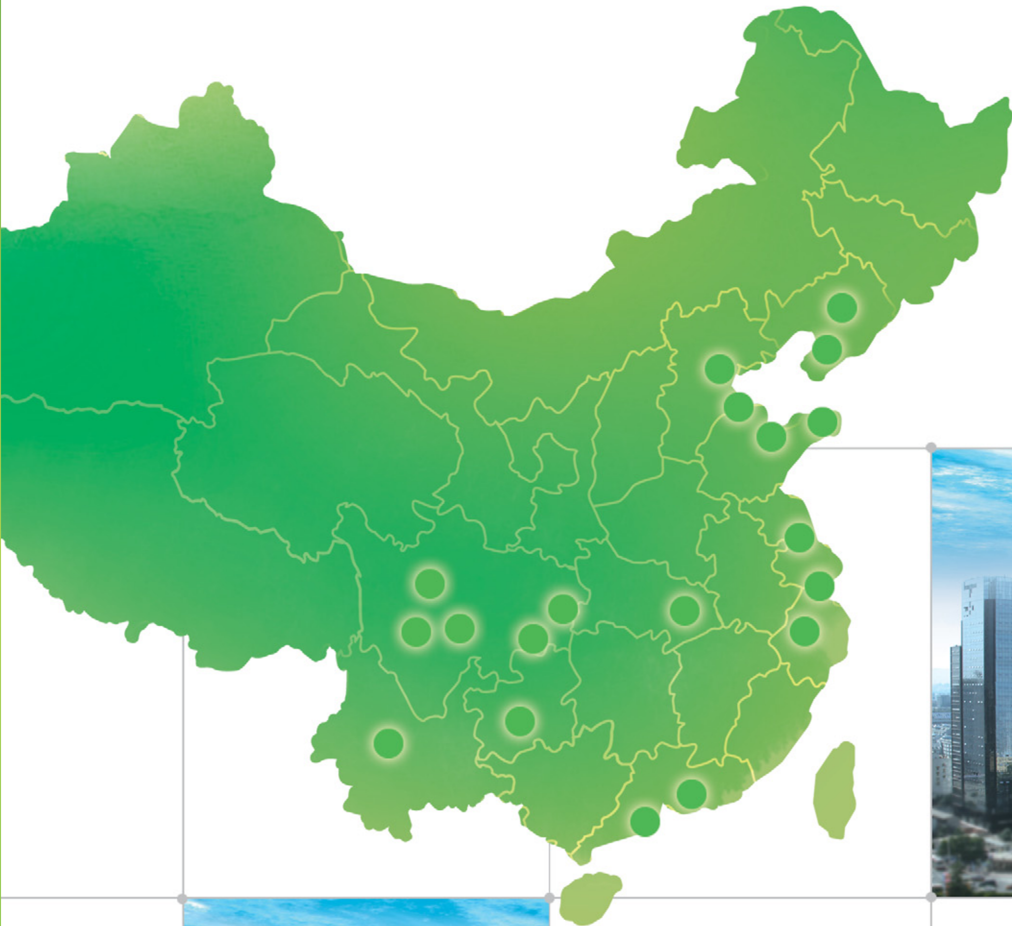
瑞 安 建 業 有 限 公 司
SHUI ON CONSTRUCTION AND MATERIALS LIMITED

(Incorporated in Bermuda with limited liability)
(於百慕達註冊成立之有限公司)



Interim Report
中期報告
2007

Stock Code 股份代號: 983

Acknowledgement: the cover picture of Tsim Sha Tsui was from the Architectural Services Department
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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Lo Hong Sui, Vincent *(Chairman)*
Mr. Choi Yuk Keung, Lawrence *(Vice-chairman)*
Mr. Wong Yuet Leung, Frankie
(Chief Executive Officer)
Mrs. Lowe Hoh Wai Wan, Vivien

Non-executive Director

Professor Michael John Enright

Independent Non-executive Directors

Mr. Anthony Griffiths
Mr. Cheng Mo Chi, Moses
Mr. Gerrit Jan de Nys

AUDIT COMMITTEE

Mr. Anthony Griffiths *(Chairman)*
Mr. Cheng Mo Chi, Moses
Mr. Gerrit Jan de Nys
Professor Michael John Enright

