天安中國投資有限公司

TIAN AN CHINA INVESTMENTS COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 28)

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

UNAUDITED INTERIM RESULTS

	Notes	Six months ended 30th June, 2004 HK$'000	2003 HK$'000
Turnover	(2)	**887,221**	415,968
Cost of sales		**(668,322)**	(324,159)
Gross profit		**218,899**	91,809
Other operating income	(3)	**30,829**	25,848
Marketing and distribution costs		**(13,559)**	(20,047)
Administrative expenses		**(60,565)**	(57,908)
Other operating expenses		**(8,273)**	(3,181)
Profit from operations	(4)	**167,331**	36,521
Finance costs		**(37,830)**	(22,668)
Share of results of associates		**(4,046)**	1,355
Share of results of jointly controlled entities		**(2,502)**	26,060
Profit before taxation		**122,953**	41,268
Taxation	(5)	**(55,770)**	(11,185)
Profit before minority interests		**67,183**	30,083
Minority interests		**(14,909)**	(16,923)
Net profit for the period, retained		**52,274**	13,160
		HK cents	*HK cents*
Earnings per share	(6)		
Basic		**6.6**	1.5
Diluted		**6.4**	1.5

Notes:

(1) Review by Auditors

The interim financial report of the Company for the six months ended 30th June, 2004 has been reviewed by our auditors, Messrs. Deloitte Touche Tohmatsu, in accordance with Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Society of Accountants ("HKSA") and an unmodified review conclusion has been issued.

(2) Segmental Information

The Group's turnover for the period was derived mainly from activities carried out in the People's Republic of China (the "PRC") other than Hong Kong. An analysis of the Group's turnover and segment results by business segment is as follows:

Income statement for the six months ended 30th June, 2004

	Property development HK$'000	Property investment HK$'000	Sale of construction materials HK$'000	Other operations HK$'000	Consolidated HK$'000
REVENUE	**669,457**	**11,259**	**199,094**	**7,411**	**887,221**
RESULTS					
Segment results	**128,905**	**2,397**	**30,731**	**(3,289)**	**158,744**
Other operating income	**–**	**–**	**9,932**	**20,897**	**30,829**
Unallocated corporate expenses					**(22,242)**
Profit from operations					**167,331**
Finance costs					**(37,830)**
Share of results of associates	**(4,241)**	**–**	**–**	**195**	**(4,046)**
Share of results of jointly controlled entities	**(3,865)**	**1,784**	**–**	**(421)**	**(2,502)**
Profit before taxation					**122,953**
Taxation					**(55,770)**
Profit after taxation					**67,183**

Income statement for the six months ended 30th June, 2003

	Property development HK$'000	Property investment HK$'000	Sale of construction materials HK$'000	Other operations HK$'000	Consolidated HK$'000
REVENUE	**250,708**	**9,999**	**145,043**	**10,218**	**415,968**
RESULTS					
Segment results	14,282	5,427	22,631	(920)	41,420
Other operating income	–	568	12,667	12,613	25,848
Unallocated corporate expenses					(30,747)
Profit from operations					36,521
Finance costs					(22,668)
Share of results of associates	(2,541)	3,475	–	421	1,355
Share of results of jointly controlled entities	7,628	21,586	–	(3,154)	26,060
Profit before taxation					41,268
Taxation					(11,185)
Profit after taxation					30,083

(3) Other Operating Income

	Six months ended 30th June, 2004 HK$'000	2003 HK$'000
Dividend income from listed shares	**5,760**	4,420
Interest income on bank deposits and loans receivable	**2,426**	1,962
Refund of PRC value-added tax	**8,720**	9,451
Net realised gain on disposal of investment properties	**–**	568
Net realised gain on disposal of subsidiaries	**–**	3,520
Net unrealised gain/(loss) on trading securities	**20**	(36)
Allowance for doubtful debts written back	**3,302**	–
Waiver of interest expenses accrued in prior years	**5,692**	–
Other income	**4,909**	5,963
	30,829	25,848

(4) Profit from Operations

Profit from operations has been arrived at after charging:

	Six months ended 30th June, 2004 HK$'000	2003 HK$'000
Depreciation of property, plant and equipment		
Owned assets	**9,282**	8,181
Assets held under finance leases	**4**	4
Less: amount capitalised on properties under development	**(456)**	(578)
	8,830	7,607
Amortisation of:		
Goodwill on consolidation	**1,241**	1,028
Goodwill on acquisition of associates and jointly controlled entities	**91**	116
	10,162	8,751

(5) Taxation

The charge (credit) comprises:

	Six months ended 30th June, 2004 HK$'000	2003 HK$'000
PRC income tax		
Company and subsidiaries		
– current period provision	**19,086**	10,239
– over-provision in prior years	**(405)**	(2,711)
Share of tax of associates	**42**	1,232
Share of tax of jointly controlled entities	**338**	1,762
	19,061	10,522
Deferred tax	**36,709**	663
	55,770	11,185

No provision for Hong Kong Profits Tax is made as the Group companies operating in Hong Kong do not have any assessable profit for both periods. Certain of the Company's subsidiaries operating in the PRC are eligible for tax exemptions and concessions. The PRC income tax is calculated at the rates applicable to respective subsidiaries.

