

HH HOPEWELL HOLDINGS LIMITED
合和實業有限公司

2002-2003 INTERIM REPORT 二零零二至二零零三年 中期報告

Financial Highlights

- Net profit increased 8% to HK\$178 million
- Combined Joint Ventures' toll revenue increased 10% to RMB1,400 million
- Earnings per share increased 8% to HK20.4 cents
- Interest coverage improved from 1.6x to 2.6x
- Interim dividend of HK7 cents per share

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Group Results

For the six months ended 31st December, 2002, the Group's turnover by activities and their respective earnings before interest and tax are reported as follows:

| (HK\$ million) | Turnover | | Earnings before interest and tax | |
|--|----------|------|----------------------------------|------|
| | 2001 | 2002 | 2001 | 2002 |
| Infrastructure project investment | | | | |
| – Operating | – | – | 192 | 267 |
| – Financing & other activities | 178 | 37 | 178 | 37 |
| Property letting, agency & management | 177 | 167 | 123 | 112 |
| Hotel operations, restaurant & catering | 128 | 131 | 17 | 23 |
| Construction & project management | 124 | 112 | 10 | (34) |
| Other activities | 20 | – | 21 | 74 |
| | 627 | 447 | 541 | 479 |
| Administrative expenses | | | (25) | (28) |
| Earnings before interest and tax (<i>Note 1</i>) | | | 516 | 451 |

| (HK\$ million) | Results | |
|----------------------------------|---------|-------|
| | 2001 | 2002 |
| Earnings before interest and tax | 516 | 451 |
| Finance costs | (338) | (233) |
| Taxation | (9) | (34) |
| Minority interests | (4) | (6) |
| Net profit | 165 | 178 |
| | 2001 | 2002 |
| Earnings per share (HK cents) | 18.9 | 20.4 |

Notes:

- (1) Earnings before interest and tax is a) the sum of profit from operations of HK\$117 million (2001: HK\$277 million); and b) the share of results of jointly controlled entities and associates totalling HK\$334 million (2001: HK\$239 million).
- (2) Condensed Financial Statements are presented on pages 17 to 28.

The Group's turnover for the six months ended 31st December, 2002 decreased by 29% from HK\$627 million to HK\$447 million when compared to the same period of last year. Since the equity accounting method is adopted, turnover attributable to the Group from the PRC Joint Ventures (the "Joint Ventures") has not been accounted for in the Group's turnover. Total gross turnover of the Joint Ventures amounted to RMB1,400 million for the six months ended 31st December, 2002, representing a 10% increase from the same period of the previous year.

The Group's earnings before interest and tax ("EBIT") decreased by 13% from HK\$516 million to HK\$451 million compared to the same period of last year largely due to a decrease of HK\$137 million interest income to the Group after the repayment during 2002 of a substantial amount of the advances made by the Group to one of the joint ventures operating in the PRC. Proceeds received were applied to effect defeasance and repayment of the Group's fixed rate unsecured Notes due 2004 and 2007. Under the equity accounting method, the Group's attributable share of results from the Joint Ventures are reflected in the Group's results. This amount increased by 40% from HK\$218 million to HK\$305 million for the periods compared.

The Group reported an unaudited net profit of HK\$178 million, an 8% increase compared with HK\$165 million of the last corresponding period. Lower finance costs (HK\$233 million compared to HK\$338 million) due to the lower interest rate environment and the redemption of the Group's unsecured Notes due 2007, partially offset by a one-off charge related to the redemption cost of such Notes (HK\$44 million), contributed to this increase.

Interim Dividend and Close of Register

The Board of Directors has resolved to pay an interim dividend of HK7 cents (2002: HK6 cents) in respect of the financial year ending 30th June, 2003 per ordinary share. The dividend will be paid on or about 27th March, 2003 to those shareholders as registered at the close of business on 21st March, 2003. The register of members of the Company will be closed from 18th March, 2003 to 21st March, 2003, both days inclusive, during which no transfer of shares will be effected. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Registrars, Computershare Hong Kong Investor Services Limited at Shops 1712-16, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on 17th March, 2003.

Business Review

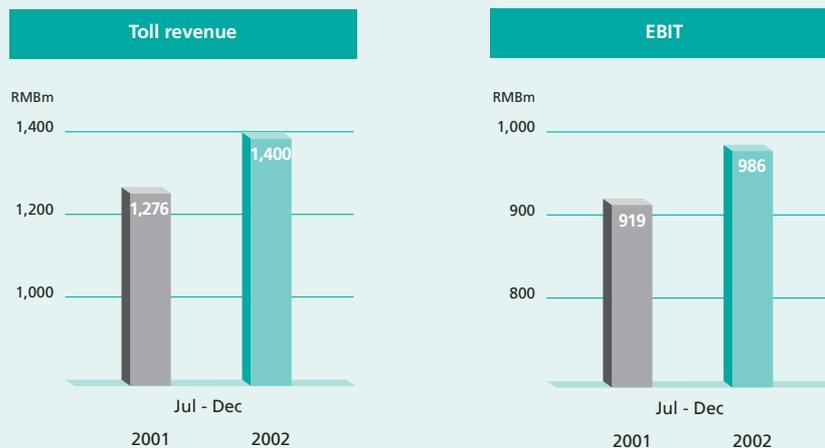
Infrastructure

The Group has invested in five toll road projects in the Pearl River Delta region of the Guangdong Province, four of which are in operation.

