中策集團有限公司
China Strategic Holdings Limited

Interim Report 2003 中期報告

Contents

Independent Review Report

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Deloitte Touche Tohmatsu

TO THE BOARD OF DIRECTORS OF CHINA STRATEGIC HOLDINGS LIMITED
中策集團有限公司
(incorporated in Hong Kong with limited liability)

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 3 to 17.

Directors responsibilities

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

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

Review work performed

We conducted our review in accordance with the Statement of Auditing Standards No. 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30th June, 2003.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
25th September, 2003

Condensed Consolidated Income Statement

For the six months ended 30th June, 2003

	Notes	Six months ended 30th June, 2003 HK$'000 (unaudited)	2002 HK$'000 (unaudited) (as restated)
Turnover		**1,735,605**	1,706,190
Cost of sales		**(1,494,160)**	(1,421,501)
Gross profit		**241,445**	284,689
Other operating income	*4*	**47,041**	105,662
Distribution costs		**(99,561)**	(115,065)
Administrative expenses		**(76,490)**	(116,743)
Other expenses	*5*	**(16,206)**	(346,237)
Profit (loss) from operations	*6*	**96,229**	(187,694)
Net gain (loss) on disposal of interest in subsidiaries		**4,784**	(19,050)
Net loss on liquidation/dilution of interest in associates		**(36,767)**	(1,010)
Finance costs		**(28,716)**	(53,809)
Share of results of associates		**(125,012)**	(25,374)
Loss before taxation		**(89,482)**	(286,937)
Taxation	*7*	**(7,469)**	(5,433)
Loss before minority interests		**(96,951)**	(292,370)
Minority interests		**(35,751)**	139,952
Net loss for the period		**(132,702)**	(152,418)
Loss per share — Basic and diluted	*8*	**(16.0) cents**	(32.6) cents

Condensed Consolidated Balance Sheet

At 30th June, 2003

	Notes	**30th June, 2003 *HK$'000* (unaudited)**	31st December, 2002 *HK$'000* (audited) (as restated)
Non-Current Assets			
Property, plant and equipment	*9*	**841,433**	746,778
Payment for acquisition of land development rights	*10*	**26,906**	14,687
Goodwill		**30,139**	30,953
Interests in associates	*11*	**484,846**	681,328
Receivables — due after one year	*12*	**173,854**	22,586
Investments in securities	*13*	**435,851**	410,685
Deferred tax assets		**14,224**	13,454
		2,007,253	1,920,471
Current Assets			
Inventories		**562,167**	827,744
Trade debtors	*14*	**402,647**	533,959
Receivables — due within one year	*12*	**550,328**	680,659
Receivables due from associates		**71,054**	60,535
Other receivables, deposits and prepayments		**273,547**	253,069
Income and other tax recoverable		**94**	—
Investments in securities	*13*	**2,540**	37,363
Pledged bank deposits		**22,513**	24,839
Bank balances and cash		**317,998**	425,397
		2,202,888	2,843,565
Current Liabilities			
Creditors, other payables and accrued charges	*15*	**629,509**	892,164
Payables due to related companies — due within one year		**190,151**	46,155
Payables due to associates		**—**	189
Income and other taxes payable		**34,315**	52,694
Bank loans and other borrowings — due within one year		**905,813**	996,861
		1,759,788	1,988,063
Net Current Assets		**443,100**	855,502
		2,450,353	2,775,973
Capital and Reserves			
Share capital		**82,947**	82,947
Reserves		**1,491,716**	1,651,106
		1,574,663	1,734,053
Minority Interests		**664,926**	728,942
Non-Current Liabilities			
Bank loans and other borrowings — due after one year		**188,732**	86,949
Payables due to related companies — due after one year		**22,032**	226,029
		210,764	312,978
		2,450,353	2,775,973