REMUNERATION COMMITTEE

Mr. Anthony Griffiths *(Chairman)*
Mr. Cheng Mo Chi, Moses
Mr. Gerrit Jan de Nys
Professor Michael John Enright
Mr. Lo Hong Sui, Vincent

COMPANY SECRETARY

Mr. Sincere Wong

AUDITOR

Deloitte Touche Tohmatsu

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

34th Floor, Shui On Centre
6-8 Harbour Road
Hong Kong

PRINCIPAL SHARE REGISTRARS AND TRANSFER OFFICE

The Bank of Bermuda Limited
6 Front Street
Hamilton HM 11
Bermuda

BRANCH SHARE REGISTRARS AND TRANSFER OFFICE

Tricor Standard Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

STOCK CODE

983

WEBSITE

www.shuion.com

FINANCIAL HIGHLIGHTS

	Six months ended 30 June 2007	Six months ended 30 September 2006
Turnover	**HK$1,413 million**	HK$843 million
Profit before non-cash charges on convertible bonds issued	**HK$290 million**	HK$528 million
Profit attributable to equity holders of the Company	**HK$60 million**	HK$491 million
Basic earnings per share	**HK$0.21**	HK$1.78
Interim dividend per share	**HK$0.15**	HK$0.18

BUSINESS REVIEW

- The Group injected cash and distressed property projects into China Central Properties, which was successfully listed on London's AIM Board, and recognised a total gain of HK$417 million, of which HK$73 million was deferred at the period end.

- The Group took a 22% equity interest in a joint venture with Shui On Land and Yida Group to participate in the development of Dalian Software Park Phase II, a US$2 billion large-scale, multi-faceted project comprising about 3.6 million square metres GFA.

- Lafarge Shui On Cement made steady progress and the successful acquisition of Shuangma Cement reinforces its leadership position in Sichuan Province. It had a total annual production capacity of 23 million tonnes at the end of June.

- With the rise in the share price of Shui On Land, the Group recognised, directly in reserves, a further HK$164 million increase in the fair value of its shareholding in this company.

- Construction operations in Hong Kong and Macau performed well with increased turnover and profit.

- Non-cash charges of HK$230 million in relation to the convertible bonds issued in 2006 were incurred largely due to the considerable rise in the Company's share price.

MANAGEMENT DISCUSSION AND ANALYSIS

Following the change of financial year end date from 31 March to 31 December in 2006, this interim report covers the period from 1 January 2007 to 30 June 2007.

INTERIM RESULTS

The Group's turnover for the six months ended 30 June 2007 was HK$1.4 billion, an increase of 67.6% compared with that for the previous interim reporting period, which ran from 1 April 2006 to 30 September 2006 – prior to the Group's change of its financial year end date. Unaudited consolidated profit after taxation and minority interests was HK$60 million, compared with a profit of HK$491 million in the interim period last year. The decrease in profit can be clearly seen from comparison with the last interim period, which saw HK$534 million profit from the valuation of the preference shares in Shui On Land (SOL) held by the Group at fair value as a result of the initial public offering of SOL in Hong Kong. The results of the current interim period have been adversely affected by the Group having to recognise non-cash charges of HK$230 million in relation to the convertible bonds issued by the Company in 2006, largely due to the considerable rise in the Company's share price.

Throughout the first half of the year, the Group continued to invest in its core businesses in the Mainland within its broader strategy of securing a wider base of recurrent income from this market and from Hong Kong.

INTERIM DIVIDEND

The Board has declared an interim dividend of HK$0.15 per share (2006: HK$0.18 per share) to shareholders whose names appear on the Company's register of members on Wednesday, 10 October 2007. The interim dividend will be paid on Thursday, 18 October 2007.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 8 October 2007 to Wednesday, 10 October 2007, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all completed share transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrars in Hong Kong. Tricor Standard Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on Friday, 5 October 2007.

BUSINESS REVIEW

Distressed Property Development

A major event for SOCAM during the period was the Group's injection of its 5 distressed asset development projects in Beijing, Dalian, Qingdao and Chengdu into a newly created holding company, China Central Properties (CCP), in exchange for CCP shares upon their admission to the London Stock Exchange's AIM Board (AIM) on 13 June 2007. The Group recognised from this asset injection a total gain of HK$417 million compared with its initial investment costs, of which HK$73 million was deferred at the period end.