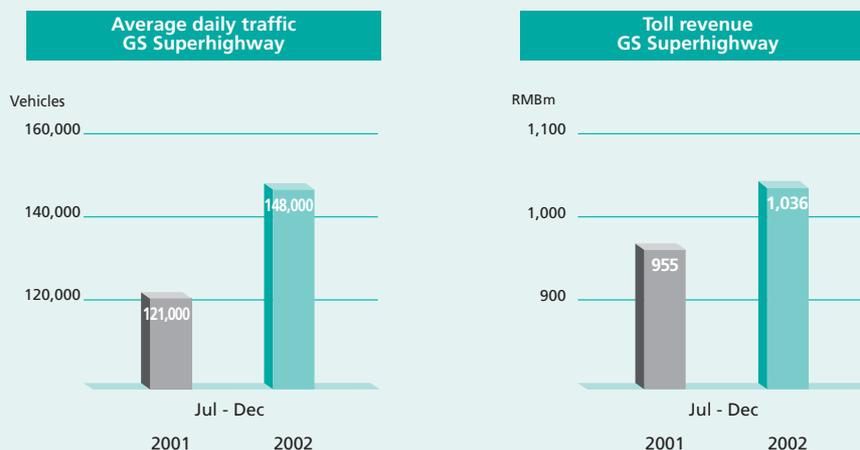
The infrastructure business continued to register traffic and revenue growth largely due to the consistently rapid growth in the Pearl River Delta region. As seen in the charts below, for the periods between July to December 2001 and July to December 2002, the toll revenue of all the operating projects increased by 10% and EBIT increased by 7%.

Share of results of Joint Ventures represented 68% (2001: 42%) of the Group's EBIT for the current period while interest income from Joint Ventures represented 7% (2001: 33%) of the Group's EBIT due to the repayment during 2002 of a substantial amount of advances made by the Group to one of the Joint Ventures.

The combined Joint Ventures' toll revenue and EBIT were as follows:



Guangzhou-Shenzhen Superhighway (GS Superhighway)



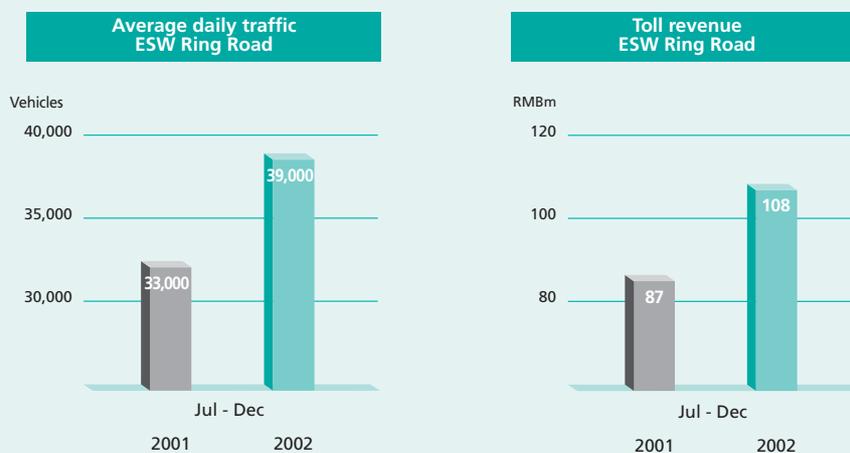
The GS Superhighway is the principal expressway linking the three major cities of Guangzhou, Dongguan and Shenzhen. During the review period, the average daily traffic flow reached 148,000 vehicles, an increase of 22% compared to the last corresponding period while toll revenue increased by 9% to RMB1,036 million.

The increase in traffic growth was largely due to the consistently rapid growth in the Guangdong Province. As GDP for the province has been increasing, so has the flow of passenger and goods vehicles in the region. The Group believes that due to these factors, traffic will continue to increase on this key superhighway.

In order to facilitate the growth in traffic, the joint venture company will widen a 3km stretch of the GS Superhighway from Huangtian to Hezhou to dual four-lane and has been adding additional toll lanes.

Providing an efficient, safe and comfortable driving environment remains a top priority to the Group. A 38km stretch of the main alignment of the GS Superhighway is now substantially resurfaced.

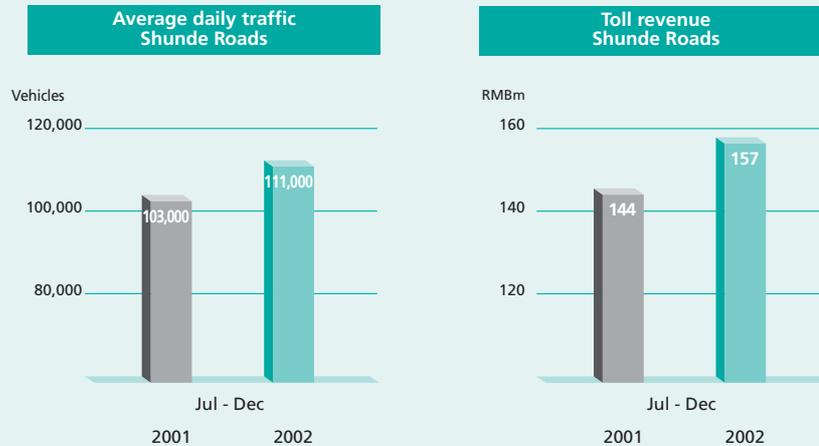
Guangzhou East-South-West Ring Road (ESW Ring Road)



The ESW Ring Road is an expressway surrounding the downtown of Guangzhou. During the past six months, the average daily traffic reached 39,000 vehicles, an increase of 18% over the last corresponding period. Toll revenue grew by 24% to RMB108 million.

Regulations implemented to (i) restrict goods vehicles from entering Guangzhou at certain times; and (ii) impose a fee for non-Guangzhou vehicles for entering Guangzhou have contributed to increased traffic on the ESW Ring Road.

Shunde Roads



The Shunde Roads is a core road network in Shunde municipality. In the review period, the average daily traffic flow of the Shunde Roads reached 111,000 vehicles, an increase of 8% compared to the same period of last year. Toll revenue increased by 9% to reach RMB157 million.

Shunde 105 Road



Shunde 105 Road is another major route in Shunde municipality. The average daily traffic of the Shunde 105 Road reached 111,000 vehicles for the six months ended 31st December, 2002, an increase of 9% over the same period of last year. Toll revenue increased 10% to RMB99 million. The Zhongshan section of National Trunk 105 is currently being widened to become a dual-three lane highway. This improved through-traffic is expected to generate more traffic to the Shunde 105 Road.