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30th June, 2003

	Share capital HK$'000	Share premium HK$'000	Special capital reserve HK$'000 (Note a)	Capital redemption reserve HK$'000	Goodwill on consolidation HK$'000	Exchange reserve HK$'000	Other non-distributable reserves HK$'000 (Note b)	Deficit HK$'000	Total HK$'000
At 1st January, 2002									
— As originally stated	46,098	1,876,729	414,881	233	191,437	(3,121)	35,393	(340,860)	2,220,790
— Prior period adjustment (*Note 2*)	–	–	–	–	–	–	–	3,934	3,934
As restated	46,098	1,876,729	414,881	233	191,437	(3,121)	35,393	(336,926)	2,224,724
Exchange adjustment	–	–	–	–	–	(831)	–	–	(831)
Share of net reserves movement of associates	–	–	–	–	–	929	(85)	–	844
Net gain (loss) not recognised in the condensed consolidated income statement	–	–	–	–	–	98	(85)	–	13
Issue of shares	9,200	–	–	–	–	–	–	–	9,200
Premium from issue of shares	–	9,200	–	–	–	–	–	–	9,200
Share issue expenses	–	(621)	–	–	–	–	–	–	(621)
Realised on disposal of interests in subsidiaries	–	–	–	–	–	(1,267)	(1,618)	–	(2,885)
Realised on disposal/dilution of interests in associates	–	–	–	–	3,100	(566)	–	–	2,534
Net loss for the period	–	–	–	–	–	–	–	(152,418)	(152,418)
At 1st July, 2002	55,298	1,885,308	414,881	233	194,537	(4,856)	33,690	(489,344)	2,089,747
Exchange adjustment	–	–	–	–	–	(313)	–	–	(313)
Share of net reserves movement of associates	–	–	–	–	–	(25)	(193)	–	(218)
Loss not recognised in the condensed consolidated income statement	–	–	–	–	–	(338)	(193)	–	(531)
Issue of shares by way of rights issue	27,649	–	–	–	–	–	–	–	27,649
Premium from issue of shares	–	13,824	–	–	–	–	–	–	13,824
Share issue expenses	–	(1,784)	–	–	–	–	–	–	(1,784)
Realised on disposal/dilution of interests in subsidiaries	–	–	–	–	(71,028)	(923)	(959)	–	(72,910)
Realised on disposal/dilution of interests in associates	–	–	–	–	444	(756)	86	–	(226)
Appropriated from retained profits	–	–	–	–	–	–	3,215	(3,215)	–
Net loss for the period	–	–	–	–	–	–	–	(321,716)	(321,716)
At 31st December, 2002	82,947	1,897,348	414,881	233	123,953	(6,873)	35,839	(814,275)	1,734,053
Exchange adjustment	–	–	–	–	–	293	–	–	293
Share of net reserves movement of associates	–	–	–	–	–	662	–	–	662
Net gain not recognised in the condensed consolidated income statement	–	–	–	–	–	955	–	–	955
Realised on disposal of interests in subsidiaries	–	–	–	–	(111)	–	(7,072)	–	(7,183)
Realised on liquidation/dilution of interests in associates	–	–	–	–	(20,333)	(127)	–	–	(20,460)
Appropriate from retained profits	–	–	–	–	–	–	1,319	(1,319)	–
Net loss for the period	–	–	–	–	–	–	–	(132,702)	(132,702)
At 30th June, 2003	82,947	1,897,348	414,881	233	103,509	(6,045)	30,086	(948,296)	1,574,663

Notes:

(a) The special capital reserve represents the amount arisen as a result of capital reduction carried out by the Company in 2001.

(b) The other non-distributable reserves of the Group include statutory reserves required to be appropriated from the profit after taxation of the subsidiaries of the People's Republic of China ("PRC") under PRC laws and regulations. The amount of the appropriation is at the discretion of the PRC subsidiaries' board of directors.

Condensed Consolidated Cash Flow Statement

For the six months ended 30th June, 2003

	Six months ended 30th June, 2003	
	2003	2002
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Net cash from operating activities	**11,941**	169,643
Net cash used in investing activities	**(320,554)**	(721,771)
Net cash generated from financing activities	**205,883**	271,820
Net decrease in cash and cash equivalents	**(102,730)**	(280,308)
Cash and cash equivalents at beginning of the period	**401,935**	744,927
Effect of foreign exchange rate changes	**(367)**	(2,457)
Cash and cash equivalents at end of the period	**298,838**	462,162
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**317,998**	477,749
Bank overdraft	**(19,160)**	(15,587)
	298,838	462,162

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 (the "Stock Exchange") (the "Listing Rules") and with the Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention, as modified for revaluation of investments in securities.

The accounting policies adopted are consistent with those followed in the preparation of the Group's financial statements for the year ended 31st December, 2002, except for the adoption of the Statement of Standard Accounting Practice 12 (Revised) "Income Taxes". The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts for 2002 have been restated accordingly. As at 1st January, 2002, deficit have been reduced by HK$3,934,000, minority interests have been increased by HK$3,729,000 and deferred tax assets have been increased by HK$7,663,000 respectively, which are the cumulative effect of the change in policy on the results for the periods prior to 2002. The effect of the change is a decreased charge to income taxes in the six months ended 30th June, 2002 of HK$2,495,000 (year ended 31.12.2002: HK$5,791,000). The loss shared by the minority interests for the six months ended 30th June, 2002 was also decreased by HK$1,214,000 (year ended 31.12.2002: HK$2,818,000).

3. SEGMENTAL INFORMATION

Business segments

For management purposes, the Group is currently organised into the following divisions. These divisions are the basis on which the Group reports its primary segment information.

An analysis of the Group's revenue by business segments is as follows:

	Tires	Pharma-ceutical products	Investment in securities, loan receivables	Others	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
For the period ended 30th June, 2003					
REVENUE					
External	1,606,194	129,411	5,187	3,558	1,744,350
RESULT					
Segment result	79,001	(855)	(6,839)	(2,605)	68,702
Unallocated corporate expenses					(10,769)
Exchange gain					17,429
Interest income					19,232
Dividend income					1,635
Profit from operations					96,229

3. SEGMENTAL INFORMATION *(continued)*

	Discontinuing operations					Continuing operations						
	Toll highway operation HK$'000 (Note)	Property investment HK$'000 (Note)	Hotel operation HK$'000 (Note)	Heavy industry HK$'000 (Note)	Sub-total HK$'000	Tires HK$'000	Pharm-aceutical products HK$'000	Investment in securities, loan receivables HK$'000	Others HK$'000	Sub-total HK$'000	Elimination HK$'000	Consolidated HK$'000
For the period ended 30th June, 2002												
REVENUE												
External	25,194	8,860	21,452	129,406	184,912	1,377,208	141,159	63,289	6,532	1,588,188	–	1,773,100
Inter-segment	–	–	–	–	–	–	–	–	492	492	(492)	–
Total revenue	25,194	8,860	21,452	129,406	184,912	1,377,208	141,159	63,289	7,024	1,588,680	(492)	1,773,100
RESULT												
Segment result	(70,289)	(12,069)	(1,027)	15,539	(67,846)	(94,101)	(6,049)	(23,065)	4,119	(119,096)		(186,942)
Unallocated corporate expenses												(39,504)
Gain on disposal of property, plant and equipment												231
Exchange gain												8,644
Interest income												28,417
Dividend income												1,460
Loss from operations												(187,694)

Inter-segment revenue is charged at market rates.

