



Hongkong Chinese Limited

香港華人有限公司

(Incorporated in Bermuda with limited liability)

INTERIM REPORT

For the six months ended 30th June, 2004

CORPORATE INFORMATION

DIRECTORS

Non-executive Director:

Dr. Mochtar Riady (*Chairman*)

Executive Directors:

Mr. Stephen Riady

Mr. John Lee Luen Wai, J.P.

Mr. Jesse Leung Nai Chau

Mr. Kor Kee Yee

Independent non-executive Directors:

Mr. Leon Chan Nim Leung

Mr. Albert Saychuan Cheok

AUDIT COMMITTEE

Mr. Leon Chan Nim Leung

Mr. Albert Saychuan Cheok

SECRETARY

Mr. Andrew Hau Tat Kwong

AUDITORS

Ernst & Young

PRINCIPAL BANKERS

International Bank of Asia Limited

CITIC Ka Wah Bank Limited

Standard Chartered Bank

Asia Commercial Bank Limited

SOLICITORS

Richards Butler

PRINCIPAL SHARE REGISTRARS AND TRANSFER OFFICE

Butterfield Fund Services (Bermuda) Limited

Rosebank Centre

11 Bermudiana Road

Hamilton

Bermuda

HONG KONG BRANCH SHARE REGISTRARS AND TRANSFER OFFICE

Tengis Limited

G/F., Bank of East Asia Harbour View Centre

56 Gloucester Road, Wanchai

Hong Kong

REGISTERED OFFICE

Clarendon House

Church Street

Hamilton HM 11

Bermuda

PRINCIPAL PLACE OF BUSINESS

24th Floor, Tower One, Lippo Centre

89 Queensway, Hong Kong

STOCK CODE

655

CONTENTS

Corporate Information	2
Condensed Consolidated Profit and Loss Account	3
Condensed Consolidated Balance Sheet	4
Condensed Consolidated Summary Statement of Changes in Equity	5
Condensed Consolidated Cash Flow Statement	6
Notes to the Interim Financial Statements	7
Supplementary Financial Information	22
Management Discussion and Analysis	24
Business Review and Prospects	27
Additional Information	29

CORPORATE INFORMATION

BOARD OF DIRECTORS

Non-executive Director

Dr. Mochtar Riady (*Chairman*)

Executive Directors

Mr. Stephen Riady
Mr. John Lee Luen Wai, J.P.
Mr. Jesse Leung Nai Chau
Mr. Kor Kee Yee

Independent non-executive Directors

Mr. Leon Chan Nim Leung
Mr. Albert Saychuan Cheok

AUDIT COMMITTEE

Mr. Leon Chan Nim Leung
Mr. Albert Saychuan Cheok

QUALIFIED ACCOUNTANT

Mr. Alex Au Shiu Leung

SECRETARY

Mr. Andrew Hau Tat Kwong

AUDITORS

Ernst & Young

SOLICITORS

Richards Butler

PRINCIPAL BANKERS

CITIC Ka Wah Bank Limited
International Bank of Asia Limited
Asia Commercial Bank Limited
Wing Hang Bank, Ltd.
Standard Chartered Bank
Merrill Lynch International Bank Limited

PRINCIPAL SHARE REGISTRARS AND TRANSFER OFFICE

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The Directors of Hongkong Chinese Limited (the "Company") 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

		Six months ended 30th June,	
		2004	2003
	<i>Note</i>	HK\$'000	<i>HK\$'000</i>
Turnover	3	762,178	232,311
Cost of sales		(671,817)	(169,370)
		<hr/>	<hr/>
Gross profit		90,361	62,941
Administrative expenses		(40,788)	(39,277)
Other operating expenses		(19,973)	(12,796)
Net unrealised holding gain/(loss) on other investments in securities		(72,522)	8,006
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
		<hr/>	<hr/>
Profit/(Loss) from operating activities	4	(42,922)	50,225
Finance costs		(2,068)	(1,847)
Share of results of associates		(2,886)	(4,278)
		<hr/>	<hr/>
Profit/(Loss) before tax		(47,876)	44,100
Tax	5	(1,270)	(414)
		<hr/>	<hr/>
Profit /(Loss) before minority interests		(49,146)	43,686
Minority interests		430	534
		<hr/>	<hr/>
Net profit /(loss) from ordinary activities attributable to shareholders		(48,716)	44,220
		<hr/>	<hr/>
Interim distribution		20,202	20,202
		<hr/>	<hr/>
		HK cents	<i>HK cents</i>
Earnings/(Loss) per share			
Basic	6	(3.6)	3.3
		<hr/>	<hr/>
Diluted		N/A	N/A
		<hr/>	<hr/>
Interim distribution per share		1.5	1.5
		<hr/>	<hr/>