Guangzhou-Zhuhai West Superhighway Phase I

The Guangzhou-Zhuhai West Superhighway Phase I will be a 14.7 km closed system dual three lane expressway fulfilling the strategic need for a high speed link between

Guangzhou and Shunde. The route will start from the Hainan interchange of the ESW Ring Road in Guangzhou and will pass through Nanhai and Shunde. The project cost for Phase I is estimated to be RMB1,680 million, which is largely funded by Renminbi project financing and the Group owns a 50% interest in this project. Construction work on this phase during the period is on schedule and is expected to be completed and open for traffic in 2004.

Property

Amid the weak economic environment and ample supply of office space in Hong Kong, the commercial leasing market experienced considerable pressure. Under these weak market conditions, Hopewell Centre's average occupancy rate fell to 91%, a decrease of 4% over the six-month comparable period of last year, with the shopping arcade 99% leased. The average rental rate, however, improved slightly.

Hongkong International Trade and Exhibition Centre (HITEC) recorded an average occupancy rate of 65%, a decline of 2% compared to the same period of last year. Following the approval by Town Planning Board of the change of use of the building, the Group is in discussion with East Kowloon District Land Office on the terms of the lease modification relating to the usage for commercial purposes. The procedures are expected to be completed and the lease modified by early 2004.

During the period from July to December 2002, the property business accounted for 25% of the Group's earnings before interest and tax.

Hospitality

The Group's Hospitality division benefited from the increase in visitors from the mainland. As a result, Panda Hotel registered better performance in room rentals with an average occupancy rate of 83%, an increase of 9% compared to last year. The average room rate increased compared to the period before.

The average occupancy rate of China Hotel was 81%, an increase of 6% as compared to the same period of last year.

The food and beverage business operated under a weak consumption market. Since the Group has been very active in controlling the operational overheads and service quality, the division was able to make a slight profit during the period.

The division accounted for 5% of the Group's earnings before interest and tax.

Construction

The Group is currently undertaking a sub-contract for the construction of a 55-storey office block in Mongkok employing the 'slip-climbform' building method. During the period, the Group was also awarded a sub-contract for an office tower project in Kwun Tong, again using the 'slip-climbform' construction method.

Construction works of the several government school projects were completed during the review period. Due to subcontractors' default, additional costs were incurred to complete the project, resulting in a loss. The Group has provided for this loss in full.

Others

The Group continued discussions with the Thai Government over the Bangkok Elevated Road and Train System in an effort to reach an amicable resolution.

Progress has been made with the relevant parties responsible for Tanjung Jati B Power Station on the negotiation to reach a resolution to dispose of the project and recoup part of the Group's investment.

Financial Review

The Group's financial position remains strong, with a large capital base and low debt leverage. At 31st December, 2002, the Group's total shareholders' funds was HK\$13,650 million, after taking into account the HK\$324 million cash distribution to shareholders including a special dividend declared in 2002.

On 15th August, 2002, the Group redeemed in advance its US dollar denominated unsecured Notes due 2007 of US\$372 million bearing a fixed interest rate of 10 $\frac{1}{4}$ % per annum. In addition, the Group also repaid, by way of covenant defeasance, US dollar denominated unsecured Notes due 2004 of US\$194 million bearing a fixed interest rate of 9 $\frac{7}{8}$ % per annum. As a result, the Group's borrowings, excluding Notes due 2004, was HK\$3,507 million on 31st December, 2002.

Apart from the Notes due 2004, the majority of the Group's borrowings carry interest at floating rates and are denominated in Hong Kong Dollars.

The Group has sufficient financial resources to fund its operations and present investment projects. On 31st December, 2002, the Group's net debt was HK\$3,328 million. The majority of the banking facilities of the Group were secured by mortgages over the Group's investment properties, bank deposits and other assets with an aggregate carrying value of HK\$6,775 million.

The Group's capitalization structure is shown as follows:

| | At 30th June, 2002 (HK\$ million) | At 31st December, 2002 (HK\$ million) |
|--|--|--|
| Equity | 13,794 | 13,650 |
| Total net debt | 2,950 | 3,328 |
| Total capitalization | 21,304 | 18,670 |
| Total net debt vs total capitalization | 14% | 18% |
| Total net debt vs equity | 21% | 24% |

The maturity profile of the Group's borrowings at 31st December, 2002 as compared with that at 30th June, 2002 is shown as follows:

| Including Notes | Within 1 year | 1-2 years | 2-5 years | Over 5 years |
|---------------------|------------------|-----------|-----------|-----------------|
| 30th June, 2002 | 44% | 5% | 44% | 7% |
| 31st December, 2002 | 14% | 42% | 34% | 10% |
| Excluding Notes | Within 1 year | 1-2 years | 2-5 years | Over 5 years |
| 30th June, 2002 | 13% | 13% | 58% | 16% |
| 31st December, 2002 | 20% | 17% | 49% | 14% |

Resultant debt (net debt after setting off interest bearing loans and receivables provided by the Group) was HK\$788 million, representing 6% of equity.

The Group continues to adopt prudent treasury policies in managing its cash resources as well as bank borrowings. With solid recurring cash flow from operations, and existing cash and bank facilities, the Group has adequate financial resources to fund its investment projects.

Prospects

With the continued economic growth in China (in particular the Pearl River Delta region) and the further integration of Hong Kong and Guangdong Province, the Group expects continuous growth in traffic in the infrastructure division.

The Guangdong provincial government has proposed to implement uniform toll rate multipliers for expressways throughout the Guangdong province by mid-2006. The Group is currently in discussion with the relevant parties on the implementation of this change.

With respect to its property business, the Group has submitted Town Planning application regarding a hotel and residential development project located next to Hopewell Centre. The Group is also currently planning commercial, residential and industrial property projects in Hong Kong and the PRC.

The Group's hotel business will continue to target mainland tourists and expects to benefit from the recent 24-hour cross border policy at Huanggang.

The Group will continue to seek opportunities in strengthening its financial position as well as exploring and capitalizing on new business opportunities (for example, logistics and other businesses) as they arise and are aligned with the Group's focus.

Changes of Directors

Mr. Victor Tzar Kuoi LI retired as a Director of the Company at the Annual General Meeting held on 17th October, 2002. With effect from 6th November, 2002, Mr. Albert Kam Yin YEUNG was appointed an Executive Director of the Company.

