



HONGKONG CHINESE LIMITED

香港華人有限公司*

(Incorporated in Bermuda with limited liability)

(Stock code: 655)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE, 2004

INTERIM RESULTS

The Directors of Hongkong Chinese Limited (the “Company”) announce the unaudited consolidated interim results of the Company and its subsidiaries (together, the “Group”) for the six months ended 30th June, 2004 together with the comparative figures for the corresponding period in 2003 as follows:

		Six months ended 30th June,	
		2004	2003
	Note	HK\$'000	HK\$'000
Turnover	2	762,178	232,311
Cost of sales		(671,817)	(169,370)
Gross profit		90,361	62,941
Administrative expenses		(40,788)	(39,277)
Other operating expenses		(19,973)	(12,796)
Net unrealised holding gain/(loss) on other investments in securities		(72,522)	8,006
Net unrealised gain on transfer of investment securities and held-to-maturity securities to other investments in securities		–	20,483
Write-back of provision for loss on guaranteed return arrangement for fund management		–	10,868
Profit/(Loss) from operating activities	4	(42,922)	50,225
Finance costs		(2,068)	(1,847)
Share of results of associates		(2,886)	(4,278)
Profit/(Loss) before tax		(47,876)	44,100
Tax	5	(1,270)	(414)
Profit/(Loss) before minority interests		(49,146)	43,686
Minority interests		430	534
Net profit/(loss) from ordinary activities attributable to shareholders		(48,716)	44,220
		HK cents	HK cents
Earnings/(Loss) per share	6		
Basic		(3.6)	3.3
Diluted		N/A	N/A

Note:

1. Principal Accounting Policies

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

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

2. Turnover

Turnover represents the aggregate of gross income on treasury investment which includes interest income on bank deposits and held-to-maturity securities, gross proceeds from sales of investments, gross income from underwriting and securities broking, interest and other income from money lending business, gross income from fund management, gross premiums from insurance business, dividend income and net interest income, commissions, dealing income and other revenues from banking subsidiary.

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

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

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

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

3. Segment Information

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

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

Six months ended 30th June, 2004									
	Treasury investment HK\$'000	Securities investment HK\$'000	Corporate finance and securities broking HK\$'000	Banking business HK\$'000	Insurance business HK\$'000	Information technology HK\$'000	Other HK\$'000	Inter- segment elimination HK\$'000	Consolidated HK\$'000
Revenue									
External	6,276	703,688	36,155	9,723	4,719	–	1,617	–	762,178
Inter-segment	507	–	–	–	–	–	163	(670)	–
Total	<u>6,783</u>	<u>703,688</u>	<u>36,155</u>	<u>9,723</u>	<u>4,719</u>	<u>–</u>	<u>1,780</u>	<u>(670)</u>	<u>762,178</u>
Segment results	<u>6,193</u>	<u>(28,379)</u>	<u>2,579</u>	<u>3,809</u>	<u>(115)</u>	<u>(6,301)</u>	<u>(2,138)</u>	<u>–</u>	<u>(24,352)</u>
Unallocated corporate expenses									(20,638)
Share of results of associates	–	–	–	–	–	(2,050)	(836)	–	<u>(2,886)</u>
Loss before tax									<u>(47,876)</u>
Tax									<u>(1,270)</u>
Loss before minority interests									<u>(49,146)</u>
Minority interests									<u>430</u>
Net loss from ordinary activities attributable to shareholders									<u><u>(48,716)</u></u>

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

4. Profit/(Loss) from Operating Activities

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

	Six months ended 30th June,	
	2004	2003
	HK\$'000	HK\$'000
Dividend income from investments:		
Listed	6,152	2,945
Unlisted	88	–
Interest income: (Note)		
Listed investments	–	8,904
Unlisted investments	–	3,546
Other	6,276	11,661
Net realised and unrealised holding gain/(loss) on other investments in securities:		
Listed	(48,167)	13,090
Unlisted	2,092	2,459
Other investment income:		
Listed	10,315	2,375
Unlisted	4,571	187
Net unrealised gain on transfer of investment securities and held-to-maturity securities to other investments in securities:		
Listed	–	12,946
Unlisted	–	7,537
Depreciation:		
Banking operations	(392)	(189)
Other	(1,070)	(760)
Amortisation of goodwill arising on acquisition of subsidiaries	(2,182)	(1,620)

Note: The amounts exclude income relating to banking operations of the Group.