Upon admission to AIM, CCP placed new shares for approximately £179.6 million and issued US$200 million five-year convertible bonds, raising a total of approximately HK$4.2 billion, net of expenses. In addition to the asset injection, SOCAM subscribed for approximately £63 million shares and US$25 million convertible bonds in CCP. At 30 June 2007, SOCAM held approximately 40.2% of the ordinary shares in CCP.

CCP is mandated to invest in partially completed property projects in the Chinese Mainland, focusing on medium to large projects in major and secondary cities, where such projects become available as a result of their owners' financial constraints. Once acquired, the projects are upgraded and, upon completion, will either be sold or leased. The Group believes this is the right time to capitalise on the exciting opportunities in the China market for partially completed properties, and the AIM admission will provide CCP with the financial resources to capture significant growth opportunities arising in this market niche.

Following the admission to AIM, CCP appointed SOCAM Asset Management (SAM), a wholly-owned subsidiary of SOCAM, as its investment manager, to undertake the management of CCP's property projects and any future investments, including the negotiation and acquisition of potential assets, at an agreed base fee and performance fee. This will provide the Group with a stable, recurrent income stream and performance-linked incentive income. SAM has assembled an investment and project management team which has many years of experience in the China property market and SAM will further leverage on SOCAM's construction, property development and financial structuring expertise to strengthen its competitiveness.

In Beijing, the two properties made good progress. Site works were on schedule at Phase I of Huapu Centre, a Grade-A commercial complex, with completion of the building targeted for October this year. Marketing of the office and retail space has commenced with the aim of leasing 80% of the office space prior to the 2008 Olympic Games. At Beijing Shengyuan Centre, a Grade-A office development, mechanical and electrical engineering work progressed well and completion of the development is expected in December 2007. In June, CCP expanded its portfolio by acquiring, at auction, 76 residences at the Beijing Fengqiao Villas development for RMB306 million and intends to acquire the remaining villas on this site.

In Dalian, the completion certificate of Xiwang Building, a Grade-A office tower, was obtained in February. Leasing was relatively slow, with around 28% of the total rentable floor space of 66,746 square metres taken by the end of the period under review.

In Chengdu, upgrading and construction work for Huitong Building – a mixed-use project comprising an international hotel, Grade-A offices, and high-end retail outlets – was about to commence, with completion of the entire Phase I targeted for mid 2008. Sales and leasing are due to commence in the third quarter of 2007.

In Qingdao, construction of the mixed office, retail and residential project Central International Plaza made good progress during the period with costs in line with budget. The entire building is expected to be completed in September 2007. By the end of the first half year, around 62% of the office space had been sold along with some 78% of the retail area and 41% of the residential space.

Subsequent to the period under review, CCP made further investments. In July, CCP purchased Ruiqi Building at auction for RMB413.7 million. This partially completed, mixed-use project in the central business district of Chongqing has 86,000 square metres gross floor area (GFA) and comprises a 24-storey residential tower and a nine-level commercial podium. Completion of this project is expected before the end of 2008. CCP also acquired Central Plaza in Shenyang via auction for RMB187 million. Relocation at this 243,000-square-metre GFA project has been completed. Central Plaza will be developed into a high quality, multi-use complex and, when completed in around 2010, will comprise a four-level retail podium, three residential towers, a hotel/serviced apartment tower as well as an office block. In August, 10 more villas at Beijing Fengqiao were acquired through auction at a cost of about RMB40.5 million.

By the end of August, CCP had a property portfolio of 8 projects in six major cities with a total GFA in excess of 800,000 square metres.

Dalian Software Park Phase II Development Project

In May, SOCAM successfully entered into an agreement with SOL and Yida Group, an experienced developer in Northern China, to form a joint venture for the development of Dalian Software Park Phase II. The formation of the joint venture was unanimously approved by the Company's independent shareholders voting in June. Dalian's economy is growing rapidly. This large-scale, multi-faceted project, comprising approximately 3.6 million square metres, aims to serve businesses and industries relating to information technology outsourcing and business process outsourcing that are growing rapidly in Dalian. The project includes residential property, estates serving the needs of the software industry, commercial and retail properties together with educational and research facilities, outdoor recreation and environmental facilities and other public amenities. According to the current development plan, this US$2 billion project will be constructed in six phases over an 8-10 year period.

The joint venture combines the strength, expertise and experience of the partners concerned and is poised to create substantial synergies. The project draws on SOCAM's expertise in project management and quality assurance as well as sales and marketing while SOL will be responsible for master planning and overall design of the development. SOCAM has invested approximately HK$507.7 million for its 22% effective equity interest and SAM will provide management services to this project.