The Board would like to express appreciation to Mr. LI for his valuable contribution to the Company and to welcome Mr. YEUNG for joining the Board.

Disclosure of Additional Information in accordance with the Listing Rules

Acquisitions and Disposals of Subsidiaries and Associates

During the period, there was no material acquisition or disposal of the Company's subsidiaries and associates.

Employees

There were approximately 1,126 employees in the Company and its subsidiaries as at 31st December, 2002. The Company continues to provide remuneration packages to employees with reference to prevailing market practices and individual performance. Various benefits include medical and personal accident insurance coverage are also provided to employees. Different types of training programs are conducted on an ongoing basis throughout the Company and its subsidiaries. Share options may be granted at the discretion of the Board of Directors to employees as appropriate.

Audit Committee

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed on auditing, internal control and financial reporting matters including the review of the unaudited interim financial statements.

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 accounting period covered by this interim report, in compliance with the Code of Best Practice set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited.

Substantial Shareholders

Save as disclosed under the section headed "Directors' Interest in Shares and Options", as at 31st December, 2002, the Company had not been notified by any person, not being a director of the Company, of interests in the share capital of the Company required to be recorded in the register under Section 16(1) of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance").

Practice Note 19 of the Listing Rules

The Company through its subsidiaries has entered into contractual joint venture agreements and has undertaken substantial investments for development of certain infrastructure and property projects. The capital investments and advances made to the joint venture companies and associates (the "Affiliated Companies") were classified and disclosed under the headings "Interests in Jointly Controlled Entities" and "Interests in Associates" in the condensed consolidated balance sheet as at 31st December, 2002.

A proforma combined balance sheet of the Affiliated Companies as at 31st December, 2002, is presented below:

| | Combined total HK\$ million | Funds injected by the Group HK\$ million |
|---|--------------------------------|--|
| Total assets | 21,421* | |
| Financed by: | | |
| Registered capital/share capital | 2,170 | 1,418 |
| Accumulated losses | (20) | |
| | 2,150 | |
| Long term liabilities | | |
| – Advances from shareholders/joint venture partners/related companies | 8,119 | 2,770 |
| – Other long-term loans | 10,163 | |
| | 18,282 | |
| Current liabilities | 989 | 41 |
| Total equity and liabilities | 21,421* | 4,229 |

* With the exception of the investment in a property-development joint venture which is immaterial, all property, plant and equipment, including essential production facilities, will be reverted to PRC joint venture partners without compensation at the end of the joint venture co-operation period. Disclosure of the attributable interests of the Group in the assets and liabilities of the Affiliated Companies is deemed not appropriate.

Directors' Interest in Shares and Options

As at 31st December, 2002, the beneficial interests of the directors and their associates in the shares and options of the Company and its associated corporations (as defined by the SDI Ordinance) were as follows:

(a) Beneficial Interests in Shares in the Company

| Directors | Personal | Family | Corporate | Other | Total |
|-----------------------|------------|------------------|-------------|------------|-------------------|
| Gordon Ying Sheung WU | 62,443,893 | 113,730,592 (i) | 111,187,019 | 30,670,093 | 226,204,287 (iii) |
| Eddie Ping Chang HO | 19,360,000 | 246,000 | 1,980,000 | – | 21,586,000 |
| Thomas Jefferson WU | 24,333,800 | – | 810,092 | – | 25,143,892 |
| Henry Hin Moh LEE | 2,795,322 | – | – | – | 2,795,322 |
| Robert Van Jin NIEN | 100,000 | – | – | – | 100,000 |
| Guy Man Guy WU | 2,645,650 | – | – | – | 2,645,650 |
| Ivy Sau Ping KWOK WU | 21,903,282 | 204,301,005 (ii) | 61,157,217 | 30,670,093 | 226,204,287 (iii) |
| Linda Lai Chuen LOKE | – | 1,308,981 | – | – | 1,308,981 |
| David Yau-gay LUI | 8,537 | – | – | – | 8,537 |

Notes:

- (i) The family interests of 113,730,592 shares represent the interests of Lady Ivy Sau Ping KWOK WU, the wife of Sir Gordon Ying Sheung WU. This figure includes 61,157,217 shares held by the couple through corporations. Accordingly, 61,157,217 shares are duplicated in the corporate interests column.
- The figure of 113,730,592 shares also includes 30,670,093 shares which are held by the couple in joint name. Accordingly, 30,670,093 shares are duplicated in the other interests column.
- (ii) The family interests of 204,301,005 shares represent the interests of Sir Gordon Ying Sheung WU, the husband of Lady Ivy Sau Ping KWOK WU. This figure includes 61,157,217 shares held by the couple through corporations. Accordingly, 61,157,217 shares are duplicated in the corporate interests column.
- The figure of 204,301,005 shares also includes 30,670,093 shares which are held by the couple in joint name. Accordingly, 30,670,093 shares are duplicated in the other interests column.
- (iii) The disclosures of total interests of 226,204,287 shares made by Sir Gordon Ying Sheung WU and Lady Ivy Sau Ping KWOK WU are arrived at after eliminating the duplications referred to in (i) and (ii) respectively. Both disclosures relate to the same parcel of shares.

(b) Beneficial Interests in Shares in Associated Corporations

| Directors | Name of Company | Personal | Family | Corporate | Total |
|---------------------|---|----------|--------|-------------|---------|
| Eddie Ping Chang HO | HCNH Insurance Brokers Limited | – | – | 300,000 (i) | 300,000 |
| Thomas Jefferson WU | Guangzhou-Shenzhen Superhighway (Holdings) Ltd. | – | – | (ii) | (ii) |

Notes:

- (i) Mr. Eddie Ping Chang HO together with his associate beneficially owned 100% of the issued share capital of Hong Kong Insurance Agency Limited which in turn owned 300,000 ordinary shares of HCNH Insurance Brokers Limited, an associated company of the Company, representing one-third of its issued share capital.
- (ii) The 9^{7/8}% Notes due 2004 for a face amount of US\$4,850,000 issued by Guangzhou-Shenzhen Superhighway (Holdings) Ltd. was beneficially owned by a company in which Mr. Thomas Jefferson WU was entitled to the exercise of 1/3 or more of the voting power at its general meeting.
- (iii) Certain directors held shares in certain subsidiaries as nominees for their holding companies.