5. Tax

	Six months ended 30th June,	
	2004	2003
	HK\$'000	HK\$'000
The Company and its subsidiaries:		
Charge for the period:		
Overseas	660	414
Associates:		
Hong Kong	610	–
Total charge for the period	1,270	414

No provision for Hong Kong profits tax has been made as the Group had applied the tax losses brought forward from prior periods to off-set the estimated assessable profits for the current and prior period. Overseas taxes have been calculated on the estimated assessable profits for the period at the tax rates prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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

6. Earnings/(Loss) per share

(a) Basic earnings/(loss) per share

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

(b) Diluted earnings/(loss) per share

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

Results for the period

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

Treasury and securities investments

In 2003, the Group had responded to declining deposit rates by diversifying into higher yielding bonds and equity investments. Entering 2004, the Group took advantage of the improving market conditions and actively realised the investment gains which had accumulated in previous periods. This resulted in an increase in securities trading activities. However, at the beginning of the second quarter, improvement in the US economy suggested that a rise in interest rates was imminent and bond prices started to fall. Additionally, stock markets were dragged down by a drop in investor confidence driven by the increasing uncertainties on the pace of global economic recovery. The Group's investment portfolio inevitably suffered from the poor market sentiment and uncertainties. Against this, the Group took necessary steps to adjust its investment portfolio to mitigate the adverse impact. Together with the gradual pick up near the end of the period, the net loss from this segment was HK\$22.2 million (2003 – profit of HK\$63.0 million). Notwithstanding the volatility of the investment markets, the bond portfolio continued to contribute high and stable interest income to the Group.

Corporate finance and securities broking

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

Banking business

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

Others

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

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

Financial position

The Group's financial position remained strong with current ratio rising to 4.8 to 1 (31st December, 2003 – 3.9 to 1). As most of the assets were denominated in Hong Kong and United States dollars, the Group's exposure to exchange rate risk was not material. Where appropriate, hedging instruments including forward contracts, swaps and currency loans were used. The Group will remain alert to the changing global conditions which might affect the exchange rate exposure.

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

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

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

Staff and remuneration

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

Outlook

In light of the instability and uncertainties in the global economic conditions, the operating environment remains challenging. While dedicating to improving internal operational efficiencies, the Group will continue to refine its existing core businesses and respond to new investment opportunities with long term growth potential. The Group is cautiously optimistic about the global and regional economic prospects in the future year. Given its strong financial position, the Group is confident that it will be able to take advantage of any strategic opportunities in its pursuit of enhancing shareholders' value.

BUSINESS REVIEW AND PROSPECTS

Business review

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

The Group recorded an unaudited consolidated loss attributable to shareholders of HK\$48.7 million for the six months ended 30th June, 2004 compared to a profit of HK\$44.2 million in the first six months of 2003. The loss was mainly attributable to the downturn in the global investment market in the second quarter of 2004 following firm indications that interest rate would begin to rise. The Group undertook the necessary steps to adjust its investment portfolio to lessen the impact and the treasury and securities investment segment recorded a net loss of HK\$22.2 million (2003 – profit of HK\$63.0 million).

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

The Macau Chinese Bank Limited ("MCB"), an 85 per cent. subsidiary of the Company, continues to be a net income contributor to the Group. The Macau economy experienced a strong recovery in the first half of 2004, and this was reflected in the growth of tourist arrivals and rising property prices. Reflecting the improving economy, business turnover picked up and the quality of MCB's loan book further improved. The convenient location of Macau will open up opportunities for MCB to extend its financial services into China Mainland, especially in the Pearl River Delta region. To prepare for the expansion, MCB has purchased a commercial building at Avenida da Praia Grande No. 101, Macau (now renamed as "The Macau Chinese Bank Building") for use as its headquarter.

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

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

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

Prospects

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

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

INTERIM DISTRIBUTION

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

CLOSURE OF REGISTER OF MEMBERS

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

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

AUDIT COMMITTEE

The audit committee of the Company has reviewed with the management of the Company the accounting principles and practices adopted by the Group and financial reporting matters including the review of the unaudited interim financial statements for the six months ended 30th June, 2004.

CODE OF BEST PRACTICE

None of the Directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30th June, 2004, in compliance with the Code of Best Practice (the “Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), except that the non-executive Directors were not appointed for a specific term as required by paragraph 7 of the Code. Save for Dr. Mochtar Riady who is the Chairman of the Company, all the non-executive Directors are subject to retirement by rotation and re-election at the Company’s annual general meetings in accordance with the Bye-laws of the Company.

INTERIM REPORT

The interim report of the Group for the six months ended 30th June, 2004 containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules in force prior to 31st March, 2004, which remains applicable to results announcements in respect of accounting periods commencing before 1st July, 2004 under the transitional arrangements, will be published on the Stock Exchange’s website in due course.

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

Hong Kong, 22nd September, 2004

As at the date of this announcement, the Board of Directors of the Company comprises seven directors, of which Dr. Mochtar Riady as non-executive Director, Messrs. Stephen Riady, John Lee Luen Wai, Jesse Leung Nai Chau and Kor Kee Yee as executive Directors and Messrs. Leon Chan Nim Leung and Albert Saychuan Cheok as independent non-executive Directors.

* *For identification purpose only*

“Please also refer to the published version of this announcement in The Standard.”