In addition to the amount charged to the income statement, deferred tax credit of HK$241,000 relating to the revaluation of the Group's investment properties during the six months ended 30th June, 2004 has been dealt with directly in equity.

(6) Earnings per share

The calculation of basic and diluted earnings per share is based on the following data:

	Six months ended 30th June, 2004 HK$'000	2003 HK$'000
Earnings		
Earnings for the purposes of basic and diluted earnings per share	**52,274**	13,160

	Six months ended 30th June, 2004	2003
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share (which has been adjusted for the consolidation of the Company's ordinary shares on 10th March, 2004)	**786,598,115**	849,070,458
Effect of dilutive potential ordinary shares:		
– Warrants	**25,352,058**	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**811,950,173**	849,070,458

The computation of diluted earnings per share for the six months ended 30th June, 2004 does not assume the exercise of the outstanding share options of the subsidiary as the exercise price was higher than the average market price per share.

The computation of diluted earnings per share for the six months ended 30th June, 2003 does not assume the exercise of the Company's outstanding warrants as the exercise price was higher than the average market price per share.

MANAGEMENT DISCUSSION AND ANALYSIS

Interim Business Review

The Group's net profit attributable to shareholders for the period under review was HK$52,274,000 (2003: HK$13,160,000), representing a 297% increase over the previous period. The increase in turnover and operating profit to HK$887,221,000 (2003: HK$415,968,000) and HK$167,331,000 (2003: HK$36,521,000) respectively, representing increase of 113% and 358% respectively, were mainly the result of contributions from property development and sale of construction materials. Earnings per share was HK6.6 cents (2003: HK1.5 cents), representing an increase of 340% compared to the corresponding period of last year.

Property Development and Investment

During the period under review, total sales attributable to the Group of 120,100m^2 GFA from residential/commercial properties were recorded (2003: 146,920m^2), whereas 438,800m^2 GFA were under construction (2003: 481,000m^2) and 90,550m^2 GFA residential/commercial properties were completed (2003: 26,070m^2). The segment result for property development was HK$128,905,000 (2003: HK$14,282,000) representing an increase of 803%. Properties sold in the PRC such as Shanghai Tian An Centre, Wuxi Redhill Peninsula (Phase 2) and Shanghai Tian An Villa contributed significantly to the satisfactory performance of the Group during the period.

Sale of Construction Materials

The segment result for sale of construction materials brought contribution to the Group of HK$30,731,000 (2003: HK$22,631,000), representing an increase of 36% compared to the corresponding period of last year.

Financial Position

Liquidity and Financing

As at 30th June, 2004, the Group maintained its liquidity at a healthy level with a well-balanced portfolio of financial resources. The total bank balances and cash reserves of the Group were maintained at over HK$525 million, providing sufficient working capital for the daily operations of the Group.

As at 30th June, 2004, the total borrowings of the Group amounted to approximately HK$2,442 million (31st December, 2003: HK$2,450 million), including current liabilities and non-current liabilities of HK$1,579 million (31st December, 2003: HK$1,565 million) and HK$863 million (31st December, 2003: HK$885 million) respectively. The gearing ratio (net debt over shareholders' equity) of the Group was around 47% (31st December, 2003: 53%). The borrowings were used to finance the landbank and properties under construction.

Approximately 67% of outstanding debts will expire within 2 years. Since the investments and operation of the Group are located in the PRC, most of the bank borrowings are obtained from PRC banks in Renminbi which will be repaid in the same currency. At the same time, bank borrowings in Hong Kong dollar have increased so as to lower the interest. Around 88% of the Group's bank borrowings bear interest at fixed rates while the remaining is at floating rates.