(c) Beneficial Interests in Options granted by the Company

Details of Directors' interests in share options granted by the Company are set out under the section "Share Options".

Share Options

Under a share option scheme approved for adoption by the shareholders of the Company on 11th October, 1994 (the "Option Scheme"), options may be granted to any executive directors and employees of the Company or any of its subsidiaries.

Details of the share options outstanding as at 31st December, 2002 which have been granted under the Option Scheme are as follows:

| Names of grantee | Date of grant | Balance of outstanding options at 1/7/2002 and 31/12/2002 | Exercise price per share HK\$ | Exercise period |
|----------------------|---------------|---|-------------------------------|-----------------------|
| Directors | | | | |
| Josiah Chin Lai KWOK | 28/3/2002 | 3,000,000 | 6.15 | 28/9/2002 – 27/9/2005 |
| Thomas Jefferson WU | 3/4/2002 | 2,500,000 | 6.15 | 3/10/2002 – 2/10/2005 |
| Robert Van Jin NIEN | 1/4/2002 | 1,000,000 | 6.15 | 1/10/2002 – 30/9/2005 |
| Alan Chi Hung CHAN | 2/4/2002 | 1,000,000 | 6.15 | 2/10/2002 – 1/10/2005 |
| Employee | 2/4/2002 | 800,000 | 6.15 | 2/10/2002 – 1/10/2005 |

The options vest after 6 months and are exercisable for various periods of not exceeding three years commencing 6 months after the date on which the grant of the option is accepted.

No options were granted, exercised, cancelled or lapsed during the period under review.

Purchase, Sale or Redemption of Shares

There was no purchase, sale or redemption by the Company or any of its subsidiaries of shares in the Company during the period.

By Order of the Board
Sir Gordon Ying Sheung WU, KCMG, FICE
Chairman

Hong Kong, 27th February, 2003

Condensed Consolidated Income Statement

For the six months ended 31st December, 2002

| | NOTES | Six months ended | |
|---|-------|---------------------------------------|---------------------------------------|
| | | 31.12.2001 (unaudited) HK\$'000 | 31.12.2002 (unaudited) HK\$'000 |
| Turnover | 3 | 627,143 | 446,550 |
| Cost of sales and services | | (253,537) | (288,182) |
| Other operating income | 4 | 373,606 | 158,368 |
| Selling and distribution costs | | 6,221 | 71,714 |
| Administrative expenses | | (8,160) | (13,426) |
| Other operating expenses | | (67,008) | (69,895) |
| | | (27,390) | (29,916) |
| Profit from operations | | 277,269 | 116,845 |
| Finance costs | 5 | (337,982) | (232,866) |
| Share of results of | | | |
| Jointly controlled entities | | 215,434 | 321,127 |
| Associates | | 23,683 | 12,717 |
| Profit from ordinary activities before taxation | | 178,404 | 217,823 |
| Taxation | 7 | (8,960) | (33,296) |
| Profit before minority interests | | 169,444 | 184,527 |
| Minority interests | | (4,187) | (6,066) |
| Net profit for the period | | 165,257 | 178,461 |
| Dividend | 8 | 52,559 | 61,319 |
| Earnings per share | 9 | HK cents | HK cents |
| Basic | | 18.9 | 20.4 |

Condensed Consolidated Balance Sheet

At 31st December, 2002

| | NOTES | 30.6.2002 (audited) HK\$'000 | 31.12.2002 (unaudited) HK\$'000 |
|--|-------|------------------------------------|---------------------------------------|
| ASSETS | | | |
| Non-current Assets | | | |
| Investment properties | | 5,986,300 | 5,987,225 |
| Property, plant and equipment | | 1,119,407 | 1,124,243 |
| Properties for or under development | | 832,491 | 957,104 |
| Interests in jointly controlled entities | 10 | 8,589,902 | 8,989,589 |
| Interests in associates | | 98,345 | 73,400 |
| Other investments | | 40,057 | 60,348 |
| Long-term receivables | | 588,005 | 470,831 |
| Restricted/pledged bank deposits | | 1,832,847 | 1,753,249 |
| | | 19,087,354 | 19,415,989 |
| Current Assets | | | |
| Inventories | | 9,696 | 9,570 |
| Properties for sale | | 3,762 | 3,762 |
| Trade and other receivables | 11 | 158,652 | 176,784 |
| Deposits and prepayments | | 183,497 | 189,922 |
| Loans receivable – current portion | | 175,731 | 90,059 |
| Amounts due from customers for contract work | | 11,927 | 59 |
| Restricted bank deposits | | 3,349,259 | 149,409 |
| Bank balances and cash | | 145,149 | 179,141 |
| | | 4,037,673 | 798,706 |
| Total Assets | | 23,125,027 | 20,214,695 |

Condensed Consolidated Balance Sheet *(Continued)*

At 31st December, 2002

| | NOTES | 30.6.2002 (audited) HK\$'000 | 31.12.2002 (unaudited) HK\$'000 |
|--|-------|------------------------------------|---------------------------------------|
| LIABILITIES AND EQUITY | | | |
| Non-current Liabilities | | | |
| Long-term borrowings | 12 | 4,200,055 | 4,301,940 |
| Warranties | | 164,059 | 164,059 |
| Amounts due to associates | | 31,814 | 16,200 |
| | | 4,395,928 | 4,482,199 |
| Current Liabilities | | | |
| Trade and other payables | 13 | 1,224,954 | 1,046,808 |
| Rental and other deposits | | 74,324 | 76,887 |
| Amounts due to customers for contract work | | 15,679 | 14,675 |
| Provision for taxation | | 203,061 | 209,811 |
| Current portion of long-term borrowings | 12 | 3,291,393 | 351,287 |
| Bank loans and overdrafts | | | |
| Secured | | 45,000 | 200,000 |
| Unsecured | | 60,000 | 157,000 |
| | | 4,914,411 | 2,056,468 |
| Total Liabilities | | 9,310,339 | 6,538,667 |
| Capital and Reserves | | | |
| Share capital | | 2,189,955 | 2,189,955 |
| Reserves | | 11,604,265 | 11,459,689 |
| | | 13,794,220 | 13,649,644 |
| Minority Interests | | 20,468 | 26,384 |
| Total Liabilities and Equity | | 23,125,027 | 20,214,695 |

