, specialist kiosks, distributors, schools, hotels and corporations. The above acquisition represents a strategic move by Auric to grow and expand its present business into China.



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

Hongkong Chinese Limited ("HKCL"), a listed subsidiary of the Company, and its subsidiaries ("HKCL Group") recorded a consolidated loss attributable to shareholders of HK\$48.7 million for the six months ended 30th June, 2004, compared to a profit of HK\$44.2 million for the corresponding period in 2003. The loss was mainly attributable to the downturn in the global investment markets in the second quarter of 2004 following firm indication that interest rate would begin to rise. The HKCL Group had taken the necessary steps to adjust its investment portfolio to lessen the impact and the treasury and securities investment segment recorded a net loss of HK\$22.2 million (2003 – profit of HK\$63.0 million).

The performance of the Hong Kong economy directly affects the business turnover and performance of Lippo Securities Holdings Limited, a wholly-owned subsidiary of HKCL, and its subsidiaries, which are principally engaged in underwriting, securities brokerage, corporate finance, investment advisory and other related financial services. The local stock market which performed well in the first quarter of 2004 was more subdued in the second quarter, resulting in flatter bond and stock markets by mid 2004.

The Macau Chinese Bank Limited ("MCB"), an 85 per cent. subsidiary of HKCL, continued to be a net income contributor to the HKCL Group. The Macau economy experienced a strong recovery in the first half of 2004, and this was reflected in the growth of tourist arrivals and rising property prices. As a consequence of the improving economy, MCB's business turnover increased and the quality of its loan book improved further. Macau's location at the mouth of Pearl River will open up opportunities for MCB to extend its financial services into China, and in particular, into the Pearl River Delta region. In order to meet the demands of these increasing business opportunities, MCB has purchased a commercial building at Avenida da Praia Grande No.101, Macau (now renamed as "The Macau Chinese Bank Building") for use as its headquarters.

During the first half of 2004, the HKCL Group increased its interest in the Convoy Group which is one of the largest independent financial planning service groups in Hong Kong.

As announced earlier, a wholly-owned subsidiary of HKCL had entered into an agreement with 北京經濟技術投資開發總公司 (Beijing Economic & Technological Investment Development Corp.) and 中國技術創新有限公司 (China Technology Innovation Corporation) to jointly develop a site located in 北京經濟技術開發區 (Beijing Economic-Technological Development Area) with a total area of approximately 50,745 square metres (the "Project"). The HKCL Group's commitment for the Project is US\$19.2 million. It is anticipated that the Project will commence in or about December 2004. Located in the only state-level economic-technological development area in Beijing and approximately ten miles south east of Beijing city centre, the Project is in an area where many of the Fortune 500 companies and multinational corporations are located. The HKCL Group is optimistic about the long term potential of the Project especially in the run up to the 2008 Beijing Olympics.

Due to keen competition in the mortgage loan sector, the loan portfolio of The Hong Kong Building and Loan Agency Limited ("HKBLA"), a listed subsidiary of the Company, reduced further. However, during the period, HKBLA invested in higher yield securities which brought satisfactory returns. HKBLA achieved a consolidated net profit attributable to shareholders of HK\$6 million for the period, compared to a consolidated profit of HK\$1.9 million for the last corresponding period.

**BUSINESS REVIEW AND PROSPECTS** *(continued)***Prospects**

Looking ahead, the prospects of the local economy look promising. It is expected that Hong Kong will continue to benefit from the extension of the individual visitor scheme and CEPA. The latter may well provide many business opportunities in China as well as boost the level of investments in Hong Kong by Mainland enterprises. Whilst the general prospects look good, globally there are uncertainties ahead such as the threat of terrorism, soaring oil prices, rising interest rates and the pace of economic growth in the United States which may significantly affect both China and local economies. In spite of these uncertainties, we maintain an optimistic outlook for the Group's businesses in the future.

With its strong and healthy financial position, the Group is well-poised to be benefited from any further pick up in the business activity and economic growth in the Pearl River Delta region as well as other parts of China. The Group will continue to adopt a cautious and prudent approach when assessing new investment opportunities, explore new market opportunities and income sources and seek potential acquisition and alliance opportunities that are in line with its long term growth strategy.

