



天安中國投資有限公司

TIAN AN CHINA INVESTMENTS COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2003

UNAUDITED INTERIM RESULTS

	<i>Notes</i>	Six months ended 30 June	
		2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Turnover	(3)	415,968	468,231
Cost of sales		(324,159)	(306,510)
Gross profit		91,809	161,721
Net unrealised (loss) gain on trading securities		(36)	3,459
Other operating income	(4)	25,884	18,537
Marketing and distribution costs		(20,047)	(12,813)
Administration expenses		(57,908)	(54,318)
Other operating expenses		(3,181)	(3,048)
Share of results of jointly controlled entities		26,060	9,373
Profit from operations	(5)	62,581	122,911
Finance costs		(22,668)	(39,164)
Share of results of associates		1,355	2,450
Profit before taxation		41,268	86,197
Taxation	(6)	(11,185)	(27,000)
Profit before minority interests		30,083	59,197
Minority interests		(16,923)	(31,122)
Net profit for the period, retained		13,160	28,075
		<i>HK cents</i>	<i>HK cents</i>
Earnings per share	(7)		
Basic		0.2	0.3
Diluted		0.2	0.3

Notes:

(1) Review by Auditors

The interim financial report of the Company for the six months ended 30 June 2003 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 and an unmodified review conclusion has been issued.

(2) Adoption of Statement of Standard Accounting Practice

In the current period, the Group has adopted SSAP 12 (Revised) “Income Taxes” issued by the HKSA. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. Comparative amounts for 2002 have been restated accordingly.

(3) 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 30 June 2003

	Property development <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Sale of construction materials <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE	250,708	9,999	145,043	10,218	415,968
RESULTS					
Segment results	14,282	5,427	22,631	(920)	41,420
Net unrealised loss on trading securities	–	–	–	–	(36)
Other operating income	–	568	12,667	12,649	25,884
Share of results of jointly controlled entities	7,628	21,586	–	(3,154)	26,060
Unallocated corporate expenses	–	–	–	–	(30,747)
Profit from operations	–	–	–	–	62,581
Finance costs	–	–	–	–	(22,668)
Share of results of associates	(2,541)	3,475	–	421	1,355
Profit before taxation	–	–	–	–	41,268
Taxation	–	–	–	–	(11,185)
Profit after taxation	–	–	–	–	30,083

Income statement for the six months ended 30 June 2002

	Property development <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Sale of construction materials <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE	366,888	6,357	90,151	4,835	468,231
RESULTS					
Segment results	113,490	(1,431)	14,387	(4,003)	122,443
Net unrealised gain on trading securities	–	–	–	–	3,459
Other operating income	346	–	11,604	6,587	18,537
Share of results of jointly controlled entities	4,771	2,510	3,483	(1,391)	9,373
Unallocated corporate expenses	–	–	–	–	(30,901)
Profit from operations	–	–	–	–	122,911
Finance costs	–	–	–	–	(39,164)
Share of results of associates	(1,897)	4,227	–	120	2,450
Profit before taxation	–	–	–	–	86,197
Taxation	–	–	–	–	(27,000)
Profit after taxation	–	–	–	–	59,197

(4) Other operating income

	Six months ended 30 June 2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Dividend income from		
– listed shares	4,420	–
– unlisted shares	–	234
Interest income on bank deposits and loans receivable	1,962	2,813
Refund of PRC value-added tax	9,451	11,112
Net realised gain on disposal of investment properties	568	–
Net realised gain on disposal of subsidiaries	3,520	–
Other income	5,963	4,378
	25,884	18,537

(5) Profit from operations

Profit from operations has been arrived at after charging:

	Six months ended 30 June 2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Depreciation of property, plant and equipment		
Owned assets	8,181	6,494
Assets held under finance leases	4	4
Less: amount capitalised on property under development	(578)	(477)
	7,607	6,021
Amortisation of:		
Goodwill on consolidation	1,028	765
Goodwill on acquisition of associates and jointly controlled entities	116	185
	8,751	6,971

(6) Taxation

The charge (credit) comprises:

	Six months ended 30 June 2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
PRC income tax		
Company and subsidiaries		
– current period provision	10,239	4,498
– over-provision in prior years	(2,711)	(8,742)
Share of tax of associates	1,232	202
Share of tax of jointly controlled entities	1,762	1,684
	10,522	(2,358)
Deferred tax	663	29,358
	11,185	27,000

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 Group’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.