Note: *Following the disposal of certain subsidiaries of the Group during the year ended 31st December, 2002, these operations were regarded as discontinuing operations. Details of these are set out in the annual financial statements of the Company for the year ended 31st December, 2002 dated 23rd April, 2003.*

Geographical segments

The following provides an analysis of the Group's turnover by geographic market, irrespective of the origin of the goods/services:

	Turnover Six months ended 30th June, 2003 *HK$'000*	2002 *HK$'000*
The PRC, other than Hong Kong	**1,626,858**	1,576,636
Hong Kong	**91,115**	112,334
Overseas	**17,632**	17,220
	1,735,605	1,706,190

4. OTHER OPERATING INCOME

	Six months ended 30th June, 2003 *HK$'000*	2002 *HK$'000*
Interest income	**19,232**	28,417
Exchange gain	**17,429**	8,644
Gain on disposal of investments in securities	**5,187**	63,289
Dividend income from listed investments	**1,635**	1,460
Gain on disposal of property, plant and equipment	**—**	231
Others	**3,558**	3,621
	47,041	105,662

5. OTHER EXPENSES

	Six months ended 30th June, 2003 *HK$'000*	2002 *HK$'000*
Unrealised loss on investments in securities	**12,026**	86,353
Impairment losses recognised in respect of property, plant and equipment	**—**	236,525
Impairment loss recognised in respect of properties held for sale	**—**	1,185
Impairment loss recognised in respect of investment properties	**—**	9,069
Impairment loss recognised in respect of inventories	**—**	6,885
Amortisation of goodwill	**814**	817
Others	**3,366**	5,403
	16,206	346,237

6. PROFIT (LOSS) FROM OPERATIONS

Profit (loss) from operations has been arrived at after charging:

	Six months ended 30th June,	
	2003	2002
	HK$'000	*HK$'000*
Depreciation and amortisation of property, plant and equipment	**24,012**	73,940

7. TAXATION

	Six months ended 30th June,	
	2003	2002
	HK$'000	*HK$'000*
The charge comprises:		
Hong Kong Profits Tax	**706**	—
Taxation in other jurisdictions	**7,533**	7,928
Deferred tax credit	**(770)**	(2,495)
	7,469	5,433

Hong Kong Profits Tax have been provided for at the rate of 17.5% on the estimated assessable profit of the subsidiaries of the Group.

Taxation in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

8. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the period of HK$132,702,000 (HK$152,418,000 for the six months ended 30th June, 2002) and on the weighted average of 829,468,413 (467,586,677 for the six months ended 30th June, 2002 after adjustment for the effect of the rights issue completed in August 2002) ordinary shares in issue during the period.

The computation of diluted loss per share does not assume the exercise of the share options as their exercise would result in a decrease in loss per share.

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, property, plant and equipment with an aggregate net book value of approximately HK$107 million were disposed of as a result of the disposal of subsidiaries.

The Group incurred expenditure of approximately HK$272 million on its property, plant and equipment.

The Group also disposed of property, plant and equipment with an aggregate net book value of approximately HK$46 million.

10. MOVEMENTS IN PAYMENT FOR ACQUISITION OF LAND DEVELOPMENT RIGHTS

During the year ended 31st December, 2001, an agreement was entered into between the Company and 北京市順義區李橋鎮人民政府 (the "People's Government of Li Qiao Town") for the joint development project of a piece of land which is adjacent to the eastern side of Beijing Capital Airport, the PRC, under which the Company agreed to make an aggregate payment of approximately RMB230,000,000 (equivalent to approximately HK$216,981,000) to the People's Government of Li Qiao Town for the land development rights of the project.

As at 30th June, 2003, partial payments of RMB20,500,000, equivalent to approximately HK$19,223,000 (31.12.2002: RMB8,000,000, equivalent to approximately HK$7,441,000) was paid by the Company.

The Company has incurred consultancy fee and project management fee for this project totaling approximately HK$7,683,000 (31.12.2002: approximately HK$7,246,000) and the above amounts are included in the payment for acquisition of land development rights.

On 22nd July, 2003, the Group entered into an agreement with the People's Government of Li Qiao Town for the termination of this project. In accordance with the terms of the agreement, the People's Government of Li Qiao Town will refund the previously paid partial payment to the Group and will provide the damage claim for RMB10 million. Up to the date of this report, RMB18 million was repaid by the People's Government of Li Qiao Town to the Group.

11. INTERESTS IN ASSOCIATES

During the period, the Group disposed of approximately 9.55% interest in Rosedale Hotel Group Limited ("Rosedale Hotel") for a consideration of approximately HK$19 million and the interest in Rosedale Hotel was decreased from 32.20% to 22.65%.

12. MOVEMENTS IN RECEIVABLES

Included in receivables of approximately HK$125 million (31.12.2002: HK$122 million) and approximately HK$112 million (31.12.2002: approximately HK$109 million) were due from Danwei Limited ("Danwei") and Lucklong Venture Limited ("Lucklong") respectively. Ms. Chau Mei Wah, Rosanna ("Ms. Chau") and Mr. Lau Ko Yuen, Tom, the former alternate director to Ms. Chau of the Company, are directors of the ultimate holding company of Danwei and Lucklong. In addition, Ms. Chau is also a director of Danwei and Lucklong. Shares of certain property holding companies held by Danwei and Lucklong were pledged to the Group as securities to the loans.