## ADDITIONAL INFORMATION

### Interim dividend

The Directors do not recommend the payment of an interim dividend for the six months ended 30th June, 2004 (2003 – Nil).

### Directors' and chief executive's interests and short positions in shares, underlying shares and debentures of the Company and associated corporations

As at 30th June, 2004, the interests or short positions of the Directors and chief executive of the Company in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers under the Rules Governing the Listing of Securities on the Stock Exchange (the "Model Code") were as follows:

(a) *Interests in shares of the Company and associated corporations*

Name of Director	Personal interests (held as beneficial owner)	Family interests (interest of spouse)	Other interests	Total interests	Approximate percentage of total interests in the issued share capital
<b>Number of ordinary shares of HK\$0.10 each in the Company</b>					
Mochtar Riady	–	–	6,544,696,389 <i>Notes (i) and (ii)</i>	6,544,696,389	71.13
James Riady	–	–	6,544,696,389 <i>Notes (i) and (ii)</i>	6,544,696,389	71.13
Stephen Riady	–	–	6,544,696,389 <i>Notes (i) and (ii)</i>	6,544,696,389	71.13
<b>Number of ordinary shares of HK\$0.10 each in Lippo Limited ("Lippo")</b>					
Mochtar Riady	–	–	248,697,776 <i>Note (i)</i>	248,697,776	57.34
James Riady	–	–	248,697,776 <i>Note (i)</i>	248,697,776	57.34
Stephen Riady	–	–	248,697,776 <i>Note (i)</i>	248,697,776	57.34
John Luen Wai Lee	825,000	–	–	825,000	0.19

**ADDITIONAL INFORMATION** (continued)**Directors' and chief executive's interests and short positions in shares, underlying shares and debentures of the Company and associated corporations** (continued)(a) *Interests in shares of the Company and associated corporations* (continued)

Name of Director	Personal interests (held as beneficial owner)	Family interests (interest of spouse)	Other interests	Total interests	Approximate percentage of total interests in the issued share capital
<b>Number of ordinary shares of HK\$1.00 each in Hongkong Chinese Limited ("HKCL")</b>					
Mochtar Riady	-	-	987,730,440 <i>Notes (i), (ii) and (iii)</i>	987,730,440	73.34
James Riady	-	-	987,730,440 <i>Notes (i), (ii) and (iii)</i>	987,730,440	73.34
Stephen Riady	-	-	987,730,440 <i>Notes (i), (ii) and (iii)</i>	987,730,440	73.34
John Luen Wai Lee	200	200	-	400	0.00

*Note:*

- (i) As at 30th June, 2004, Lippo Cayman Limited ("Lippo Cayman"), an associated corporation (within the meaning of Part XV of the SFO) of the Company, and through its wholly-owned subsidiaries, Lippo Capital Limited, J & S Company Limited and Huge Returns Limited, was directly and indirectly interested in an aggregate of 248,697,776 ordinary shares of HK\$0.10 each in, representing approximately 57.34 per cent. of, the issued share capital of Lippo. Lanius Limited ("Lanius"), an associated corporation (within the meaning of Part XV of the SFO) of the Company, was the registered shareholder of 10,000,000 ordinary shares of US\$1.00 each in, representing 100 per cent. of, the issued share capital of Lippo Cayman. Lanius was the trustee of a discretionary trust, of which Dr. Mochtar Riady is the founder and in accordance with whose instructions Lanius was accustomed to act. Dr. Mochtar Riady did not have any interests in the share capital of Lanius. The beneficiaries of the trust included Dr. Mochtar Riady, Mr. James Riady, Mr. Stephen Riady and their respective family members including, inter alia, the minor children of each of Messrs. James Riady and Stephen Riady. Dr. Mochtar Riady as the founder and beneficiary of the trust and Messrs. James Riady and Stephen Riady (together with their minor children) as beneficiaries of the trust were taken to be interested in Lippo Cayman under the SFO.
- (ii) As at 30th June, 2004, Lippo was indirectly interested in 6,544,696,389 ordinary shares of HK\$0.10 each in, representing approximately 71.13 per cent. of, the issued share capital of the Company.
- (iii) As at 30th June, 2004, the Company was directly and indirectly interested in an aggregate of 987,730,440 ordinary shares of HK\$1.00 each in, representing approximately 73.34 per cent. of, the issued share capital of HKCL.