CONDENSED CONSOLIDATED BALANCE SHEET

	<i>Note</i>	30th June, 2004 HK\$'000	31st December, 2003 HK\$'000
ASSETS			
NON-CURRENT ASSETS			
Goodwill		58,387	60,893
Fixed assets		10,164	5,004
Investment properties		19,711	16,750
Properties under development		58,832	–
Interests in associates		46,936	48,544
Investment securities	7	175,690	171,867
Assets less liabilities attributable to banking operations	8	188,696	156,081
		558,416	459,139
CURRENT ASSETS			
Loans and advances		104,401	91,888
Other investments in securities	9	1,312,215	1,033,890
Debtors, prepayments and deposits	10	113,414	330,369
Client trust bank balances		365,124	430,558
Cash and bank balances		894,036	1,335,116
		2,789,190	3,221,821
TOTAL ASSETS		3,347,606	3,680,960
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Share capital	11	1,346,829	1,346,829
Reserves	12	1,388,226	1,474,494
		2,735,055	2,821,323
MINORITY INTERESTS		30,677	24,793
CURRENT LIABILITIES			
Bank loans	13	108,518	10,000
Creditors and accruals	14	470,456	822,042
Tax payable		2,900	2,802
		581,874	834,844
TOTAL EQUITY AND LIABILITIES		3,347,606	3,680,960

CONDENSED CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY

	Six months ended 30th June,	
	2004	2003
	HK\$'000	HK\$'000
Total equity as at 1st January	2,821,323	2,779,797
Surplus on revaluation of investment properties	2,626	–
Exchange differences on translation of the financial statements of foreign entities	227	(143)
Net gain/(loss) not recognised in the condensed consolidated profit and loss account	2,824,176	2,779,654
Net profit/(loss) from ordinary activities attributable to shareholders	(48,716)	44,220
Repurchase of shares	–	(2,965)
2002 final distribution, declared	–	(40,405)
2003 final distribution, declared	(40,405)	–
Total equity as at 30th June	2,735,055	2,780,504

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30th June,	
	2004	2003
	HK\$'000	HK\$'000
Net cash from/(used in) operating activities	(404,552)	856,717
Net cash from/(used in) investing activities	(96,521)	49,325
Net cash from/(used in) financing activities	57,841	(46,217)
Net increase/(decrease) in cash and cash equivalents	(443,232)	859,825
Cash and cash equivalents at 1st January (<i>Note</i>)	1,335,116	525,228
Exchange realignments	2,152	(67)
Cash and cash equivalents at 30th June	894,036	1,384,986
<i>Note:</i> Balances of cash and cash equivalents at 1st January:		
Cash and bank balances with original maturity of three months or less	1,335,116	525,228
Placements with banks and other financial institutions with original maturity over three months	-	309,221
Total cash and bank balances at 1st January	1,335,116	834,449

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 securities investment segment includes dealings in securities and disposals of investments;
- (c) the corporate finance and securities broking segment provides securities and futures brokerage, investment banking, underwriting and other related advisory services;
- (d) the banking business segment engages in the provision of commercial and retail banking;
- (e) the insurance business segment engages in the underwriting of general insurance business;
- (f) the information technology segment engages in the development of computer hardware and software;
and
- (g) the "other" segment comprises principally money lending and the letting of properties.

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	Securities investment HK\$'000	Corporate finance and securities broking HK\$'000	Banking business HK\$'000	Insurance business HK\$'000	Information technology HK\$'000	Other HK\$'000	Inter-segment elimination HK\$'000	
Revenue									
External	6,276	703,688	36,155	9,723	4,719	-	1,617	-	762,178
Inter-segment	507	-	-	-	-	-	163	(670)	-
Total	6,783	703,688	36,155	9,723	4,719	-	1,780	(670)	762,178
Segment results	6,193	(28,379)	2,579	3,809	(115)	(6,301)	(2,138)	-	(24,352)
Unallocated corporate expenses									(20,638)
Share of results of associates	-	-	-	-	-	(2,050)	(836)	-	(2,886)
Loss before tax									(47,876)
Tax									(1,270)
Loss before minority interests									(49,146)
Minority interests									430
Net loss from ordinary activities attributable to shareholders									(48,716)

NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

2. SEGMENT INFORMATION (continued)

	Six months ended 30th June, 2003								
	Treasury investment HK\$'000	Securities investment HK\$'000	Corporate finance and securities broking HK\$'000	Banking business HK\$'000	Insurance business HK\$'000	Information technology HK\$'000	Other HK\$'000	Inter-segment elimination HK\$'000	Consolidated HK\$'000
Revenue									
External	20,725	167,723	22,139	6,968	12,773	-	1,983	-	232,311
Inter-segment	268	-	-	-	-	-	-	(268)	-
Total	20,993	167,723	22,139	6,968	12,773	-	1,983	(268)	232,311
Segment results	20,568	42,477	(2,005)	1,024	(160)	(2,201)	9,716	295	69,714
Unallocated corporate expenses									(21,336)
Share of results of associates	-	-	-	-	-	(2,625)	(1,653)	-	(4,278)
Profit before tax									44,100
Tax									(414)
Profit before minority interests									43,686
Minority interests									534
Net profit from ordinary activities attributable to shareholders									44,220

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 proceeds from sales of investments, gross income from underwriting and securities broking, interest and other income from money lending business, gross income from fund management, gross premiums from insurance business, dividend income and net interest income, commissions, dealing income and other revenues from banking subsidiary, after eliminations of all significant intra-group transactions.