Other than the above amounts of approximately HK$237 million which were secured, the remaining balances of receivables were unsecured. All receivables bear interest at prevailing market rates.

Included in receivables which are due after one year of approximately HK$8 million (31.12.2002: Nil) were due from Sun Media Group Holdings Limited, a company's shares listed on the Mainboard of the Stock Exchange, representing part of the consideration of the disposal of the 19.56% of the issued share capital of Leadership Publishing Group Limited ("Leadership Publishing"), a company's shares listed on the Growth Enterprise Market of the Stock Exchange in January, 2003. The amount was due and payable upon the expiry of 30 calendar months after the year end of the financial year of Leadership Publishing in respect of which Leadership Publishing declares a profit after taxation in its audited financial statements.

13. MOVEMENTS IN INVESTMENTS IN SECURITIES

During the period, the Group acquired certain investments at a consideration of approximately HK$88 million and disposed of certain investments with the carrying value of approximately HK$86 million. In addition, an unrealised loss on investment in securities of approximately HK$12 million has been recognised in the condensed consolidated income statement during the period.

14. TRADE DEBTORS

The Group allows its trade customers a credit period normally ranging from 90 days to 180 days. The aged analysis of the trade debtors at the reporting date is as follows:

	30th June 2003	31st December 2002
	HK$'000	*HK$'000*
0-90 days	**363,981**	387,848
91-180 days	**36,901**	89,724
Over 180 days	**1,765**	56,387
	402,647	533,959

15. CREDITORS, OTHER PAYABLES AND ACCRUED CHARGES

At the reporting date, included in creditors and accrued charges are creditors with the following aged analysis:

	30th June 2003	31st December 2002
	HK$'000	*HK$'000*
0-90 days	**235,078**	219,156
91-180 days	**15,425**	48,641
Over 180 days	**11,148**	109,345
	261,651	377,142
Add: Other payables and accrued charges	**367,858**	515,022
	629,509	892,164

16. COMMITMENTS

At the reporting date, the Group had the following capital commitments:

	30th June 2003 *HK$'000*	31st December 2002 *HK$'000*
Contracted for but not provided in the financial statements in respect of:		
— Land development rights	**197,758**	209,540
— Property, plant and equipment	**76,427**	137,061
— Construction in progress	**—**	15,531
	274,185	362,132

As set out in note 10, upon the completion of the agreement entered into subsequent to 30th June, 2003, the Group had no capital commitments in respect of land development rights.

17. CONTINGENT LIABILITIES

At 30th June 2003, the Group had contingent liabilities in respect of guarantees in favour of banks for facilities granted to an associate of approximately HK$184.3 million (31.12.2002: approximately HK$169.6 million), outsiders of approximately HK$113.1 million (31.12.2002: approximately HK$0.8 million) and a subsidiary of a minority shareholder of approximately HK$6.6 million (31.12.2002: Nil).

18. PLEDGE OF ASSETS

At 30th June, 2003 and 31st December, 2002, the following assets were pledged to secure credit facilities granted to the Group:

(a) Certain property, plant and equipment with a carrying value of approximately HK$10,500,000 (31.12.2002: approximately HK$219,532,000);

(b) Bank deposits of approximately HK$22,513,000 (31.12.2002: approximately HK$24,839,000);

(c) All the assets of a subsidiary with a consolidated net assets value of approximately HK$27,424,000 (31.12.2002: approximately HK$45,746,000) of the Group has been pledged to a bank to secure credit facilities granted to the Group.

At 30th June, 2003 and 31st December, 2002, investment in securities with a carrying value of approximately HK$227,060,000 (31.12.2002: approximately HK$249,990,000) were pledged to secure margin account credit facilities. The margin loan facilities amounting to approximately HK$25,479,000 (31.12.2002: approximately HK$13,323,000) were utilised by the Group.

19. RELATED PARTY TRANSACTIONS

During the period, the Group had the following significant transactions with related parties:

Name of company	Notes	Nature of transactions	Six months ended 30th June, 2003 HK$'000	2002 HK$'000
Lucklong	(i)	Loan interest income received and receivable by the Group	**2,967**	3,035
Danwei	(i)	Loan interest income received and receivable by the Group	**3,314**	3,389
Hanny Magnetics Limited ("Hanny Magnetics")	(ii)	Loan interest expenses paid and payable by the Group	**1,953**	—
Nation Cheer Investment Limited ("Nation Cheer")	(ii)	Loan interest expenses paid and payable by the Group	**4,085**	—
Rosedale Hotel	(iii)	Loan interest income received and receivable by the Group	**1,685**	—

Notes:

(i) Danwei and Lucklong are companies, in which a director of the Company is the director of their ultimate holding company and the director of Danwei and Lucklong.

(ii) Hanny Magnetics and Nation Cheer are wholly-owned subsidiaries of a substantial shareholder of the Company.

(iii) Rosedale Hotel is an associate of the Group.

The above transactions were carried out in accordance with the terms agreed between the relevant parties.