**ADDITIONAL INFORMATION** *(continued)*

**Directors' and chief executive's interests and short positions in shares, underlying shares and debentures of the Company and associated corporations** *(continued)*

(a) *Interests in shares of the Company and associated corporations (continued)*

As at 30th June, 2004, Dr. Mochtar Riady, as founder and beneficiary of the aforesaid discretionary trust, and Messrs. James Riady and Stephen Riady (together with their minor children), as beneficiaries of the aforesaid discretionary trust, through their interests in Lippo Cayman as mentioned in Note (i) above, were also taken to be interested in the share capital of the following associated corporations (within the meaning of Part XV of the SFO) of the Company:

Name of associated corporation	Class of shares	Number of shares interested	Approximate percentage of interests in the issued share capital
Abital Trading Pte. Limited	Ordinary shares	2	100
AcrossAsia Multimedia Limited (now known as AcrossAsia Limited)	Ordinary shares	3,669,576,788 <i>(Note a)</i>	72.45
Actfield Limited	Ordinary shares	1	100
Boudry Limited	Ordinary shares	1,000	100
Congrad Holdings Limited	Ordinary shares	1	100
Cyport Limited	Ordinary shares	1	100
East Winds Food Pte Ltd.	Ordinary shares	400,000 <i>(Note b)</i>	88.88
First Bond Holdings Limited	Ordinary shares	1	100
First Tower Corporation	Ordinary shares	1 <i>(Note c)</i>	100
Glory Power Worldwide Limited	Ordinary shares	1	100
Grand Peak Investment Limited	Ordinary shares	2	100
Grandhill Asia Limited	Ordinary shares	1	100
Honix Holdings Limited	Ordinary shares	1	100
Huge Returns Limited	Ordinary shares	1	100
J & S Company Limited	Ordinary shares	1	100
Lippo Assets (International) Limited	Ordinary shares	1,000,000	100
	Non-voting deferred shares	15,000,000	100
Lippo Capital Limited	Ordinary shares	705,690,000	100
Lippo Energy Company N.V.	Ordinary shares	6,000	100
Lippo Finance Limited	Ordinary shares	6,176,470	82.35
Lippo Holding America Inc.	Ordinary shares	1	100
Lippo Holding Company Limited	Ordinary shares	2,500,000	100
	Non-voting deferred shares	7,500,000	100
Lippo Investments Limited	Ordinary shares	2	100
Lippo Leisure Holdings Limited	Ordinary shares	2	100
Lippo Realty Limited	Ordinary shares	2	100
Multi-World Builders & Development Corporation	Ordinary shares	4,080	51

**ADDITIONAL INFORMATION** (continued)

**Directors' and chief executive's interests and short positions in shares, underlying shares and debentures of the Company and associated corporations** (continued)

(a) *Interests in shares of the Company and associated corporations* (continued)

Name of associated corporation	Class of shares	Number of shares interested	Approximate percentage of interests in the issued share capital
Nelton Limited	Ordinary shares	10,000	100
Pointbest Limited	Ordinary shares	1	100
SCR Ltd.	Ordinary shares	1	100
Sinotrend Global Holdings Limited	Ordinary shares	1	100
Skyscraper Realty Limited	Ordinary shares	10	100
		<i>(Note d)</i>	
The HCB General Investment (Singapore) Pte Ltd. ("HCB General")	Ordinary shares	70,000	70
The Hong Kong Building and Loan Agency Limited	Ordinary shares	168,313,038	74.80
		<i>(Note e)</i>	
Valencia Development Limited	Ordinary shares	800,000	100
	Non-voting deferred shares	200,000	100
Welux Limited	Ordinary shares	1	100

*Note:*

- a. The interests included 219,600,000 ordinary shares held by Mideast Pacific Strategic Holdings Limited in which Lippo Cayman controlled a 30 per cent. interest.
- b. The interests were held by HCB General, a 70 per cent. owned subsidiary of Lippo Cayman.
- c. The interest was held by Lippo, a 57.34 per cent. owned subsidiary of Lippo Cayman.
- d. The interests were held through Lippo, a 57.34 per cent. owned subsidiary of Lippo Cayman.
- e. The interests were held through the Company, a 71.13 per cent. owned subsidiary of Lippo which in turn was a 57.34 per cent. owned subsidiary of Lippo Cayman.

