



**Silver Grant International Industries Limited**

**( 銀 建 國 際 實 業 有 限 公 司 )**

*(Incorporated in Hong Kong under the Companies Ordinance)*

*(Website: <http://www.irasia.com/listco/hk/silvergrant>)*

**INTERIM REPORT 1999**

## INTERIM RESULTS

The board of directors (the "Directors") of Silver Grant International Industries Limited (the "Company") are pleased to announce that the unaudited results of the Company and its subsidiaries (the "Group") for the six months ended 30th June, 1999 are as follows:

		<b>6 months ended 30th June, 1999</b> <i>(Unaudited)</i> <i>HK\$'000</i>	<b>6 months ended 30th June, 1998</b> <i>(Unaudited)</i> <i>HK\$'000</i>
Turnover		<u>57,669</u>	<u>23,956</u>
Operating profit	(1)	127,900	1,885
Share of results of associated companies	(3)	<u>(25,643)</u>	<u>1,803</u>
Profit from ordinary activities before taxation		102,257	3,688
Taxation	(4)		
The Company and subsidiaries		209	(18)
Associated companies		<u>43</u>	<u>(984)</u>
Profit after taxation		<u>102,509</u>	<u>2,686</u>
Dividend	(5)	<u>—</u>	<u>—</u>
Earnings (loss) per share	(6)		
Basic		<u>11.5 cents</u>	<u>0.3 cents</u>
Diluted		<u>6.0 cents</u>	<u>(8.2 cents)</u>

### Notes:

- (1) Operating profit for the period has been credited (charged) with the following items:

	<b>6 months ended 30th June, 1999</b> <i>(Unaudited)</i> <i>HK\$'000</i>	<b>6 months ended 30th June, 1998</b> <i>(Unaudited)</i> <i>HK\$'000</i>
Profit on redemption and cancellation of convertible bonds of nominal value of US\$17,033,000 (1998:US\$30,522,000)	66,454	114,069
Unrealized gains (losses) on other investments ( <i>see note 2</i> )	25,823	(108,608)
Profit on disposal of investment	<u>35,449</u>	<u>—</u>

- (2) Previously, listed investments held for long term purposes were stated at valuation based on market value at the balance sheet date. Surpluses arising on valuation are credited to the asset revaluation reserve. Deficits are set off first against surpluses on revaluation, and thereafter are charged to the profit and loss account. On disposal of a long term listed investment, the balance on the asset revaluation reserve attributable to that investment is transferred to the profit and loss account. Unlisted investments held for long term purposes were stated at cost less provision for permanent diminution in value, if necessary. Listed investments held for short term purposes were stated at the lower of cost and market value at the balance sheet date.

Following the implementation of the new Statement of Standard Accounting Practice 2.124 "Accounting for Investments in Securities" ("SSAP 24") effective on 1st January 1999, the Group has adopted the Benchmark Treatment for investments other than held-to-maturity securities. Investments other than investment securities and held-to-maturity securities are carried at fair value in the balance sheet and any unrealized holding gains and losses are included in the profit and loss for the period.

The change in accounting policy has been applied retrospectively. The effect of the change in the accounting policy is to decrease net profit for the six months ended 30th June, 1998 and net profit for the year ended 31st December, 1998 by HK\$80.8 million and HK\$119.6 million respectively. The net cumulative effect on retained profits is to increase the retained profits as at 1st January, 1999 by HK\$22.8 million. Corresponding comparative figures for the six months ended 30th June, 1998 have been restated to reflect the change in the accounting policy.

- (3) The amount is after charging the Group's share of provision for expenditure in respect of scaling down retail operation by an associated company amounting to HK\$23,364,000.
- (4) Taxation consist of provision for Hong Kong Profit Tax based on the estimated profit of the period as adjusted for tax purpose at the rate of 16% (1998:16%). No deferred taxation has been provided, as there is no significant timing differences arising during the period or as at the period end date. The tax credits for the six months ended 30th June, 1999 were a result of the 1998 tax refund received exceeding the tax provision for the period.
- (5) No interim dividend has been proposed (1998:Nil).
- (6) Earnings (loss) per share

The calculation of the basic and diluted earnings (loss) per share for the six months ended 30th June, 1999 is based on the following data:

	<b>For the six months ended 30th June,</b>	
	<b>1999</b>	<b>1998</b>
	<i>(unaudited)</i>	<i>(unaudited)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Earnings</b>		
Profit for the period and profit for the purposes of basic earnings per share	102,509	2,686
Effect of dilutive potential shares: Convertible bonds	(42,898)	(87,334)
	<u>59,611</u>	<u>(84,648)</u>
Profit (loss) for the period for the purposes of diluted earnings (loss) per share	<u>59,611</u>	<u>(84,648)</u>
<b>Number of shares</b>		
Weighted average number of shares for the purposes of basic earnings per share	892,343,500	892,343,500
Effect of dilutive potential shares:		
Convertible bonds	103,733,559	134,363,901
Warrants	234,765	—
Employee Share Options	—	7,157,480
	<u>996,311,824</u>	<u>1,033,864,881</u>
Weighted average number of shares for the purposes of diluted earnings per share	<u>996,311,824</u>	<u>1,033,864,881</u>

## BUSINESS REVIEW

### Corporate

The adoption of the new SSAP 24 in the period has led to a prior year adjustment to the profit for the period ended 30th June, 1998. The effect was to reduce last period's profit by HK\$80.8m to HK\$2.7m from HK\$83.5m as previously reported.