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

	Six months ended 30th June,	
	2004 HK\$'000	2003 HK\$'000
Treasury investment	6,276	20,725
Securities investment	703,688	167,723
Corporate finance and securities broking	36,155	22,139
Banking business	9,723	6,968
Insurance business	4,719	12,773
Other	1,617	1,983
	762,178	232,311

NOTES TO THE INTERIM FINANCIAL STATEMENTS *(continued)*

3. TURNOVER *(continued)*

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:

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

4. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	Six months ended 30th June,	
	2004	2003
	HK\$'000	HK\$'000
Dividend income from investments:		
Listed	6,152	2,945
Unlisted	88	-
Interest income <i>(Note a)</i> :		
Listed investments	-	8,904
Unlisted investments	-	3,546
Other	6,276	11,661
Net realised and unrealised holding gain/(loss) on other investments in securities:		
Listed	(48,167)	13,090
Unlisted	2,092	2,459
Other investment income:		
Listed	10,315	2,375
Unlisted	4,571	187
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	(392)	(190)
Other	(1,070)	(759)
Amortisation of goodwill arising on acquisition of subsidiaries <i>(Note b)</i>	(2,182)	(1,620)

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

	Six months ended 30th June,	
	2004	2003
	HK\$'000	HK\$'000
The Company and its subsidiaries:		
Charge for the period:		
Overseas	660	414
Associates:		
Hong Kong	610	–
	<hr style="width: 100%;"/>	<hr style="width: 100%;"/>
Total charge for the period	<u>1,270</u>	<u>414</u>

No provision for Hong Kong profits tax has been made as the Group had applied the tax losses brought forward from prior periods to off-set the estimated assessable profits for the current and last periods. 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.

There were no material deferred tax assets or liabilities as at 30th June, 2004 (2003 – Nil).

6. EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

Basic earnings/(loss) per share is calculated based on (i) the net loss from ordinary activities attributable to shareholders of HK\$48,716,000 (2003 – net profit of HK\$44,220,000); and (ii) the number of 1,346,829,000 shares (2003 – the weighted average number of 1,349,134,000 shares) in issue during the period.

(b) Diluted earnings/(loss) per share

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS *(continued)*

7. INVESTMENT SECURITIES

	30th June, 2004 HK\$'000	31st December, 2003 HK\$'000
Equity securities, at cost		
Listed in Hong Kong	28,750	28,750
Unlisted	154,060	154,060
	182,810	182,810
Provision for impairment loss for unlisted equity securities	(20,000)	(20,000)
	162,810	162,810
Unlisted debt securities, at cost	5,413	5,413
Unlisted investment funds, at cost	7,467	3,644
	175,690	171,867
Market value of listed investments at the balance sheet date	39,790	41,400
An analysis of the issuers of investment securities is as follows:		
Equity securities:		
Corporate entities	162,810	162,810
Debt securities:		
Club debentures	3,165	3,165
Corporate entities	2,248	2,248
	5,413	5,413

8. 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.

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS *(continued)*

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

Note:

(a) Cash and short-term funds

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

(b) Other investments in securities

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

(c) Advances and other accounts

	30th June, 2004 HK\$'000	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	(5,050)	(5,050)
	161,312	156,079

NOTES TO THE INTERIM FINANCIAL STATEMENTS *(continued)*

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

(c) Advances and other accounts *(continued)*

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:

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

(d) Held-to-maturity securities

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

(e) Fixed assets

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS *(continued)*

9. OTHER INVESTMENTS IN SECURITIES

	30th June, 2004 HK\$'000	31st December, 2003 HK\$'000
Listed equity securities, at market value:		
Hong Kong	450,652	274,979
Overseas	40,097	10,503
	490,749	285,482
Debt securities:		
Listed, at market value:		
Hong Kong	–	8,441
Overseas	249,638	287,614
Unlisted, at fair value	149,961	211,800
	399,599	507,855
Investment fund:		
Listed overseas, at market value	208,477	–
Unlisted, at fair value	213,390	240,553
	421,867	240,553
	1,312,215	1,033,890
An analysis of the issuers of other investments in securities is as follows:		
Equity securities:		
Public sector entities	3,850	8,862
Banks and other financial institutions	93,043	123,220
Corporate entities	393,856	153,400
	490,749	285,482
Debt securities:		
Central governments and central banks	8,940	16,948
Banks and other financial institutions	117,732	199,957
Corporate entities	215,001	275,702
Other	57,926	15,248
	399,599	507,855

NOTES TO THE INTERIM FINANCIAL STATEMENTS *(continued)*

10. DEBTORS, PREPAYMENTS AND DEPOSITS

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

	30th June, 2004 HK\$'000	31st December, 2003 HK\$'000
Outstanding balances with ages:		
Repayable on demand	40,865	274,775
Within 30 days	43,843	10,313
Between 31 and 60 days	-	238
Between 61 and 90 days	-	400
Between 91 and 180 days	-	839
Over 180 days	-	11,887
	84,708	298,452

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.