20. POST BALANCE SHEET EVENT

Subsequent to the reporting date, the Group had the following significant subsequent events:

(i) On 15th June, 2003, China Enterprises Limited ("China Enterprises"), a non-wholly owned subsidiary of the Company, and Hangzhou Industrial & Commercial Trust & Investment Co., Ltd. ("Hangzhou I&C") entered into an agreement pursuant to which China Enterprises agreed to dispose of its 25% interests in Hangzhou Zhongce Rubber Co., Ltd ("Hangzhou Zhongce"), a 51% owned subsidiary of China Enterprises, to Hangzhou I&C for the consideration of approximately RMB165 million (equivalent to approximately HK$155 million). Upon completion of the disposal, China Enterprises's interest in Hangzhou Zhongce will be reduced from 51% to 26%, and Hangzhou Zhongce will cease to be a subsidiary of China Enterprises. Up to the date of this report, this transaction has not been completed.

(ii) The Group entered into an agreement with the People's Government of Li Qiao Town for the termination of the joint development project of a piece of land which is adjacent to the eastern side of Beijing Capital Airport, the PRC. Details of these are set out in note 10.

ANALYSIS OF THE GROUP'S PERFORMANCE

The Group's turnover for the six months ended 30th June, 2003 totaled HK$1.736 billion, representing an increase of 1.8% from HK$1.706 billion over the comparable period last year. The turnover in toll highway operation, property investment, hotel operation and heavy industry was no longer consolidated following the disposal or restructuring of those operations. The decrease in turnover from those operations was offset by the increase in turnover from the tires operation.

The Group's unaudited consolidated loss for the six months ended 30th June, 2003 reduced by 12.9% to HK$132.7 million as compared to HK$152.4 million in the last corresponding period. The net loss for the period was mainly attributable to the Group's sharing of losses of its associates during the period.

LIQUIDITY AND FINANCIAL RESOURCES

During the first half of 2003, the Group financed its operations mainly through cash generated from its business activities, banking facilities provided by its principal bankers and proceeds from disposal of investments.

The Group's short-term bank loans and other borrowings decreased from approximately HK$997 million as at 31st December, 2002 to approximately HK$906 million as at 30th June, 2003. Long-term bank loans and other borrowings increased from approximately HK$87 million as at 31st December, 2002 to approximately HK$189 million as at 30th June, 2003. As a result, the Group's total bank loans and other borrowings increased from approximately HK$1,084 million as at 31st December, 2002 to approximately HK$1,095 million as at 30th June, 2003 representing an increase of 1.0%. The gearing ratio, calculated to the total long-term bank loans and other borrowings divided by total shareholders' funds increased from 0.050 to 0.120. The Group's total borrowings of HK$1,095 million were mainly denominated in HK dollars and Renminbi, and the maturity profile spreads over a period of five years with approximately HK$906 million repayable within one year, approximately HK$189 million repayable two to five years. Non-HK dollar denominated loans are directly related to the Group's businesses in the countries of the currencies concerned.

As at 30th June, 2003, total bank borrowings of the Group amounted to approximately HK$1,044 million and over 90% of the Group's bank borrowings bear interest at fixed rates and the remaining were at floating rates.

During the period under review, capital expenditure aggregated to approximately HK$284 million and was used primarily for expansion of existing facilities. The Group's capital expenditures will continue to be funded primarily from cash generated from operations, cash on hand or by bank borrowings or a combination of both as required.

Cash and bank balances amounted to approximately HK$341 million, and is mainly denominated in Hong Kong dollars, Renminbi and Australian dollars. The Company does not expect significant exposure to exchange rate and interest rate fluctuations. As a result, the Group did not enter into any foreign exchange contracts, currency swaps or other financial derivatives.

SIGNIFICANT INVESTMENTS

China Enterprises Limited (carried on business in Hong Kong as China Tire Holdings Limited) ("China Enterprises")

In the first half of 2003, China Enterprises generated revenues of RMB1.7 billion compared to the restated revenues of RMB1.2 billion for the corresponding period in the previous year. It increased its net loss by 4.8% to RMB24.2 million. The loss incurred during the period was mainly attributable to the share of losses in its travel business related affiliate. The travel business in the Greater China Region was dampened by the outbreak of the Severe Acute Respiratory Syndrome (the "SARS") in first half of 2003. However, the business rebounded in the second half of the year as the unfavorable effects of the epidemic subsided.

In January 2003, China Enterprises disposed of its entire interest in Yinchuan C.S.I. (Greatwall) Rubber Co., Limited ("Yinchuan CSI") for a consideration of RMB35.0 million. On 15th June, 2003, China Enterprises entered into a contract with an independent third party, Hangzhou Industrial & Commercial Trust & Investment Co., Limited ("Hangzhou I&C"), for disposal of a 25% interest in Hangzhou Zhongce Rubber Co., Limited ("Hangzhou Zhongce"), currently a 51% owned subsidiary of China Enterprises, for a consideration of approximately RMB164.7 million in order to widen the shareholders' base of Hangzhou Zhongce. The Company considers the sale to be beneficial to both the further development of Hangzhou Zhongce in the PRC and its future value to the Company. The sale is conditional upon the parties receiving approval of the transaction from the China Commercial Department, an agency of the government of the PRC.

MRI Holdings Limited ("MRI")

During this accounting period, Australia Net.Com Limited has undergone a name change to MRI Holdings Limited (ASX code: MRI) and a change of status with the Australian Stock Exchange Limited ("ASX") from a cash box company to a listed investment company.