(7) Earnings per share

The calculation of the basic and diluted earnings per share is based on the net profit for the period of HK\$13,160,000 (2002: HK\$28,075,000) and on 8,490,704,582 (2002: weighted average of 8,490,704,365) ordinary shares in issue during the period.

The computation of diluted earnings per share for both periods does not assume the exercise of the Company’s outstanding warrants as the exercise price is higher than the average market price per share.

The computation of diluted earnings per share for the six months ended 30 June 2002 does not assume the conversion of the Company’s outstanding convertible loan notes since their exercise would result in an increase in earnings per share.

The computation of diluted earnings per share for the six months ended 30 June 2002 does not assume the exercise of the Company’s outstanding share options as the exercise price is higher than the average market price per share.

MANAGEMENT DISCUSSION AND ANALYSIS

Interim Business Review

The PRC recorded a 8.2% GDP growth during the first half of the year, despite the GDP growth rate in the second quarter dropping by 3.2% points from the first quarter’s 9.9% to 6.7%. This decrease was largely caused by the SARS epidemic which hit the services sector, especially in retail, transportation and construction areas. The relatively fast-paced economic development in the first half year was mainly due to the rapid growth in fixed assets investment and exports. Statistics show that fixed assets investments and foreign direct investment rose by 31.1% and 34.3% respectively. Exports grew by 34% but retail sales of consumer goods were 8% up only, evincing only a gradual increase in domestic consumption.

With respect to the construction industry, the insufficient supply of labour, delay in delivery of construction materials and intermittent suspension of construction works caused by the SARS epidemic resulted in the delay in the completion of certain projects of the Group. This together with the slow-down of the speed of sales during the same period, greatly undermined the Group’s turnover in the second quarter.

The Group’s net profit attributable to shareholders for the period under review was HK\$13,160,000 (2002: HK\$28,075,000), representing a 53% decrease over the previous period. The main reason for the decrease in net profit was that the projects completed in the first half year amounted to 26,070 m² Gross Floor Area (“GFA”) (2002: 40,470 m²) only. The segment result for property development was HK\$14,282,000 (2002: HK\$113,490,000), representing a 87% decrease. Certain projects (including those held by subsidiaries and jointly controlled entities) are scheduled to be completed in the second half of the year and the first quarter of year 2004. During the period under review, total sales attributable to the Group of 146,920 m² GFA from residential/commercial properties was recorded (2002: 68,140 m²), whereas 481,000 m² GFA were under construction (2002: 629,840 m²).

Compared with the corresponding period of last year, the segment result of construction materials brought a greater contribution to the Group, amounting to HK\$22,631,000 (2002: HK\$14,387,000), representing an increase of 57%. Whereas, the share of results of jointly controlled entities from property investment was HK\$21,586,000 (2002: HK\$2,510,000), representing a 760% increase.

Earnings per share was HK0.2 cents (2002: HK0.3 cents), representing a decrease of 33% compared to the corresponding period of last year.

Financial Position

Liquidity and Financing

As at 30 June 2003, 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 HK\$657 million, providing sufficient working capital for the daily operations of the Group.

As at 30 June 2003, the total borrowings of the Group amounted to approximately HK\$2,599 million (31 December 2002: HK\$2,190 million), including current liabilities and non-current liabilities of HK\$2,024 million (31 December 2002: HK\$1,773 million) and HK\$575 million (31 December 2002: HK\$417 million), respectively. The gearing ratio (net debt over shareholder's equity) of the Group was 48% (31 December 2002: 42%). The increase in borrowings was used to finance the payment of landbank and costs for properties under construction.

Approximately 81% of outstanding debt will expire within 2 years. As the investments of the Group are located in the PRC, most of the bank borrowings are obtained from PRC banks in Renminbi. Around 92% of the Group's bank borrowings bear interest at fixed rates while the remaining is at floating rates.