Charges on Assets

As at 30th June, 2004, the Group's interests in an associate and in a subsidiary with carrying values of HK$359,015,000 and HK$151,519,000 were pledged against bank overdraft facilities granted to the Company and the Group respectively. The Group's interest in a subsidiary with a carrying value of HK$463,636,000 was pledged against a banking facility granted to the Company and properties for sale and investment properties indirectly held by that subsidiary with carrying values of HK$411,294,000 and HK$264,189,000 respectively were pledged against another banking facility granted to the Group. Additionally, bank deposits of HK$19,229,000 , aggregate carrying values of development properties and investment properties of approximately HK$857,349,000 and HK$531,267,000 respectively, were pledged for trade payable of HK$31,690,000, other loans, banking facilities granted to subsidiaries, to a jointly controlled entity and a trade creditor.

Contingent Liabilities

As at 30th June, 2004, guarantees given to banks by the Group in respect of banking facilities granted to jointly controlled entities, third parties and a vendor of land use rights to a property development subsidiary were approximately HK$179,191,000, HK$47,170,000 and HK$13,016,000 respectively. Guarantees given to banks in respect of mortgage loans granted to property purchasers amounted to approximately HK$723,055,000. All the guarantees provided by the Group were requested by banks and under normal commercial terms. Commercial bills discounted with recourse amounted to approximately HK$58,142,000. The contingent PRC land appreciation tax of subsidiaries attributable to the Group amounted to approximately HK$72,454,000 and the share of contingent land appreciation tax of a jointly controlled entity amounted to approximately HK$52,325,000. Legal actions were taken against certain subsidiaries and several jointly controlled entities resulting in possible contingent liabilities of approximately HK$143,078,000 and HK$20,154,000 respectively. The Group has assessed the claims and considers that either it is too early to assess the range of possible liability at this stage or the final outcome of the claims will not have material effect on the financial statements. A brief summary of the claims is contained in the 2004 interim report to be despatched to the shareholders.

Employees

As at 30th June, 2004, the Group, including its subsidiaries but excluding associates and jointly controlled entities, employed 2,062 persons. The staff costs for the period under review amounted to approximately HK$35,894,000. The Group ensures that the remuneration packages for employees are competitive and employees are rewarded on performance related basis including salary and bonus.

Operations Review

PRC's Overall Economy

Continuing the growth trend in the third and fourth quarters of the previous year, the gross domestic product (GDP) amounted to RMB2,710.6 billion in the first quarter of 2004, an increase of 9.7% compared to the corresponding period of 2003, which was 0.2 percentage points lower than the corresponding period of last year. In the real estate sector, statistics collected in 35 key cities showed that property prices and land transaction prices rose by 10.4% and 11.5% in the second quarter respectively, as compared to the corresponding period of last year, while property rentals were up 1%. Besides, the accumulated real estate development and investment in the PRC in the first half year amounted to RMB492.4 billion, an increase of 28.7%, which was 5.3 percentage points lower than the growth rate in the corresponding period of last year. The total area of land of which development was completed in the PRC was 79.2 million m^2, an increase of 11.5%, which was down by 28.5 percentage points as compared to the growth rate in the corresponding period of last year. These figures reflect a possible cooling down of the real estate market.

Land Policy

During the first half of 2004, a series of radical land policies concerted to the needs of macro-economic control were implemented, including "Notification of Clear-up and Rectification of Development Zones of All Categories to Strengthen the Management of Construction Land" and "Emergent Notification of Intensifying the Land Management for the Improvement and Rectification of the Land Market" as promulgated by the State Council in order to strictly tighten the control in land supply and transfer, in particular the conversion of agricultural land into construction land, which is almost frozen. On the one hand, the policies lead to a decrease in land supply, giving pressures to those developers who have insufficient land reserves. On the other hand, the policies strike on illegal land use and abuses of land resources, enhance the transparency of market operations, and help develop a healthy market which is beneficial to well-managed enterprises like Tian An.

Real Estate Financing Policy

To ensure the effectiveness of the control measures, the State has taken action on two fronts. Apart from strictly executing on the scale of bank credit facility to real estates, it has further raised the entrance barrier for real estate developers by adjusting the capital requirements. These moves have caused liquidity problem for the whole industry. Some developers with insufficient working capital have been suffering from cash flow problems. Fortunately, Tian An took action in the first quarter in strengthening its sales capacity. Sales of about RMB800 million were realised in the first half year and greatly relieved the pressure caused by the credit squeeze in the real estate industry.

Market Performance

All indications show that the control measures have affected Eastern China most. Take Shanghai as an example, the three most significant real estate policies, namely "online-announcement," "transfer restriction on uncompleted flats" and "lowering of pre-sale standard" launched in April have greatly affected the expectation of purchasers. According to the China Real Estate Index, the Shanghai residential housing index climbed 6.9% to 78 points from January to May this year, which was apparently slower than the 10.2% rise for the corresponding period in last year. Other cities in the region like Wuxi, Changzhou and Nantong had maintained favourable performance until mid-May.