MRI has continued to investigate investment opportunities and this has culminated in an investment of A$4 million in Fruit Project Australia ("FPA") (an integrated fruit growing, packing and export operation based in the southwest of Western Australia) by way of a convertible note. The note is interest bearing at a fixed interest rate of 8% per annum and is repayable within 3 years. The note is convertible to equity by way of shares at a 30% discount to market if FPA lists on the ASX or 30% discount to valuation otherwise and the decision to convert is with MRI.

MRI continues to look for suitable investment opportunities.

Tung Fong Hung Investment Limited ("Tung Fong Hung")

Despite of the sluggish retail market under a slowly recovering economy, Tung Fong Hung incurred a net loss for the first half year of 2003 amounting to approximately HK$4.2 million as compared to HK$18.5 million for the corresponding period in the previous year. The significant reduction in net loss was largely a result of the management's continuing efforts to enhance operational efficiency and reduced running expenses.

Unfortunately, after the outbreak of the SARS, local retail sales further dropped. However, with the containment of SARS and the introduction of the Mainland-Hong Kong Closer Economic Partnership Arrangement which led to the improvement of tourist business from China, the management believes that its turnover will recover in the foreseeable future.

Tung Fong Hung has been aggressively developing new products to suit the current market needs and widen the product range with an aim to stimulate revenue. In particular, new products such as nano-masks and 「清肺抗炎茶」 received favourable market response during the outbreak of the SARS. It reduced the negative impact of the SARS to the performance of Tung Fong Hung to some extent. Besides, the network of concessionary counters in the PRC continued to capitalize on the growing demand in China.

On 30th July 2003, the western pharmaceutical manufacturer, Jean-Marie Pharmacal Company Limited ("Jean-Marie") disposed its 50% interest to a strategic partner. This strategic move further strengthens Jean-Marie's manufacturing capabilities for biotechnology and health-related products.

PROSPECTS

Following series of group reorganization exercise, the Group has already fully diversified its scope of operations in the context of risk management. This prepares the Group to be more well-positioned to capture the upsides once the global economy recovers.

As markets in the Greater China Region keep improving from the unfavorable effects of the SARS together with various re-vitalization programmes launched by respective governments, the management is confident that economic and commercial activities in the region would be recovered before the end of 2003. More and more investment opportunities with great potential would emerge while capital markets in the region would become active once again. The Group is prepared to maintain its concurrent conservative and cautious posture to tackle any forthcoming challenges and to seize all chances of wealth creation.

CORPORATE DEVELOPMENTS

In January 2003, China Enterprises, a non-wholly owned subsidiary of the Company, and Ningxia Yinchuan Rubber Manufacturing ("Ningxia Yinchuan") entered into a conditional sale and purchase agreement pursuant to which China Enterprises agreed to sell its entire 51% interest in Yinchuan CSI to Ningxia Yinchuan for the consideration of RMB35 million (equivalent to approximately HK$33 million).

Upon completion of the Group reorganisation in 2002, in order to maintain adequate public float for shares of Rosedale Hotel, the Company as the ultimate controlling shareholder of Rosedale Hotel, disposed 265,000,000 shares of Rosedale Hotel at consideration of HK$0.072 per share in May 2003. The shareholding interest in Rosedale Hotel of the Company has reduced to approximately 22.7% of the issued shares of Rosedale Hotel, and approximately 28.1% of the issued shares of Rosedale Hotel are held in the hands of the public which is in compliance with Rule 8.08 of the Listing Rules on the Stock Exchange.

In June 2003, China Enterprises and Hangzhou I&C entered into an agreement, pursuant to which China Enterprises agreed to dispose of its 25% interests in Hangzhou Zhongce to Hangzhou I&C for the consideration of RMB164,659,656.90 (equivalent to HK$155,178,265.00).

In July 2003, Hanny Holdings Limited ("Hanny") and Paul Y. — ITC Construction Holdings Limited ("Paul Y.") jointly announced that Well Orient Limited ("Well Orient") and Calisan Developments Limited ("Calisan"), each being indirect wholly-owned subsidiary of Hanny and Paul Y. respectively, to make a voluntary conditional cash offer at the price of HK$0.10 for each share of the Company (the "Shares") and HK$0.001 for each warrant of the Company (the "Warrants") respectively, other than those presently owned by Well Orient and Calisan (the "Offerors") and their concert parties, in order to increase the aggregate shareholdings of the Offerors in the Company to over 50% of the issued share capital of the Company, Kingsway SW Securities Limited ("Kingsway SW Securities") has been appointed by the Offerors to stand in the market to acquire Shares at a price of no more than HK$0.10 per Share. On 9th July, 2003, Kingsway SW Securities, on behalf of the Offerors, purchased 49,665,000 Shares, representing 5.98% of the issue share capital of the Company, at the open market at a price of HK$0.10 per Share. After the purchase on 9th July, 2003, the Offerors and their concert parties were interested in 291,675,000 Shares, representing approximately 35.16% of the issued share capital of the Company, thus triggering a mandatory offer during the offer period of a voluntary offer under Rule 26 of the Takeovers Code.

The Offerors notified the Company on 21st July, 2003 that the offer price under the Share offer is to be increased from HK$0.10 to HK$0.139 per Share and the Offerors, through Kingsway SW Securities, will make a mandatory conditional cash offer at the price of HK$0.139 for each Share and HK$0.001 for each Warrant respectively, other than Shares and Warrants presently owned by the Offerors and parties acting in concert with the Offerors, and to cancel all outstanding options of the Company (the "Options") at HK$0.001 per Option.