Charges on Assets

As at 30 June 2003, the Group's interest in an associate with a carrying value of HK\$500,754,000 was pledged against a bank overdraft facility granted to the Company. Additionally, bank deposits of HK\$78,037,000, aggregate carrying values of development properties and investment properties of approximately HK\$1,746,429,000 and HK\$118,672,000 respectively, and the Group's interest in certain subsidiaries with aggregate carrying values of approximately HK\$138,350,000 were pledged to banks for banking facilities granted to those subsidiaries and to a jointly controlled entity. Further development properties with an aggregate carrying value of approximately HK\$222,797,000 were pledged against a trade payable of HK\$43,011,000 and other borrowings.

Contingent Liabilities

As at 30 June 2003, 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\$113,334,000, HK\$40,000,000 and HK\$12,790,000 respectively. Guarantees given to banks in respect of mortgage loans granted to property purchasers amounted to approximately HK\$479,713,000 and a guarantee given to a bank in respect of a performance bond given to a vendor of land use rights amounted to approximately HK\$18,868,000. All the guarantees provided by the Group were requested by banks and are granted under normal commercial terms. Commercial bills discounted with recourse amounted to approximately HK\$37,690,000. The contingent PRC land appreciation tax of a subsidiary attributable to the Group amounted to approximately HK\$24,680,000 and the share of contingent land appreciation tax of a jointly controlled entity amounted to approximately HK\$44,010,000.

Employees

As at 30 June 2003, the Group, including its subsidiaries but excluding associates and jointly controlled entities, employed approximately 1,582 persons. Total staff costs for the period under review amounted to approximately HK\$33,629,000. The Group ensures that the remuneration packages for employees are competitive and employees are rewarded on a performance related basis including salary and bonus.

Outlook

It is pleasing to see, as indicated by various economic statistics, that the impact of SARS seems to have been temporary, regional and limited. In the PRC, the market forces founded upon the economic reforms and opening-up process have begun to play a leading role in economic recovery from the SARS and its further development. It is believed that the PRC economy will continue its upward trend in the long run as the fundamental and basic factors underpinning long-term economic growth, including the mass market potential, cheap labour resources, improving infrastructure and steady supply of materials, remain unchanged. It is widely predicted that the annual GDP growth of the PRC will reach 8%.

Property prices have continued to soar at a record-setting rate in some major cities. For example, housing prices in Shanghai surged 18% during the first seven months. It is envisaged that the spreading of urbanization, together with the rise in income levels and increasing demand for quality living will continue to boost the residential property market. Coupled with the accession to the WTO and the hosting of 2008 Olympic Games and 2010 World Expo, the reduction in constraints for overseas investors in some special areas such as banking and services sectors will attract more foreign direct investment into the PRC market, which in turn, will raise demand for office buildings and luxury homes. The PRC's domestic consumption ratio is 20% less than the world average. It is expected that the government will adopt various new policies to stimulate domestic consumption to become an increasingly important part in the country's economic development. However, worries from economists about the property bubble in some cities are on the rise.

Other than the property bubble, the sluggish global economy, increasing competition from foreign companies for local industries development, slow pace in legal system reforms and considerable upwards pressure on the currency will pose negative influences on economic growth and hence could affect the property market's future performance.

Nevertheless, the central bank's new policy on further tightening of financing to property developers, together with the constricting land supply and the newly introduced land auction system will eventually lead to a consolidation in the property industry which may be the most economic way for those financially sound and strong developers to increase their landbank. In the long run, such policies will help maintain a healthy development of the property market. The Group will benefit from such development.

In the second half of the year, the Group will make strong efforts and devote resources to catch up the delay on construction progress caused by the SARS outbreak so as to minimize its negative effects. In September, Shanghai Tian An Centre, an office building, will be offered for sale. In addition, pre-sales on 4 residential projects including Fu Wah Building in Beijing, New City Garden in Changzhou, Tian An Garden in Nantong and Redhill Peninsula in Wuxi will be launched soon. These projects are expected to add significant turnover and gross profit to the Group upon completion. Apart from this, the Group will also increase its strategic landbank in major cities at the right time.

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 (2002: nil).

PUBLICATION OF DETAILED INFORMATION ON THE STOCK EXCHANGE'S WEBSITE

The detailed 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") will be published on the website of the Stock Exchange in due course.

By Order of the Board
David Hui Yip Wing
Managing Director