As at 30th June, 2004, each of Messrs. James Riady and Stephen Riady, as beneficial owners, was directly interested in 5 ordinary shares of HK\$1.00 each in, representing 25 per cent. of, the issued share capital of Lanius which was the registered shareholder of 10,000,000 ordinary shares of US\$1.00 each in, representing 100 per cent. of, the issued share capital of Lippo Cayman. Lanius was the trustee of a discretionary trust, of which Dr. Mochtar Riady is the founder and beneficiary. The beneficiaries of the trust also included, inter alia, Messrs. James Riady and Stephen Riady and their minor children. Dr. Mochtar Riady did not have any interests in the share capital of Lanius but the shareholders of Lanius were accustomed to act in accordance with his instructions.

As at 30th June, 2004, Mr. John Luen Wai Lee, as beneficial owner, was also interested in 230,000 ordinary shares of HK\$0.10 each in, representing approximately 0.0045 per cent. of, the issued share capital of AcrossAsia Multimedia Limited (now known as AcrossAsia Limited), an associated corporation (within the meaning of Part XV of the SFO) of the Company.

**ADDITIONAL INFORMATION** *(continued)***Directors' and chief executive's interests and short positions in shares, underlying shares and debentures of the Company and associated corporations** *(continued)**(b) Interests in underlying shares of the Company*

Name of Director	Capacity and nature of interest	Number of underlying shares of HK\$0.10 each in respect of which options have been granted*	Approximate percentage of the issued share capital
John Luen Wai Lee	Personal (held as beneficial owner)	9,000,000	0.09

\* The options were granted on 23rd June, 1997 at a consideration of HK\$1.00 per grantee under the Share Option Scheme for Employees adopted by the Company (the "Share Option Scheme"). Such options vested after two months from the date when the options were deemed to be granted and accepted and are exercisable from 23rd August 1997 to 23rd June 2007 in accordance with the rules of the Share Option Scheme to subscribe for ordinary shares in the Company at an initial exercise price of HK\$5.30 per share (subject to adjustment). Pursuant to the bonus issue of new shares in the ratio of one for one in October 1997, the rights issue of new shares in July 1999 on the basis of one rights share for every one share held and the rights issue of new shares in November 2000 on the basis of one rights share for every two shares held, the holder of each option is entitled to subscribe for six ordinary shares of HK\$0.10 each in the Company at an exercise price of HK\$0.883 per share (subject to adjustment). None of the options were exercised by the above Director during the six months ended 30th June, 2004 and the quantity of options held by the above Director as at 1st January, 2004 and 30th June, 2004 remained unchanged.

The above interest in the underlying shares of the Company was held pursuant to unlisted physically settled equity derivatives. As at 30th June, 2004, none of the Directors or chief executive of the Company had any interests in the underlying shares in respect of cash settled or other equity derivatives of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

Certain Directors have non-beneficial personal equity interests in certain subsidiaries of the Company held for the benefit of the Group solely for the purpose of holding the requisite qualifying shares.

All the interests stated above represent long positions. Save as disclosed herein, as at 30th June, 2004, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register kept by the Company under Section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Save as disclosed herein, as at 30th June, 2004, none of the Directors or chief executive of the Company nor their spouses or minor children (natural or adopted), were granted or had exercised any rights to subscribe for any equity or debt securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

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

As at 30th June, 2004, so far as is known to the Directors of the Company, the following persons (other than the Directors or chief executive of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the Securities and Futures Ordinance (the "SFO") as follows:

*Interests of substantial shareholders (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")) in shares of the Company*