Outstanding balances with ages over 180 days in prior year include claims receivable in respect of the Group's insurance underwriting business which is broadly consistent with the claims payable included in the trade creditors of the Group. During the period, the Group disposed of such insurance underwriting business, which did not have significant impact on the net asset value or the profit and loss account of the Group.

11. SHARE CAPITAL

	30th June, 2004 HK\$'000	31st December, 2003 HK\$'000
Authorised:		
2,000,000,000 (31st December, 2003 – 2,000,000,000) ordinary shares of HK\$1.00 each	2,000,000	2,000,000
Issued and fully paid:		
1,346,829,094 (31st December, 2003 – 1,346,829,094) ordinary shares of HK\$1.00 each	1,346,829	1,346,829

NOTES TO THE INTERIM FINANCIAL STATEMENTS *(continued)*

12. RESERVES

	Share premium account <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Legal reserve <i>(Note (c))</i> <i>HK\$'000</i>	Investment property revaluation reserve <i>HK\$'000</i>	Distributable reserves <i>(Note (b))</i> <i>HK\$'000</i>	Exchange equalisation reserve <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January, 2004	50,988	11,760	845	–	1,424,272	(13,371)	1,474,494
Surplus on revaluation of investment properties	–	–	–	2,626	–	–	2,626
Transfer of reserve	–	–	1,208	–	(1,208)	–	–
Exchange differences on consolidation	–	–	–	–	–	227	227
Loss for the period	–	–	–	–	(48,716)	–	(48,716)
2003 final distribution, declared and paid	–	–	–	–	(40,405)	–	(40,405)
At 30th June, 2004	<u>50,988</u>	<u>11,760</u>	<u>2,053</u>	<u>2,626</u>	<u>1,333,943</u>	<u>(13,144)</u>	<u>1,388,226</u>

Note:

- (a) Cancellation of share premium account and transfer to distributable reserves

Pursuant to a special resolution passed at a special general meeting of the Company on 2nd December 1997, the entire amount standing to the credit of the share premium account of HK\$3,630,765,000 was cancelled (the "Cancellation"). The credit arising from the Cancellation was transferred to distributable reserves. The balance of the reserves arising from the Cancellation could be applied towards any capitalisation issues of the Company in future, or for making distributions to shareholders of the Company.

- (b) Distributable reserves of the Group at 30th June, 2004 comprise accumulated losses of HK\$53,531,000 (31st December, 2003 – HK\$3,607,000) and the remaining balance arising from the Cancellation of HK\$1,387,474,000 (31st December, 2003 – HK\$1,427,879,000).
- (c) Legal reserve represents the part of reserve generated by a banking subsidiary of the Company which may only be distributable in accordance with certain limited circumstances prescribed by the statute of the country in which the subsidiary operates.

NOTES TO THE INTERIM FINANCIAL STATEMENTS *(continued)*

13. BANK LOANS

	30th June, 2004 HK\$'000	31st December, 2003 HK\$'000
Repayable within one year:		
Secured (<i>Note</i>)	93,518	–
Unsecured	15,000	10,000
	108,518	10,000

Note: The bank loan of HK\$93,518,000 as at 30th June, 2004 was secured by certain securities owned by the Group.

14. CREDITORS AND ACCRUALS

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

	30th June, 2004 HK\$'000	31st December, 2003 HK\$'000
Outstanding balances with ages:		
Repayable on demand	385,909	691,367
Within 30 days	47,884	70,503
Between 31 and 60 days	–	207
Between 61 and 90 days	–	696
Between 91 and 180 days	–	3,810
Over 180 days	–	13,703
	433,793	780,286

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)*

15. 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 <i>HK\$'000</i>	3 months or less <i>HK\$'000</i>	1 year or less but over 3 months <i>HK\$'000</i>	5 years or less but over 1 year <i>HK\$'000</i>	After 5 years <i>HK\$'000</i>	Undated <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 30th June, 2004							
Assets							
Debt securities:							
Investment securities	-	-	-	2,248	-	3,165	5,413
Other investments in securities	-	3,120	15,246	238,255	88,172	54,806	399,599
Loans and advances	86,961	4,231	-	13,209	-	-	104,401
Client trust bank balances	56,763	308,361	-	-	-	-	365,124
Cash and bank balances	93,706	800,330	-	-	-	-	894,036
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
	<u>349,821</u>	<u>1,208,192</u>	<u>35,401</u>	<u>290,827</u>	<u>115,606</u>	<u>57,971</u>	<u>2,057,818</u>
Liabilities							
Bank loans	-	15,000	93,518	-	-	-	108,518
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
	<u>16,308</u>	<u>120,015</u>	<u>98,166</u>	<u>1,455</u>	<u>-</u>	<u>-</u>	<u>235,944</u>

NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

15. 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							
Assets							
Debt securities:							
Investment securities	-	-	-	2,248	-	3,165	5,413
Other investments in securities	5,486	52,694	23,610	346,732	79,333	-	507,855
Loans and advances	91,888	-	-	-	-	-	91,888
Client trust bank balances	207,923	222,635	-	-	-	-	430,558
Cash and bank balances	148,965	1,186,151	-	-	-	-	1,335,116
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 securities	-	-	-	-	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>698,976</u>	<u>1,964,242</u>	<u>34,028</u>	<u>352,220</u>	<u>107,326</u>	<u>12,076</u>	<u>3,168,868</u>
Liabilities							
Bank loans	-	10,000	-	-	-	-	10,000
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>102,381</u>	<u>7,515</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>676,290</u>

NOTES TO THE INTERIM FINANCIAL STATEMENTS *(continued)*

16. CONTINGENT LIABILITIES

At the balance sheet date, the Group had the following contingent liabilities relating to its banking subsidiary:

	30th June, 2004	31st December, 2003
	HK\$'000	HK\$'000
Guarantees and other endorsements	12,986	11,337
Liabilities under letters of credit on behalf of customers	38,628	28,736
	<u>51,614</u>	<u>40,073</u>

17. CAPITAL COMMITMENTS

The Group had the following commitments at the balance sheet date:

	30th June, 2004	31st December, 2003
	HK\$'000	HK\$'000
Other capital commitments:		
Contracted, but not provided for	<u>160,196</u>	<u>66,582</u>

18. RELATED PARTY TRANSACTIONS

- (a) During the period, Lippo Securities Holdings Limited ("LSHL") being a wholly-owned subsidiary of the Company, paid rental expenses of HK\$1,156,000 (2003 – HK\$1,260,000) to Prime Power Investment Limited, being a fellow subsidiary of the Company, in respect of office premises occupied by LSHL. The rental was determined by reference to open market rentals.
- (b) During the period, the Company and ImPac Asset Management (HK) Limited ("ImPac"), now a wholly-owned subsidiary of the Company, paid rental expenses of HK\$364,000 (2003 – HK\$364,000) and HK\$116,000 (2003 – HK\$116,000) to Porbandar Limited, being a fellow subsidiary of the Company, in respect of office premises occupied by the Company and ImPac, respectively. The rental was determined by reference to open market rentals.
- (c) As at 30th June, 2004, the Group had amounts due from associates in a total of HK\$3,346,000 (31st December, 2003 – HK\$1,180,000). The balances with the associates are unsecured, interest-free and have no fixed terms of repayment.

SUPPLEMENTARY FINANCIAL INFORMATION

Management of risks

The Group had 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.

(a) Credit risk

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

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

The Group had established guidelines to ensure that all new debt investments were properly made, taking into account 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.

(b) Liquidity risk

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

Management comprising 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.

(c) Interest rate risk

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

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

SUPPLEMENTARY FINANCIAL INFORMATION *(continued)*

Management of risks *(continued)*

(d) Foreign exchange risk

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

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

(e) Market risk

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

Market risk limits were approved by the Directors of the Group. Actual positions were compared with approved limits and monitored regularly by the 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

During the first half of 2004, the Group continued to strengthen its existing core businesses and cautiously sought new market opportunities that were in line with its long term growth strategy. Entering 2004, the Group took advantage of the improving global and local market conditions and realised part of its investment portfolio at profit. The performance of its securities broking business also improved. As a result, total turnover for the period jumped significantly to HK\$762 million (2003 – HK\$232 million), representing a three-fold increase. However, the second quarter generally saw a less conducive environment for securities investments, which affected the performance of the investments held by the Group causing an unrealised loss on other investments in securities of HK\$72.5 million (2003 – gain of HK\$28.5 million). In the result, the Group recorded a net loss attributable to shareholders of HK\$48.7 million for the six months ended 30th June, 2004 (2003 – profit of HK\$44.2 million).

Results for the period

Turnover for the first six months of 2004 totalled HK\$762 million which was 228 per cent. higher than the HK\$232 million recorded for the same period of 2003. Turnover attributable to treasury and securities investments increased by 277 per cent. whilst turnover attributable to corporate finance and securities broking business and to banking business increased by 63 per cent. and 40 per cent. respectively.

Treasury and securities investments

In 2003, the Group had responded to declining deposit rates by diversifying into higher yielding bonds and equity investments. Entering 2004, the Group took advantage of the improving 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 took 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\$22.2 million (2003 – profit of HK\$63.0 million). Notwithstanding the volatility of the investment markets, the bond portfolio continued to contribute high and stable interest income to the Group.

Corporate finance and securities broking

A year ago, the outbreak of SARS drastically cut down most economic activities with local stock market remaining stagnant over the first half of 2003. With a strong rebound since the second half of 2003, the Group's corporate finance and securities broking business had benefited, which registered a profit of HK\$2.6 million during the first half of 2004, in contrast to a loss of HK\$2 million for the same period last year.

Banking business

The Group's banking business continued to generate stable income to the Group. This segment achieved a profit of HK\$3.8 million (2003 – HK\$1 million), being 272 per cent. higher than for the same period in 2003.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Others

Convoy Group, a 23 per cent. interest associate of the Company and one of the largest independent financial planning service groups in Hong Kong, also registered a substantial increase in profit. The Group further increased its stake to 34 per cent. during the period.