For the six months ended 30th June, 1999, the Group recorded turnover of HK\$57.7 million representing an increase of approximately 141% from last year. Net profit for the period was HK\$102.5 million resulting in earnings per share of 11.5 cents. Both net profit and earnings per share represent increase of approximately 37 times compared to that of previous period.

## **Property**

The south residential block of the East Gate Plaza ("East Gate Plaza") acquired in early 1998 started to generate stable and recurring income to the Group. Total income from East Gate Plaza amounted to approximately HK\$34 million for the period, or equivalent to 15% annualized return, before expenditure.

## **Infrastructure**

China Infra-structure Investment Limited ("CIIL"), a 40% owned associated company of the Group, is currently holding investments in nine infrastructure projects - three bridges and six roads. Total investment committed by CIIL amounted to HK\$1.89 billion at 30th June, 1999 of which HK\$1.70 billion had been paid up. All these projects are in operation except two of the bridges are still under construction, the completions of which are scheduled to be in the second quarter and fourth quarter of 2000 respectively. During the period, CIIL has put on more resources on strengthening management capabilities at all levels including financial control, project engineering and management, administration and toll collection. More engineers with relevant infrastructure experience were hired and assigned to the projects. Computerization of toll collections and effective internal control procedures has been put in place for all projects and is fully operational.

## **PRC Retailing**

In light of the highly competitive retail market in the People's Republic of China ("PRC") and the currently reluctant-to-spend attitude of the Chinese consumers, the management of Beijing Wangfujing Retail Management Co., Ltd. ("Wangfujing") has scaled down shop area of the retail outlet at Nantong and leased out the extra floor area to relevant tenants that aid attracting people flow while maintaining the other outlet located at the commercial zone at the city centre of Wuhan whose operation has more potential. The action is to concentrate Wangfujing's management efforts in streamlining merchandise and rationalizing cost structure while at the same time building up customer base during this sluggish time. However, the Group remains confident in the consumer retail market in the PRC in the long term and will, depending on the then situation, take appropriate adjustment policies when the consumer retail market recovers.

## **Industrial Investments**

The Group shared HK\$4m losses from Jiangxi Copper Company Limited ("JCC"), a 10% indirectly owned associated company whose shares are listed on The Stock Exchange of Hong Kong Limited ("HKSE"), for the six months ended 30th June, 1999. The main reason for JCC recording an operating loss was due to nonperformance of copper prices. However, world copper prices seem to recover from the historical bottom and are heading for an upward trend. In addition, the expected economic growth and the heavy investments in infrastructure of the PRC in the coming years will stimulate demand for copper which will have positive effects on JCC's profit. Therefore, the Directors have confidence in the future prospects of JCC.

As at 30th June, 1999, the Group was still holding 49 million shares in Qingling Motors Co., Ltd., representing approximately 2.5% of its registered capital, whose shares are listed on the HKSE. The Group maintains its intention to hold these shares for long term.

## **BUSINESS PROSPECTS**

Following the outbreak of the Asian Financial Crisis in 1997, the year of 1998 was a hard year for many corporations and the year 1999 is a year of recovery. In order to get the Group ready for an early recovery, the Directors has concentrated their efforts on streamlining operations and strengthening internal controls on existing investments in infrastructure, retailing and property in the PRC. The Directors will keep on doing so in the second half-year of 1999 with particular emphasis on reducing foreign exchange exposure. Exposure on currency mismatches on PRC direct investments are to be eliminated by funding the investments in RMB loans. The Directors are also closely monitoring the market to identify opportunities to repurchase the Group's convertible bonds at favorable prices to minimize USD exposure in relation to those outstanding convertible bonds.

The Group has been looking for business opportunities to further consolidate the relationship with its two ultimate substantial shareholders namely, China Construction Bank and China Everbright Holdings Company Limited.

The Group will look for quality properties with stable rental income to provide the Group with recurring operating income. At the same time, the Group will also keep on looking for quality direct investment opportunities, including investments in the high and new technology field, to bring higher returns to our shareholders. In addition, the Directors believe that infrastructure development is fundamental to PRC's economic growth. Accordingly, various means to diversify funding sources, including financial and strategic investors for CIIL, will be investigated to provide additional funding to further expand the project portfolio of CIIL.

## **INTERIM DIVIDEND**

To cope with the Group's policy to manage its exposure to foreign exchange risk, the Directors consider it is beneficial to the Group to retain as much resources as possible in the Group for better liquidity. For this reason, the Directors did not propose to declare any interim dividend for the six months ended 30th June, 1999.