<b>Name</b>	<b>Number of ordinary shares of HK\$0.10 each</b>	<b>Approximate percentage of the issued share capital</b>
Lippo Limited ("Lippo")	6,544,696,389	71.13
Lippo Cayman Limited ("Lippo Cayman")	6,544,696,389	71.13
Lanius Limited ("Lanius")	6,544,696,389	71.13
Madam Lidya Suryawaty	6,544,696,389	71.13

*Note:*

- 6,544,696,389 ordinary shares of the Company were held by Skyscraper Realty Limited directly as beneficial owner which in turn was a wholly-owned subsidiary of First Tower Corporation ("First Tower"). First Tower was a wholly-owned subsidiary of Lippo. Lippo Cayman, and through its wholly-owned subsidiaries, Lippo Capital Limited (which owned approximately 50.47 per cent. interest of the issued share capital of Lippo), J & S Company Limited and Huge Returns Limited, was directly and indirectly interested in approximately 57.34 per cent. of the issued share capital of Lippo.
- Lanius was the registered shareholder of the entire issued share capital of Lippo Cayman and was the trustee of a discretionary trust, of which Dr. Mochtar Riady is the founder and in accordance with whose instructions Lanius was accustomed to act. The beneficiaries of the trust included Dr. Mochtar Riady and his family members. Madam Lidya Suryawaty is the spouse of Dr. Mochtar Riady. Dr. Mochtar Riady was not the registered holder of any shares in the issued share capital of Lanius.
- Lippo's interests in the shares of the Company were recorded as the interests of Lippo Cayman, Lanius and Madam Lidya Suryawaty. The above ordinary shares in the Company related to the same block of shares that Dr. Mochtar Riady, Messrs. James Riady and Stephen Riady were interested, details of which were disclosed in the above section headed "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures of the Company and associated corporations".

All the interests stated above represent long positions. Save as disclosed herein, as at 30th June, 2004, none of the substantial shareholders (as defined in the Listing Rules) or other persons (other than Directors or chief executive of the Company) had any interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.



**ADDITIONAL INFORMATION** *(continued)*

**Share option schemes**

Pursuant to the Share Option Scheme for Employees of the Company (the "Share Option Scheme") approved and adopted by its shareholders on 2nd May, 1994 (the "Adoption Date"), the Directors of the Company might, at their discretion, grant to any employees (including Directors) of the Company and its subsidiaries options to subscribe for shares in the Company. The purpose of the adoption of the Share Option Scheme was to provide an incentive scheme to the employees of the Company and its subsidiaries. Under the rules of the Share Option Scheme, no more options could be granted from the tenth anniversary of the Adoption Date. The options can be exercisable after two months from the date on which the options were deemed to be granted and accepted and prior to the expiry of ten years from that date.

The maximum number of shares in respect of which options might be granted under the Share Option Scheme should not exceed 10 per cent. of the number of issued shares of the Company from time to time, excluding the aggregate number of shares issued on exercise of options, and the maximum number of shares in respect of which options might be granted under the Share Option Scheme in any one financial year should not exceed 5 per cent. of the total number of issued shares of the Company from time to time. In addition, the maximum number of shares in respect of which options might be granted under the Share Option Scheme to any grantee should not exceed 25 per cent. of the number of shares subject to the Share Option Scheme at the time of grant. The exercise price for the share under the Share Option Scheme would be determined by the Directors of the Company at their absolute discretion but in any event should not be less than 80 per cent. of the average of the closing price of the shares of the Company as stated on daily quotation sheets of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the five trading days immediately preceding the date of offer of the option or the nominal value of the shares of the Company, whichever was the greater. The consideration for the grant was HK\$1.00 per grantee which must be paid on acceptance to the Company by the grantee within 28 days after the date of offer of the option.

The following is a summary of movement in share options of the Company during the six months ended 30th June, 2004:

<b>Date of grant</b>	<b>Exercise price per share</b>	<b>Exercise period of share options</b>	<b>Quantity of share options outstanding at 1st January, 2004</b>	<b>Quantity of share options exercised/lapsed during the period</b>	<b>Quantity of share options outstanding at 30th June, 2004</b>
23rd June, 1997	HK\$0.883	August 1997 to June 2007	5,800,000	Nil	5,800,000

Pursuant to the bonus issue of new shares in the ratio of one for one in October 1997, the rights issue of new shares in July 1999 on the basis of one rights share for every one share held and the rights issue of new shares in November 2000 on the basis of one rights share for every two shares held, the holder of each share option is entitled to subscribe for six ordinary shares of HK\$0.10 each in the Company in cash at the above exercise price per share which is subject to adjustment.