In addition, 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 Mainland 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.

Financial position

As at 30th June, 2004, the Group's total assets amounted to HK\$3.35 billion (31st December, 2003 – HK\$3.68 billion). To enhance the investment yield during this period of low interest rates, the Group increased its investment portfolio to HK\$1.5 billion (31st December, 2003 – HK\$1.2 billion), comprising debt securities of HK\$0.41 billion (31st December, 2003 – HK\$0.51 billion), equity securities of HK\$0.66 billion (31st December, 2003 – HK\$0.45 billion) and investment funds of HK\$0.43 billion (31st December, 2003 – HK\$0.24 billion). As most of the assets were denominated in Hong Kong and United States dollars, the Group's exposure to exchange rate risk was not material. Where appropriate, hedging instruments including forward contracts, swaps and currency loans were used. The Group will remain alert to the changing global conditions which might affect the exchange rate exposure.

At the end of June 2004, total bank loans increased to HK\$109 million (31st December, 2003 – HK\$10 million), mainly due to a new loan for a sum of HK\$93.5 million drawn down during the period. It was secured by certain securities owned by the Group and carried interest at a rate of 1.7 per cent. per annum. Therefore, although total bank loans increased substantially, finance costs only increased by HK\$0.2 million. The remaining loans were unsecured (31st December, 2003 – unsecured). All bank loans are denominated in United States dollars or Hong Kong dollars, repayable within one year and carrying interest at floating rates. Gearing ratio (total borrowings to shareholders' funds) was minimal and stood at 3.97 per cent. (31st December, 2003 – 0.35 per cent.). Notwithstanding the increase in bank loans, the Group's financial position remained strong with current ratio rising to 4.8 to 1 (31st December, 2003 – 3.9 to 1).

Taking into account the 2003 final distribution of HK\$0.03 per share made to the shareholders in June 2004 and the net loss for the period, the net asset value of the Group reduced slightly to HK\$2.74 billion (31st December, 2003 – HK\$2.82 billion), equivalent to HK\$2.03 (31st December, 2003 – HK\$2.09) per share.

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

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Staff and remuneration

The Group had approximately 163 employees as at 30th June, 2004 (2003 – 130 employees). Staff levels were managed in line with business needs and market opportunities. Total staff costs amounted to HK\$33.7 million (2003 – HK\$32.8 million). The Group ensures that its employees are offered competitive remuneration packages. The Group does not have any share option scheme for its employees.

Outlook

In light of the instability and uncertainties in the global economic conditions, the operating environment remains challenging. While dedicating to improving internal operational efficiencies, the Group will continue to refine its existing core businesses and respond to new investment opportunities with long term growth potential. 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

The economy of Hong Kong continued to improve in the first half of 2004, continuing the rebound that began in the third quarter of last year. Favoured by rising business and consumer confidence, lower unemployment rate and increasing consumer spending, local economy recorded a strong growth in the first half of 2004. However, the fluctuating global and local securities markets during the period have created a challenging investment environment. In China, the macro-economic tightening measures also provided a dampening effect on an overheated economy.

The Group recorded an unaudited 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 in the first six months of 2003. The loss was mainly attributable to the downturn in the global investment market in the second quarter of 2004 following firm indications that interest rate would begin to rise. The Group undertook 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 the Company, 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 had 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 the Company, continued to be a net income contributor to the 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. Reflecting the improving economy, business turnover picked up and the quality of MCB’s loan book further improved. The convenient location of Macau will open up opportunities for MCB to extend its financial services into China Mainland, especially in the Pearl River Delta region. To prepare for the expansion, 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 headquarter.

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

The Group continues to explore new market opportunities and income sources and seek potential acquisition and alliance opportunities that are in line with its long term growth strategy.

As announced earlier, a wholly-owned subsidiary of the Company 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 Group’s capital commitment for the Project is US\$19.2 million. It is anticipated that the Project will commence in or about December 2004. The Project is located in the only state-level economic-technological development area in Beijing and approximately ten miles south east of Beijing city center. A number of the Fortune 500 companies and multinational corporations have presence in the neighbourhood and the Group sees significant long term potential of the Project especially in the run up to the 2008 Olympics which will be held in Beijing.

BUSINESS REVIEW AND PROSPECTS *(continued)*

Prospects

The general prospects for the Hong Kong economy for the remainder of 2004 look promising. The official GDP growth forecast for 2004 has been revised upwards to 7.5 per cent. which is a significant improvement over 2003. The cycle of deflation for the past few years has come to an end with the consumer price index ("CPI") rising 0.9 per cent. in July which was the first year-on-year rise in the CPI since November 1998. Buoyant exports and the revival in consumer spending is expected to support the local economy during the rest of the year. The extension of the Individual Visitors Scheme and recent signing of Phase 2 of the Closer Economic Partnership Arrangement with China Mainland will provide further momentum to local economic growth. While the general prospects look good, there are some lurking uncertainties on the global front, in particular, those concerns about the pace of economic growth in the United States, possible interest rate rises, high oil prices and slowing down of the Mainland economy.