## **DIRECTORS INTEREST IN SHARES**

As at 30th June, 1999, none of the Directors and their associates had any interest in securities of the Company and its associated corporations (as defined in the Securities (Disclosure of Interests) Ordinance of the laws of Hong Kong (the "SDI Ordinance")). According to the register maintained by the Company pursuant to Section 29 of the SDI Ordinance and, save as disclosed below, none of the Director, or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

On 8th January, 1997, Mr. Gao Jian Min was granted options to subscribe for 5,000,000 shares in the Company at a subscription price of HK\$2.9 per share which are exercisable at any time from 8th January, 1997 up to and including 7th January, 2007, pursuant to the share option scheme of the Company adopted on 26th June, 1995,

As a result of the two for one bonus issue of shares approved at the extraordinary general meeting of the Company on 21st April, 1997, the number of shares issuable under the outstanding options held by Mr. Gao Jian Min and the subscription prices of the option shares were adjusted to 15,000,000 shares and HK\$0.967 per share respectively.

No share option was exercised by Mr. Gao Jian Min during the six months ended 30th June, 1999.

## SUBSTANTIAL SHAREHOLDERS

As at 30th June, 1999, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance shows that the following shareholders had interests of 10% or more in the share capital of the Company:

	<b>Number of ordinary shares</b>
Silver Grant International Holdings Limited ( <i>Note 1</i> )	179,966,400
Maxtrack Limited ( <i>Note 2</i> )	107,982,000
Asia Like Securities Limited ( <i>Note 3</i> )	109,510,000

### *Notes:*

1. Messrs. Gao Jian Min, Hui Xiao Bing and Xu Shi Quan, all of whom are directors of the Company, each has a 30% interest in Silver Grant International Holdings Limited as at 30th June, 1999.
2. Maxtrack Limited is a wholly-owned subsidiary of the China Construction Bank.
3. Asia Like Securities Limited is a wholly-owned subsidiary of Everbright Investment & Management Limited which in turn is a wholly-owned subsidiary of China Everbright Holdings Company Limited.

Save as disclosed above, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance showed that the Company had not been notified of any interests representing 10% or more of the issued share capital of the Company as at 30th June, 1999.

## YEAR 2000 ISSUE

The Group is aware of the financial and operating systems risks posted by the inability of computer system, computer applications, software and hardware devices in accurately calculate date/time data prior to, through and beyond the year 2000.

By nature of its business, the Group's reliance on computer system in its daily operations is limited except for the accounting function which is a system made up by commercial software packages building on a LAN network.

The Group first started testing the computer system in late 1997. In 1998, all computer hardware devices had been tested and were all year 2000 compliant. In the first quarter of 1999, the Group also finished upgrading certain software to their respective year 2000 compliant versions.

Total cost spent in relation to tackle the year 2000 issue was limited and did not exceed HK\$0.2m. These costs were all charged to the profit and loss account at the time of incurring the expenditure.

The Directors believe that the Group's exposure to the year 2000 issue has been appropriately addressed and do not anticipate that the year 2000 issue will have any material adverse effect on the Group nor on its operations going through and beyond the year 2000.

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

During the period, the Group repurchased and cancelled certain convertible bonds of an aggregate principal amount of US\$17,033,000.00 at a total consideration of approximately US\$9,984,000.00

Save as mentioned above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

## **FINANCIAL ASSISTANCE TO AFFILIATED COMPANIES**

The financial assistance given to and guarantees given for the benefits of affiliated companies by the Group in aggregate exceed 25 per cent of the Group's net asset value of approximately HK\$1,682,488,000.00 as at 31st December, 1998.

In accordance with the requirements under Practice Note 19 of the Rules Governing the Listing of Securities on HKSE, details of all the financial assistance given to, guarantees given for the benefits of the affiliated companies of the Group as at 30th June, 1999 are as follows:

Affiliated companies	Percentage of interest	Advances (%)	Guaranteed		Other security given
			Guarantees given (HK\$m)	loan drawn (HK\$m)	
1. International Copper Industry (China) Investment Limited	50	139*	330	330	Charge in respect of 15th floor, Peregrine Tower, Lippo Centre, Queensway, Hong Kong.
2. China Infra-structure Investment Limited	40	542	93	54	

Advances to affiliated companies were funded by internal resources and bank borrowings of the Group. The advances are unsecured, non-interest bearing and have no fixed repayment dates, except for the one marked above with "\*", a portion of which in the sum of approximately HK\$58 million bears interest at prime rate.

## **COMPLIANCE WITH THE CODE OF BEST PRACTICE**

The Directors of the Company officially approved the establishment of Audit Committee and its main functions on 1st September, 1999. It was resolved that Mr. Kang Dian and Mr. Liu Erh-fei, independent non-executive directors, were appointed to be members of the audit committee.

Except for the absence of an audit committee from 1st January, 1999 to 30th June, 1999 during which time, the Directors are seeking the consent to appointment to the audit committee from the committee members, none of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months periods ended 30th June, 1999, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

By Order of the Board  
**Gao Jian Min**  
Managing Director

Hong Kong, 1st September, 1999