Condensed Consolidated Statement of Changes in Equity

For the six months ended 31st December, 2002

| (HK\$'000) | Share capital | Share premium | Investment property revaluation reserve | Capital reserve | Exchange equalisation reserve | Dividend reserve | Retained profits | Total |
|---|------------------|------------------|---|-----------------|-------------------------------|------------------|------------------|-------------------|
| At 1st July, 2001 | 2,189,955 | 8,508,890 | 2,652,868 | 83,010 | (1,815) | 61,319 | 471,323 | 13,965,550 |
| Net loss not recognised in the income statement | | | | | | | | |
| Exchange differences on translation of financial statements of subsidiaries, jointly controlled entities and associates | - | - | - | - | (1,681) | - | - | (1,681) |
| Net profit for the period | - | - | - | - | - | - | 165,257 | 165,257 |
| Final dividend for the year ended 30th June, 2001 paid | - | - | - | - | - | (61,319) | - | (61,319) |
| Interim dividend for the year ended 30th June, 2002 declared | - | - | - | - | - | 52,559 | (52,559) | - |
| At 31st December, 2001 | 2,189,955 | 8,508,890 | 2,652,868 | 83,010 | (3,496) | 52,559 | 584,021 | 14,067,807 |
| At 1st July, 2002 | 2,189,955 | 8,508,890 | 2,254,315 | 83,010 | (504) | 324,113 | 434,441 | 13,794,220 |
| Net gain not recognised in the income statement | | | | | | | | |
| Exchange differences on translation of financial statements of subsidiaries, jointly controlled entities and associates | - | - | - | - | 1,076 | - | - | 1,076 |
| Net profit for the period | - | - | - | - | - | - | 178,461 | 178,461 |
| Dividends for the year ended 30th June, 2002 paid | | | | | | | | |
| - final | - | - | - | - | - | (61,319) | - | (61,319) |
| - special | - | - | - | - | - | (262,794) | - | (262,794) |
| Interim dividend for the year ending 30th June, 2003 declared | - | - | - | - | - | 61,319 | (61,319) | - |
| At 31st December, 2002 | 2,189,955 | 8,508,890 | 2,254,315 | 83,010 | 572 | 61,319 | 551,583 | 13,649,644 |

Condensed Consolidated Cash Flow Statement

For the six months ended 31st December, 2002

| | Six months ended | |
|---|---------------------------------------|---------------------------------------|
| | 31.12.2001 (unaudited) HK\$'000 | 31.12.2002 (unaudited) HK\$'000 |
| Net cash from operating activities | 130,541 | 5,100 |
| Net cash from investing activities | 987,086 | 3,262,393 |
| Net cash used in financing activities | (854,089) | (3,234,911) |
| Increase in cash and cash equivalents | 263,538 | 32,582 |
| Cash and cash equivalents at beginning of the period | 393,794 | 145,149 |
| Effect of foreign exchange rate changes | 445 | 1,410 |
| Cash and cash equivalents at end of the period | 657,777 | 179,141 |
| Analysis of the balances of cash and cash equivalents | | |
| Bank balances and cash | 657,871 | 179,141 |
| Bank overdrafts | (94) | – |
| | 657,777 | 179,141 |

Notes to the Condensed Financial Statements

For the six months ended 31st December, 2002

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants ("HKSA").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties and investments in securities. The accounting policies are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 30th June, 2002, except as described below.

In the current period, the Group has adopted, for the first time, the following new and revised SSAPs issued by the HKSA:

| | |
|-------------------|--------------------------------------|
| SSAP 1 (Revised) | Presentation of Financial Statements |
| SSAP 11 (Revised) | Foreign Currency Translation |
| SSAP 15 (Revised) | Cash Flow Statements |
| SSAP 34 | Employee Benefits |

The adoption of these SSAPs has resulted in the introduction of the statement of changes in equity and a change in the format of presentation of the cash flow statement but has had no significant effect on the results for the current or prior accounting periods.

Under SSAP 15 (Revised), cash flows are classified under three headings - operating, investing and financing, rather than the previous five headings. Interest and dividends, which were previously presented under cash flows from returns on investments and servicing of finance, are classified under either operating, investing or financing activities. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities. The comparative figures have been reclassified to conform with the current period's presentation.

Apart from aforementioned, no further adjustments relating to prior periods have been required as a result of the adoption of the new and revised SSAPs.

3. TURNOVER AND SEGMENTS

Business Segments

The businesses based upon which the Group reports its primary segment information are as follows:

| | | |
|-------------------------|---|---|
| Infrastructure projects | – | investments in infrastructure projects |
| Property investment | – | property letting, agency and management |
| Hotel operations | – | hotel operations and management |
| Restaurant and catering | – | restaurant operations and food catering |
| Construction | – | construction and project management |

Notes to the Condensed Financial Statements (Continued)

For the six months ended 31st December, 2002

3. TURNOVER AND SEGMENTS (Continued)

Segment information about these businesses is presented below.

Segment revenue

| (HK\$'000) | Six months ended 31.12.2001 | | | Six months ended 31.12.2002 | | |
|-------------------------|-----------------------------|---------------|----------|-----------------------------|---------------|----------|
| | External | Inter-segment | Turnover | External | Inter-segment | Turnover |
| Infrastructure projects | 177,588 | – | 177,588 | 36,434 | – | 36,434 |
| Property investment | 177,529 | 13,883 | 191,412 | 167,117 | 10,696 | 177,813 |
| Hotel operations | 66,809 | – | 66,809 | 70,098 | 166 | 70,264 |
| Restaurant and catering | 61,003 | – | 61,003 | 60,836 | 509 | 61,345 |
| Construction | 123,920 | – | 123,920 | 112,065 | 4,016 | 116,081 |
| Other operations | 20,294 | – | 20,294 | – | – | – |
| Eliminations | – | (13,883) | (13,883) | – | (15,387) | (15,387) |
| Segment revenue | 627,143 | – | 627,143 | 446,550 | – | 446,550 |

Inter-segment revenue was charged at prices determined by management with reference to market prices.