In addition to the acquisition of 49,665,000 Shares on 9th July, 2003, the Offerors also jointly purchased 161,680,000 Shares, representing 19.49% of the voting rights in the Company, at a price of HK$0.139 per Share on 11th August, 2003. Including the valid acceptances of the Share offer in respect of 77,510 Shares received by the Offerors as at 11th August, 2003, the Offerors and their concert parties hold 453,432,510 Shares, representing 54.67% of the voting rights in the Company on 11th August, 2003 and thus, the condition to which the offers are subject has been satisfied and the offers have become unconditional on 11th August, 2003.

Upon close of the offers, the Offerors and their concert parties are interested in 518,329,589 Shares, representing approximately 62.49% of the existing issued shares of the Company and 48,285,900 units of Warrants, representing approximately 29.11% of the outstanding Warrants. All outstanding Options were cancelled on 29th August, 2003. The Company became an associated company of Hanny and Paul Y..

NUMBER OF EMPLOYEES, REMUNERATION POLICIES AND SHARE OPTION SCHEME

As at 30th June, 2003, the Group employed approximately 7,644 staff. Remuneration packages comprised of salary and year-end bonuses based on individual merits. No share options were granted or exercised during the period ended 30th June, 2003.

INTERIM DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended 30th June, 2003 (2002: Nil).

DIRECTORS' INTERESTS

As at 30th June, 2003, the interests and short positions of the directors of the Company (the "Directors") in the shares, debentures or underlying shares of the Company or any of its associated corporations (within the meaning of the Part XV of the Securities and Futures Ordinance (the "SFO")) or which were required, pursuant to section 352 of the SFO to be entered in the register referred to therein or which were required to be 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 Companies were as follows:

(I) The Company

a. Shares and (in respect of equity derivatives) Underlying Shares

Name of Director	Long position/ short position	Nature of interest	Number of shares held	No. of underlying shares in respect of the warrants (the "2003 Warrants") *(Note 2)*	Approximate percentage of shareholding
Chan Kwok Keung, Charles *(Note1)*	Long Position	Corporate	120,660,000	24,132,000	17.46%

Notes:

1. Chan Kwok Keung, Charles is deemed to be interested in 120,660,000 shares in the Company and the 2003 Warrants for 24,132,000 shares in the Company held by Calisan by virtue of his interest in Chinaview International Limited ("Chinaview") which has a controlling interest in Calisan. Details of which are disclosed under the heading "Substantial Shareholders".
2. The 2003 Warrants are listed equity derivatives and exercisable at any time during the period from 29th August, 2002 to 31st December, 2003 at a subscription price of HK$0.16 per share (subject to adjustment).

b. Share Options *(Note)*

Name of Director	Date of grant	Exercisable period	Number of share options	Exercise price *(HK$)*
Chan Ling, Eva	12/01/2000	18/01/2000 — 17/01/2005	75,000	3.145

Note:

The share option scheme of the Company adopted on 20th July, 1992 (the "Old Share Option Scheme") was terminated and a new option scheme (the "New Share Option Scheme") was adopted by the Company at the general meeting held on 4th June, 2002 to comply with Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange. However, all options granted prior to the termination of the Old Share Option Scheme shall remain in full force and effect.

No share options under the New Share Scheme have been granted by the Company to, nor have any options under the Old Share Option Scheme been exercised by, any person during the half year ended 30th June, 2003.

(II) Associated Corporation

Name of Director	Name of company	Nature of interest	Long position/ short position	No. of shares
Chan Kwok Keung, Charles	Ananda Wing On Travel (Holdings) Limited	Personal	Long position	17,280,000
	Dong Fang Gas Holdings Limited	Personal	Long position	2,520,900

As at 30th June, 2003, no short positions were recorded in the Register of Directors' and Chief Executives' Interests and Short Positions required to be kept under Section 352 of the SFO.

Save as disclosed above, as at 30th June, 2003, none of the Directors or chief executive of the Company had any interest or short position whether beneficial or non-beneficial, in the shares or underlying shares and debentures of the Company or any of its associated corporations (with the meaning of Part XV of the SFO).

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under Section 336 of the SFO shows that, as at 30th June, 2003, the Company had been notified of the following interests in the Company:

Name	Nature of interest	Number of shares	No. of underlying shares in respect of the 2003 Warrants held	Percentage of issued share capital
Calisan	Personal *(Note 1)*	120,660,000	24,132,000	17.46%
Great Decision Limited	Corporate *(Note 1)*	120,660,000	24,132,000	17.46%
Paul Y. — ITC Investments Group Limited	Corporate *(Note 1)*	120,660,000	24,132,000	17.46%
Paul Y. — ITC Construction Holdings (B.V.I.) Limited	Corporate *(Note 1)*	120,660,000	24,132,000	17.46%
Paul Y. — ITC Construction Holdings Limited	Corporate *(Note 1)*	120,660,000	24,132,000	17.46%
Hollyfield Group Limited	Corporate *(Note 1)*	120,660,000	24,132,000	17.46%
ITC Investment Holdings Limited	Corporate *(Note 1)*	120,660,000	24,132,000	17.46%
ITC Corporation Limited	Corporate *(Note 1)*	120,660,000	24,132,000	17.46%
Galaxyway Investments Limited	Corporate *(Note 1)*	120,660,000	24,132,000	17.46%
Chinaview	Corporate *(Note 1)*	120,660,000	24,132,000	17.46%