Compared to other regions, the impact of the macro-economic control in Northern China in the first half year was relatively low. Both the total area sold and total sales amount during the period increased significantly over the preceding year. Among the property projects, Changchun Tian An City One performed well both in terms of pricing and brand image, and has set a strong foundation for the Group's further investment in Northern China.

The situation in Southern China was similar to Northern China as both were not the main targets of the control measures. The market remained relatively stable.

Project Development

Eastern China is still the investment focus of the Group. Shanghai Tian An Centre, a Grade A office building situated at Nanjing West Road, was put onto the market in the first half year. Owing to its unique location with all the advantages of the Central Business District and its high quality, it was popular amongst multinational corporations after its launch on the market. Sales were satisfactory and the project became the most important profit centre of the Group. All the remaining 30 units of Shanghai Tian An Villa Phase 1 were sold at favourable prices. Wuxi Redhill Peninsula Phase 2, Changzhou New City Garden Phase 4, and Nantong Tian An Garden Phase 2 were also important profit centres of the Group as they performed well in the market. Dalian Tian An Seaview Garden Phase 2 and Changchun Tian An City One performed satisfactorily in the first half year. Upon the completion of certain properties in Shenzhen Tian An Cyber Park and Guangzhou Panyu Energy Conservation Scientific Technology Park in Southern China in the latter half of the year, they will bring profit contribution to the Group.

Strategically, the Group has expanded the volume of development of villas. The 5 projects launched have all received positive market response. It seems that with the economic growth in the mainland, many affluent people desire to live in luxurious detached houses for better environment and more privacy. The Group is well-positioned to grasp this opportunity to promote Tian An villas to be the premier residence for the affluent people in all regions.

Operations Highlights

During the period, the Group made reasonable allocation of resources by better utilization of assets, cultivated more sources of income and reduced its costs through innovation and streamlining of operating procedures. The Group also stressed on strengthening management measures, and faced all changes both internally and externally in a positive manner, and worked out the best solutions in caring for the interests of shareholders, management and staff, which has been implemented in Eastern China and the Hong Kong headquarters.

The Group has reviewed its operating procedures to enhance efficiency. More authorities were delegated to the profit centres in order to put more pressures and responsibilities on them. At the same time, the Group has strengthened its compliance requirements to ensure a healthy business development. To shape Tian An into a knowledge-oriented enterprise and to maintain its leading position in design concept, construction style of residential estate development in the industry, the management keeps close communication with its staff through training to consolidate its business concepts.

In respect of assets utilization, the Group revitalized those projects like Beijing Fu Hua Building, Fuzhou Dengyun Resort, Shanghai Tian An Sunshine Peninsula, and Dalian Tian An Seaview Garden (Phase 3) to create more profit centres to the Group.

Outlook

At the macro level, the series of control measures adopted in the first half year aiming at resolving economic problems like excessive construction, un-planned investments focusing on scale rather than benefits, is expected to continue for some time in the latter half year. However, with these measures gradually taking effect and the overheated economy reasonably cooled down, such pressure will be relieved accordingly. Consumers will also have digested the uncertainties arising from the measures. The property market is expected in the second half to maintain a stable development after slight adjustments. The Group will take this opportunity in streamlining its internal resources, reorganize its investment structure and strengthen customer services, to position itself for the forthcoming new heights of the property market.

INTERIM DIVIDEND

The Directors consider that it is prudent to retain an appropriate level of funds to take advantage of business opportunities as and when they arise, and therefore do not intend to declare an interim dividend (2003: nil).

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a general review of the unaudited interim financial statements for the six months ended 30th June, 2004. In carrying out this review, the Audit Committee has relied on a review conducted by the Group's external auditors in accordance with Statement of Auditing Standards 700 issued by the HKSA as well as obtaining reports from management. The Audit Committee has not undertaken detailed independent audit checks.

PUBLICATION OF FURTHER INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE

All information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") 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 website of the Stock Exchange in due course.

By Order of the Board
Tian An China Investments Company Limited
Patrick Lee Seng Wei
Chairman

Hong Kong, 23rd August, 2004

As at the date of this announcement, the Board of Directors of the Company comprises Mr. Patrick Lee Seng Wei (Chairman), Mr. Ng Qing Hai (Managing Director), Mr. Ma Sun, Mr. Edwin Lo King Yau and Mr. Li Chi Kong being the Executive Directors, and Mr. Moses Cheng Mo Chi and Miss Lisa Yang Lai Sum being the Independent Non-Executive Directors.