Segment results

| (HK\$'000) | Six months ended 31.12.2001 | | | | Six months ended 31.12.2002 | | | |
|---------------------------------|-----------------------------|-----------------------------|------------|---------|-----------------------------|-----------------------------|------------|----------|
| | Company and subsidiaries | Jointly controlled entities | Associates | Total | Company and subsidiaries | Jointly controlled entities | Associates | Total |
| Infrastructure projects | 152,138 | 218,307 | – | 370,445 | (1,220) | 305,338 | – | 304,118 |
| Property investment | 121,065 | – | 2,016 | 123,081 | 102,931 | 6,915 | 2,290 | 112,136 |
| Hotel operations | 8,150 | – | 6,917 | 15,067 | 13,725 | – | 7,628 | 21,353 |
| Restaurant and catering | 2,131 | – | – | 2,131 | 2,109 | – | – | 2,109 |
| Construction | 7,200 | – | 3,062 | 10,262 | (34,142) | – | (6) | (34,148) |
| Other operations | 11,968 | (2,873) | 11,688 | 20,783 | (4,508) | 8,874 | 2,805 | 7,171 |
| Segment results from operations | 302,652 | 215,434 | 23,683 | 541,769 | 78,895 | 321,127 | 12,717 | 412,739 |

| (HK\$'000) | Six months ended | |
|---|------------------|------------|
| | 31.12.2001 | 31.12.2002 |
| Segment results | 302,652 | 78,895 |
| Interest income | – | 66,464 |
| Unallocated corporate expenses | (25,383) | (28,514) |
| Profit from operations | 277,269 | 116,845 |
| Finance costs | (337,982) | (232,866) |
| Share of results of | | |
| Jointly controlled entities | 215,434 | 321,127 |
| Associates | 23,683 | 12,717 |
| Profit from ordinary activities before taxation | 178,404 | 217,823 |

Notes to the Condensed Financial Statements (Continued)

For the six months ended 31st December, 2002

3. TURNOVER AND SEGMENTS (Continued)

Geographical Segments

The Group's property investment, hotel operations, restaurant and catering, and construction activities are carried out in Hong Kong. All of the Group's infrastructure project investments are located in Guangdong Province of the People's Republic of China. The following table provides an analysis of the Group's turnover and contribution to profit from operations by geographical market:

| (HK\$'000) | Turnover by geographical market Six months ended | | Contribution to profit from operations Six months ended | |
|---|---|------------|--|------------|
| | 31.12.2001 | 31.12.2002 | 31.12.2001 | 31.12.2002 |
| Hong Kong | 434,407 | 409,207 | 103,592 | 61,652 |
| Other regions in the People's Republic of China ("the PRC") | 179,003 | 37,343 | 170,392 | 25,543 |
| United States of America (Placement of deposits) | – | – | – | 38,415 |
| Other locations | 13,733 | – | 3,285 | (8,765) |
| | 627,143 | 446,550 | 277,269 | 116,845 |

4. OTHER OPERATING INCOME

Included in other operating income of the current period is interest from bank deposits and loans receivable amounted to approximately HK\$66,464,000 (six months ended 31.12.2001: Nil).

5. FINANCE COSTS

| (HK\$'000) | Six months ended | |
|---|------------------|------------|
| | 31.12.2001 | 31.12.2002 |
| Interest on | | |
| Bank loans and overdrafts and other loans | 90,948 | 67,413 |
| Notes payable | 223,574 | 111,900 |
| Warranties payable | 11,699 | – |
| | 326,221 | 179,313 |
| Less: Amount capitalised on an infrastructure project | (3,000) | (3,000) |
| | 323,221 | 176,313 |
| Other finance costs | | |
| Premium on early redemption of notes | – | 36,217 |
| Note issue expenses amortised | 8,746 | 16,455 |
| Loan arrangement fees and related charges | 6,015 | 3,881 |
| | 14,761 | 56,553 |
| | 337,982 | 232,866 |

Notes to the Condensed Financial Statements *(Continued)*

For the six months ended 31st December, 2002

6. DEPRECIATION AND AMORTISATION

| (HK\$'000) | Six months ended | |
|--|------------------|------------|
| | 31.12.2001 | 31.12.2002 |
| Charged to income statement | | |
| Depreciation of property, plant and equipment | 3,604 | 4,068 |
| Amortisation of | | |
| Cost of investments in jointly controlled entities | 18,972 | 28,857 |
| Note issue expenses | 8,746 | 16,455 |

7. TAXATION

| (HK\$'000) | Six months ended | |
|------------------------------|------------------|------------|
| | 31.12.2001 | 31.12.2002 |
| The charge comprises: | | |
| The Company and subsidiaries | | |
| Hong Kong Profits Tax | 616 | 7,280 |
| Taxation elsewhere | 359 | 688 |
| | 975 | 7,968 |
| Jointly controlled entities | | |
| Taxation elsewhere | 3,591 | 6,517 |
| Deferred taxation | – | 15,000 |
| | 3,591 | 21,517 |
| Associates | | |
| Hong Kong Profits Tax | 383 | 345 |
| Taxation elsewhere | 4,011 | 3,466 |
| | 4,394 | 3,811 |
| | 8,960 | 33,296 |

Provision for Hong Kong Profits Tax is calculated at the rate of 16% (six months ended 31.12.2001: 16%) on the estimated assessable profits for the period. Taxes on profits assessable elsewhere are calculated at rates prevailing in the countries in which the Group operates.

8. DIVIDEND

A final dividend of HK7 cents (2001: HK7 cents) per ordinary share and a special dividend of HK30 cents (2001: Nil) per ordinary share for the financial year ended 30th June, 2002 were paid to shareholders in November 2002.