Overall, we maintain an optimistic outlook for the Group's business in the future. With its strong and healthy financial position, the Group is in an excellent position to benefit from any further pick up in business activities and economic growth in the Pearl River Delta region as well as other parts of China Mainland. The Group will continue to explore suitable investment opportunities, especially in the financial and investment sectors. Management will continue to adopt a cautious and prudent approach when assessing new investment opportunities.

ADDITIONAL INFORMATION

Interim distribution

The Directors have resolved to declare the payment of an interim distribution of HK1.5 cents (2003 – HK1.5 cents) per share for the six months ended 30th June, 2004, which will be paid on Thursday, 21st October, 2004 to the shareholders whose names appear on the Company's Register of Members on Thursday, 14th October, 2004.

Closure of Register of Members

The Register of Members of the Company will be closed from Thursday, 7th October, 2004 to Thursday, 14th October, 2004 (both dates inclusive) during which period no transfers of shares will be registered. In order to qualify for the interim distribution for the six months ended 30th June, 2004, all transfers of shares accompanied by the relevant share certificates and transfer forms must be lodged with Tengis Limited, the Company's Branch Registrars in Hong Kong, at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:30 p.m. on Wednesday, 6th October, 2004. Warrants in respect of the interim distribution will be dispatched to the shareholders on or about Thursday, 21st October, 2004.

ADDITIONAL INFORMATION *(continued)*

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

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

Name of Director	Personal interests (held as beneficial owner)	Family interests (interest of spouse)	Other interests	Total interests	Approximate percentage of total interests in the issued share capital
Number of ordinary shares of HK\$1.00 each in the Company					
Mochtar Riady	-	-	987,730,440 <i>(Note 1)</i>	987,730,440	73.34
Stephen Riady	-	-	987,730,440 <i>(Note 1)</i>	987,730,440	73.34
John Lee Luen Wai	200	200	-	400	0.00
Number of ordinary shares of HK\$0.10 each in Lippo Limited ("Lippo")					
Mochtar Riady	-	-	248,697,776 <i>(Notes 1 & 2)</i>	248,697,776	57.34
Stephen Riady	-	-	248,697,776 <i>(Notes 1 & 2)</i>	248,697,776	57.34
John Lee Luen Wai	825,000	-	-	825,000	0.19
Number of ordinary shares of HK\$0.10 each in Lippo China Resources Limited ("LCR")					
Mochtar Riady	-	-	6,544,696,389 <i>(Notes 1, 2 & 3)</i>	6,544,696,389	71.13
Stephen Riady	-	-	6,544,696,389 <i>(Notes 1, 2 & 3)</i>	6,544,696,389	71.13

ADDITIONAL INFORMATION *(continued)*

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

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

Note:

- 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, was indirectly interested in 987,730,440 ordinary shares of HK\$1.00 each in, representing approximately 73.34 per cent. of, the issued share capital of the Company. 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 include Dr. Mochtar Riady, Mr. Stephen Riady and their respective family members including, inter alia, the minor children of Mr. Stephen Riady. Dr. Mochtar Riady as the founder and beneficiary of the trust and Mr. Stephen Riady (together with his minor children) as beneficiaries of the trust were taken to be interested in Lippo Cayman under the SFO.
- As at 30th June, 2004, Lippo Cayman, 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.
- 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 LCR.

As at 30th June, 2004, Dr. Mochtar Riady, as founder and beneficiary of the aforesaid discretionary trust, and Mr. Stephen Riady (together with his minor children), as beneficiaries of the aforesaid discretionary trust, through their interests in Lippo Cayman as mentioned in Note 1 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 interest in the issued share capital
Abital Trading Pte. Limited	Ordinary shares	2	100
AcrossAsia Multimedia Limited (now known as AcrossAsia Limited) ("AcrossAsia")	Ordinary shares	3,669,576,788 (Note a)	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 (Note b)	88.88
First Bond Holdings Limited	Ordinary shares	1	100

ADDITIONAL INFORMATION *(continued)*

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

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

Name of associated corporation	Class of shares	Number of shares interested	Approximate percentage of interest in the issued share capital
First Tower Corporation	Ordinary shares	1 <i>(Note c)</i>	100
Glory Power Worldwide Limited	Ordinary shares	1	100
Grandhill Asia Limited	Ordinary shares	1	100
Grand Peak Investment Limited	Ordinary shares	2	100
Greenroot Limited	Ordinary shares	1 <i>(Note d)</i>	100
HKCL Holdings Limited	Ordinary shares	50,000 <i>(Note e)</i>	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
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 <i>(Note f)</i>	100
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 <i>(Note e)</i>	74.80
Valencia Development Limited	Ordinary shares	800,000	100
	Non-voting deferred shares	200,000	100
Welux Limited	Ordinary shares	1	100

ADDITIONAL INFORMATION *(continued)*

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

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

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 interest was held by LCR, a 71.13 per cent. owned subsidiary of Lippo which in turn was a 57.34 per cent. owned subsidiary of Lippo Cayman.
- e. The interests were held through LCR, a 71.13 per cent. owned subsidiary of Lippo which in turn was a 57.34 per cent. owned subsidiary of Lippo Cayman.
- f. The interests were held through Lippo, a 57.34 per cent. owned subsidiary of Lippo Cayman.