**ADDITIONAL INFORMATION** *(continued)*

**Share option schemes** *(continued)*

As at 30th June, 2004, save for Mr. John Luen Wai Lee, a Director of the Company, held 1,500,000 options, none of the Directors, chief executive or substantial shareholders of the Company or their respective associates had an interest in any options to subscribe for shares of the Company. The remaining 4,300,000 share options are held by Directors of the Company's subsidiaries or employees of the Company or its subsidiaries.

As at the date of this report, the total number of shares available for issue under the Share Option Scheme is 920,108,871 shares of HK\$0.10 each, representing approximately 10 per cent. of the issued share capital of the Company. The exercise in full of 5,800,000 share options would, under the present capital structure of the Company, result in the issue of 34,800,000 shares of HK\$0.10 each, representing approximately 0.38 per cent. of the issued share capital of the Company.

Since no share options were granted under the Share Option Scheme during the six months ended 30th June, 2004, no value of the share options granted has been disclosed.

Details of the share option scheme of a subsidiary of the Company are set out below.

Pursuant to the Executives' Share Option Scheme of Auric Pacific Group Limited ("Auric"), a listed subsidiary of the Company in Singapore, approved by the shareholders of Auric on 17th December, 1992 (the "Auric Share Option Scheme"), the directors of Auric might, at their discretion, grant to any employees of Auric or any of its subsidiaries (the "Auric Group") options to subscribe for shares in Auric. The Auric Share Option Scheme continued in operation for a period of ten years from the date of adoption, that is, 17th December, 1992 and expired after 16th December, 2002.

The following is a summary of movements in share options of Auric during the six months ended 30th June, 2004:

<b>Date of grant</b>	<b>Exercise price per share</b>	<b>Exercise period of share options</b>	<b>Quantity of share options outstanding at 1st January, 2004</b>	<b>Quantity of share options lapsed during the period</b>	<b>Quantity of share options outstanding at 30th June, 2004</b>
27th April, 1999	S\$1.53	April 2000 to April 2004	90,000	90,000	Nil

The holder of each share option was entitled to subscribe for one share of S\$0.50 in Auric in cash at the above exercise price per share. The above interests in options to subscribe for shares of Auric were held by employees of the Auric Group. During the six months ended 30th June, 2004, no options were exercised and all the options lapsed.

As at 30th June, 2004, none of the Directors, chief executive or substantial shareholders of the Company or their respective associates had an interest in any options to subscribe for shares of Auric.

**ADDITIONAL INFORMATION** *(continued)*

**Purchase, sale or redemption of the Company's listed securities**

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

**Audit Committee**

The Company has established an audit committee (the "Committee") in 1998 in accordance with paragraph 14 of the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The existing members of the Committee are Messrs. Leon Nim Leung Chan and Edwin Neo, independent non-executive Directors of the Company, and the Committee meets regularly. The Committee has reviewed with the management of the Company the accounting principles and practices adopted by the Group and financial reporting matters including the review of the unaudited interim financial statements for the six months ended 30th June, 2004.

**Code of Best Practice**

In the opinion of the Directors, the Company has complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the period, except that the non-executive Directors were not appointed for a specific term as required by paragraph 7 of the Code. Save for Dr. Mochtar Riady who is the Honorary Chairman of the Company, all the non-executive Directors are subject to retirement by rotation and re-election at the Company's annual general meetings in accordance with the Company's Articles of Association.

**Model Code for Securities Transactions by Directors**

The Board of Directors of the Company has adopted the Model Code for Securities Transactions by Directors (the "Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as the code for securities transactions by Directors. Having made specific enquiry of all Directors, the Directors have complied with the required standard set out in the Model Code during the period.

By Order of the Board  
**Lippo China Resources Limited**  
**John Luen Wai Lee**  
*Director*

Hong Kong, 24th September, 2004