The directors have determined that an interim dividend in respect of the financial year ending 30th June, 2003 of HK7 cents (year ended 30.6.2002: HK6 cents) per ordinary share totalling HK\$61,319,000 (year ended 30.6.2002: HK\$52,559,000) shall be paid to the shareholders of the Company whose names appear on the Register of Members on 21st March, 2003.

Notes to the Condensed Financial Statements (Continued)

For the six months ended 31st December, 2002

9. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the net profit for the period of HK\$178,461,000 (six months ended 31.12.2001: HK\$165,257,000) and on 875,982,121 (six months ended 31.12.2001: 875,982,121) ordinary shares in issue during the period.

Diluted earnings per share for the current period is not shown because the exercise price of the outstanding options to subscribe for shares in the Company was higher than the average market price for shares for the period. The Company had no dilutive potential ordinary shares outstanding during the six months ended 31st December, 2001.

10. INTERESTS IN JOINTLY CONTROLLED ENTITIES

During the period, the Group recouped part of its cost of investment in Guangzhou-Zhuhai West Superhighway project from the disposal to the local government authority of certain land sites acquired in prior years for the development of the project, which were surplus to the project's present requirement under the revised plan. The proceeds of RMB296 million received was on-lent to a jointly controlled entity at interest chargeable at 4% per annum.

11. TRADE AND OTHER RECEIVABLES

Other than rentals receivable, which are payable upon presentation of invoices, the Group allows an average credit period of 15 to 60 days to its trade customers.

The following is an analysis of receivables outstanding at the balance sheet date:

| (HK\$'000) | 30.6.2002 | 31.12.2002 |
|---------------------------------------|-----------|------------|
| Receivables aged | | |
| 0-30 days | 67,223 | 36,303 |
| 31-60 days | 29,672 | 9,604 |
| Over 60 days | 7,670 | 6,261 |
| Proceeds on disposal of an investment | 20,159 | 103,593 |
| Retentions receivable | 33,928 | 21,023 |
| | 158,652 | 176,784 |

12. LONG-TERM BORROWINGS

| (HK\$'000) | 30.6.2002 | 31.12.2002 |
|---|-------------|------------|
| Unsecured notes payable | | |
| Principal outstanding (Note) | 4,415,541 | 1,513,006 |
| Premium on early redemption of notes accrued | 112,528 | - |
| Unamortised note issue expenses | (26,345) | (9,890) |
| Secured bank loans | 2,942,844 | 3,102,872 |
| Other unsecured loan | 46,880 | 47,239 |
| | 7,491,448 | 4,653,227 |
| Less: Portion due within one year included in current liabilities | (3,291,393) | (351,287) |
| | 4,200,055 | 4,301,940 |

Note: During the period, the Group redeemed the unsecured notes due in 2007 with an aggregate outstanding principal of approximately US\$372 million. The notes outstanding at 31st December, 2002 represent the unsecured notes due in 2004 with an aggregate outstanding principal of approximately US\$194 million.

Notes to the Condensed Financial Statements *(Continued)*

For the six months ended 31st December, 2002

13. TRADE AND OTHER PAYABLES

The following is an analysis of payables outstanding at the balance sheet date:

| (HK\$'000) | 30.6.2002 | 31.12.2002 |
|---|-----------|------------|
| Payables due | | |
| 0–30 days | 198,443 | 158,541 |
| 31–60 days | 174,682 | 59,475 |
| Over 60 days | 125,850 | 122,054 |
| Retentions payable | 32,761 | 25,666 |
| Development expenditure payable <i>(Note)</i> | 693,218 | 681,072 |
| | 1,224,954 | 1,046,808 |

Note: The development expenditure payable represents construction and plant costs incurred by certain subsidiaries of the Company in connection with the Group's overseas infrastructure projects, the development of which has been suspended. Payments for the expenditure are overdue and have been withheld by the relevant subsidiaries pending the outcome of negotiations currently undertaken to recover the costs of investments in these projects.

14. TOTAL ASSETS LESS CURRENT LIABILITIES AND NET CURRENT LIABILITIES

The Group's total assets less current liabilities at 31st December, 2002 amounted to approximately HK\$18,158 million (30.6.2002: HK\$18,211 million).

The net current liabilities of the Group at 31st December, 2002 amounted to approximately HK\$1,258 million (30.6.2002: HK\$877 million).

15. CHARGES ON ASSETS AND OPTIONS TO ACQUIRE SHARES IN A SUBSIDIARY

- (a) The Group's interest in a jointly controlled entity engaging in the development of infrastructure projects have been pledged to secure the bank loan facilities granted to the Group to the extent of approximately HK\$562 million (30.6.2002: HK\$607 million) at the balance sheet date.
- (b) Other credit facilities of the Group to the extent of approximately HK\$3,017 million (30.6.2002: HK\$3,072 million) were secured by mortgages or charges on the Group's properties, bank deposits and other assets with an aggregate carrying value of approximately HK\$6,775 million (30.6.2002: HK\$6,772 million).
- (c) Under an arrangement in connection with the credit facilities granted to the Group, the Group has granted an option, at nominal consideration, to the lender to purchase to the extent of 5% of the interest in a subsidiary which acts as the holding company of subsidiaries operating principally in the PRC. The option is only exercisable upon the future successful public flotation of this subsidiary at a price per share which would be the same as the share price of the subsidiary's shares available for public subscription.

Notes to the Condensed Financial Statements *(Continued)*

For the six months ended 31st December, 2002

16. PROJECT COMMITMENTS AND CONTINGENT LIABILITIES

- (a) The estimated development cost for Phase I of the Guangzhou-Zhuhai West Superhighway, which will be undertaken by a jointly controlled entity to be established in the PRC, is approximately RMB1,680 million. The Group has agreed to make contribution to the registered capital of the jointly controlled entity to the extent of RMB294 million which has been fully contributed up to 31st December, 2002 (30.6.2002: RMB134 million).
- (b) During the period, the Group entered into an agreement for the acquisition of properties in the PRC at an aggregate consideration of approximately RMB201 million, of which approximately RMB123 million had been paid or accounted for by the Group up to 31st December, 2002.

Except as disclosed above, there have been no material changes in project commitments and contingent liabilities since 30th June, 2002.



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