Name	Nature of interest	Number of shares	No. of underlying shares in respect of the 2003 Warrants held	Percentage of issued share capital
Ng Yuen Lan, Macy	Family *(Note 2)*	120,660,000	24,132,000	17.46%
Chan Kwok Keung, Charles	Corporate *(Note 1)*	120,660,000	24,132,000	17.46%
Well Orient	Personal *(Note 3)*	120,660,000	24,132,000	17.46%
Powervote Technology Limited	Corporate *(Note 3)*	120,660,000	24,132,000	17.46%
Hanny Magnetics (B.V.I.) Limited	Corporate *(Note 3)*	120,660,000	24,132,000	17.46%
Hanny Holdings Limited	Corporate *(Note 3)*	120,660,000	24,132,000	17.46%
BNP Paribas S.A.	Corporate *(Note 4)*	70,263,353	42,158,011	13.55%
Quartet Assets Limited	Personal *(Note 5)*	66,215,250	—	7.98%
Oei Hong Leong	Corporate *(Note 5)*	66,215,250	—	7.98%
Summers Overseas Limited	Personal and Corporate *(Note 6)*	45,245,484	4,251,000	5.97%
Choo Yeow Ming	Corporate *(Note 7)*	45,245,484	4,251,000	5.97%

Notes:

1. Chan Kwok Keung, Charles ("Dr. Chan") owns the entire interest of Chinaview which in turn owns the entire interest in Galaxyway Investments Limited ("Galaxyway"). Galaxyway owns more than one-third of the entire issued ordinary share capital of ITC Corporation Limited ("ITC"). ITC owns the entire interest of ITC Investment Holdings Limited ("ITC Investment"). ITC Investment owns the entire interest in Hollyfield Group Limited ("Hollyfield"). Hollyfield owns more than one-third of the entire issued share capital of Paul Y. — ITC Construction Holdings Limited ("Paul Y."). Paul Y. owns the entire interest of Paul Y. — ITC Construction Holdings (B.V.I.) Limited ("PYBVI") which in turn owns the entire interest in Paul Y. — ITC Investments Group Limited ("PYITCIG"). PYITCIG owns the entire interest of Great Decision Limited ("GDL") which in turn owns the entire interest in Calisan. Accordingly, GDL, PYITCIG, PYBVI, Paul Y., Hollyfield, ITC Investment, ITC, Galaxyway, Chinaview and Dr. Chan are deemed to be interested 120,660,000 shares of the Company and the 2003 Warrants for 24,132,000 shares of the Company which are held by Calisan.

2. Ng Yuen Lan, Macy is a spouse of Dr. Chan and deemed to be interested in 120,660,000 shares of the Company and the 2003 Warrants for 24,132,000 shares of the Company held by Calisan.

3. Well Orient is wholly-owned by Powervote Technology Limited ("PTL") which is in turn owned by Hanny Magnetics (B.V.I.) Limited ("Hanny Magnetics"). Hanny Magnetics is wholly-owned by Hanny Holdings Limited ("Hanny"). PTL, Hanny Magnetics and Hanny were deemed to be interested in 120,660,000 shares of the Company and the 2003 Warrants for 24,132,000 shares of the Company which were held by Well Orient.

4. BNP Paribas Peregrine Investment Limited ("BNPI") is wholly-owned by BNP Paribas Peregrine Limited ("BNPL") which is in turn owned by BNP Equities Asia Limited ("BNPA"). BNPA is wholly-owned by BNP Paribas S.A. ("BNPSA"). BNPL, BNPA and BNPSA were deemed to be interested in 70,263,353 shares of the Company and the 2003 Warrants for 42,158,011 shares of the Company which were held by BNPI.

5. Oei Hong Leong ("Mr. Oei") is deemed to be interested in 66,215,250 shares of the Company through his interest in Quartet Assets Limited which is a company wholly and beneficially owned by Mr. Oei.

6. Hyper Joy Finance Limited which directly owns 21,255,000 shares of the Company and the 2003 Warrants for 4,251,000 shares of the Company, is a wholly-owned subsidiary of Summers Overseas Limited ("Summers Overseas"). Summers Overseas directly owns 23,990,484 shares of the Company. Accordingly, Summers Overseas is deemed to be interested in aggregate of 45,245,484 shares of the Company and the 2003 Warrants for 4,251,000 shares of the Company.

7. Choo Yeow Ming ("Mr. Choo") is deemed to be interested in 45,245,484 shares of the Company and the 2003 Warrants for 4,251,000 shares of the Company through his interest in Summers Overseas which is a company wholly and beneficially owned by Mr. Choo.

All the interests stated above represent long positions. As at 30th June, 2003, no short positions were recorded in the Register of Interests in Shares and Short Positions required to be kept under Section 336 of the SFO.

AUDIT COMMITTEE

The audit committee of the Company comprises Mr. David Edwin Bussmann and Ms. Fung Wan Yiu, Agnes who are Independent Non-Executive Directors. The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the unaudited interim financial report for the six months ended 30th June, 2003.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

There was no purchase, sale or redemption of the listed securities of the Company by the Company or its subsidiaries during the period.

CODE OF BEST PRACTICE

None of the directors of the Company is aware of any information that would reasonably indicate that this is not complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules throughout the accounting period covered by the interim report, except that the Independent Non-Executive Directors of the Company are not appointed for specific terms as subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's Articles of Association.

By Order of the Board
Dr. Chan Kwok Keung, Charles
Chairman

Hong Kong, 25th September, 2003