As at 30th June, 2004, Mr. Stephen Riady, as beneficial owner, was directly interested in 5 ordinary shares of HK\$1.00 each in, representing 25 per cent. of, the issued share capital of Lanius which was the registered shareholder of 10,000,000 ordinary shares of US\$1.00 each in, representing 100 per cent. of, the issued share capital of Lippo Cayman. Lanius was the trustee of a discretionary trust, of which Dr. Mochtar Riady is the founder and beneficiary. The beneficiaries of the trust also include, inter alia, Mr. Stephen Riady and his 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 Lee Luen Wai, 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, an associated corporation (within the meaning of Part XV of the SFO) of the Company.

As at 30th June, 2004, Mr. Kor Kee Yee, through the interest of his spouse, was taken to be interested in 1,000,000 ordinary shares of HK\$1.00 each in, representing 5 per cent. of, the issued share capital of TechnoSolve Limited, an associated corporation (within the meaning of Part XV of the SFO) of the Company.

ADDITIONAL INFORMATION *(continued)*

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

(b) Interests in underlying shares of the Company's associated corporation

As at 30th June, 2004, Mr. John Lee Luen Wai, as beneficial owner, held 1,500,000 options granted to him on 23rd June, 1997 at a consideration of HK\$1.00 under the Share Option Scheme for Employees adopted by LCR (the "LCR Share Option Scheme"). Such options vested after two months from the date when the options were deemed to be granted and accepted and are exercisable from 23rd August, 1997 to 23rd June, 2007 in accordance with the rules of the LCR Share Option Scheme to subscribe for ordinary shares in LCR at an initial exercise price of HK\$5.30 per share (subject to adjustment). Pursuant to the bonus issue of new shares in the ratio of one for one in October 1997, the rights issue of new shares in July 1999 on the basis of one rights share for every one share held and the rights issue of new shares in November 2000 on the basis of one rights share for every two shares held, the holder of each option is entitled to subscribe for six ordinary shares of HK\$0.10 each in LCR at an exercise price of HK\$0.883 per share (subject to adjustment). Accordingly, Mr. John Lee Luen Wai is entitled to subscribe for 9,000,000 ordinary shares in, representing approximately 0.09 per cent. of, the issued share capital of LCR. None of the options were exercised by Mr. John Lee Luen Wai since they were granted and the quantity of options held by him as at 30th June, 2004 remained unchanged.

The above interest in the underlying shares of LCR 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).

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 SFO

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 SFO as follows:

Interests of substantial shareholders in shares of the Company

Name	Number of ordinary shares of HK\$1.00 each	Approximate percentage of the issued share capital
HKCL Holdings Limited ("HKCL Holdings")	821,146,440	60.97
LCR	987,730,440	73.34
Lippo	987,730,440	73.34
Lippo Cayman	987,730,440	73.34
Lanius	987,730,440	73.34
Madam Lidya Suryawaty	987,730,440	73.34

Note:

1. HKCL Holdings, the immediate holding company of the Company, as beneficial owner, held 821,146,440 ordinary shares in the Company.
2. LCR's interests in the shares of the Company included the interest of HKCL Holdings which was held by LCR through Greenroot Limited, a wholly-owned subsidiary of LCR. LCR, as beneficial owner, directly held 166,584,000 ordinary shares in, representing approximately 12.37 per cent. of, the issued share capital of the Company.
3. Lippo was an intermediate holding company of LCR which was held by Skyscraper Realty Limited as to approximately 71.13 per cent., which in turn was wholly owned by First Tower Corporation, a wholly-owned subsidiary of Lippo.
4. Lippo Cayman was the holding company of Lippo through direct holding and through wholly-owned subsidiaries, one of which was Lippo Capital Limited which controlled an approximate 50.47 per cent. interest in Lippo.
5. 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 include 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.
6. LCR's interests in the shares of the Company were recorded as the interests of Lippo, Lippo Cayman, Lanius and Madam Lidya Suryawaty. The above 987,730,440 ordinary shares in the Company related to the same block of shares that Dr. Mochtar Riady and Mr. 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 or other persons (other than the 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)*

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 (the "Code") as set out in Appendix 14 of the Listing Rules. The existing members of the Committee are Messrs. Leon Chan Nim Leung and Albert Saychuan Cheok, 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

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 30th June, 2004, in compliance with the Code as set out in Appendix 14 of the Listing Rules, 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 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 Bye-laws of the Company.

Model Code for Securities Transactions by Directors

The Board of Directors of the Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as the code for securities transactions by Directors of the Company. Having made specific enquiry of all Directors, the Directors have complied with the required standard as set out in the Model Code throughout the six months ended 30th June, 2004.

By Order of the Board
Hongkong Chinese Limited
John Lee Luen Wai
Director

Hong Kong, 22nd September, 2004