Cement

Lafarge Shui On Cement (LSOC)

The operations in the LSOC joint venture performed well and at a profit due to increased sales volumes and pricing. It sold 7.8 million tonnes of cement in the first half of this year. In Sichuan, there was strong demand with tighter supply and higher prices, especially from April onwards. The second line in Dujiangyan, commissioned in October 2006, effectively doubled the production capacity of the Dujiangyan plant and brought a substantial improvement in results for the first half. In May, LSOC obtained the final approval from the China Securities Regulatory Commission in respect of the acquisition of the Shuangma plants. This increased the joint venture's capacity in Sichuan to 7 million tonnes per annum, reinforcing LSOC's leadership position in the province.

Yunnan saw strong demand for cement, although increased supply created a more competitive environment with noticeable pressure on pricing and volume for LSOC's operation. In Chongqing, performance continued to improve when general market conditions allowed an increase in price. In addition, the steel slag plant also started to make a positive contribution. In Guizhou, increased competition for high-grade cement and rising fuel and coal costs undercut the performance of the three dry kilns in Dingxiao, Xinpu and Shuicheng. Reduced demand for cement in Beijing reflected slower growth in construction works than in previous years.

At the end of June, LSOC's total production capacity was 23 million tonnes per annum.

The joint venture is seeking to further strengthen its market leadership, increase market share, and implement the successful Lafarge operation management system at all plants. All these measures will help the joint venture lay a solid foundation for future growth. It also plans to build two dry kilns each with a capacity of 5,000 tonnes per day (tpd) in Chongqing, and two dry kilns each with a capacity of 2,500 tpd in Guizhou.

Guizhou Cement

The six cement plants in Guizhou retained by SOCAM produced steady profits on a total sales volume of approximately 740,000 tonnes for the first half of this year. Cement production, sales and prices were all higher than that for the same period last year. SOCAM continued to implement strategic measures, including cost-saving programmes and technical improvements, to maximise operational efficiency and to cope with rising coal and fuel costs.

In August, the Group entered into an agreement with the Kaili Government for the construction of a new dry kiln with a production capacity of 2,500 tpd in Kaili to meet the increasing demand for cement in Guizhou Province and phase out the current wet line. Completion of this new production line is targeted for the end of 2008.

Venture Capital

The portfolio of venture capital investments enjoyed steady performance. During the period, the Group was a 65.5% and 75.4% shareholder respectively in the two Yangtze Ventures Funds. The Group was also a 66.8% shareholder in On Capital China Fund (formerly known as On Capital China Tech Fund).

Yangtze Ventures Funds (YVF)

The two Yangtze Ventures Funds were fully invested throughout the period. AIM-listed Walcom Group, which manufactures animal feedstuff, saw improved profit margins due to increasing demand for its products. Wuhan Huali Environmental Protection Technology achieved key European environmental certification during the period for its environmentally friendly, packaging products. Sales to foreign customers for product testing progressed well and are expected to pave the way for future volume sales.

CIG specialises in port development, operation and management along the Yangtze River. Turnover and throughput at CIG Yangtze Ports (a subsidiary of CIG listed on the Hong Kong Growth Enterprise Market Board and holding a port in Wuhan) continued to improve during the period and the share price of CIG Yangtze Ports rose substantially to HK$0.98 at the end of June, after the placing of 20% new shares with Value Partners at a price of HK$0.59 per share in June.

YVF retained a 6.24% interest during the period in Carling Technology (Gushan), which manufactures and sells biodiesel and related products. Plans to list this business in 2007 are on track. AIM-listed Cosmedia, a provider of TV entertainment programmes in China, expanded its coverage to 12 million households during the first half of the year.

On Capital China Fund (On Capital)

Established in 2004, and with a variety of technology-related investments, On Capital's performance was satisfactory.

Listed in Australia, Arasor, an optoelectronics and wireless solutions provider, is rapidly expanding operations within its major growth markets such as China and India. SOCAM is implementing an exit plan for its holding of 27.7 million shares in Hi Sun Technology (China) Limited – listed on the Main Board of the Hong Kong Stock Exchange – and about 36% of the shares were profitably sold during the first half year at an average price of HK$2.51 per share.

During the period, On Capital invested US$2.91 million in IGO Home Shopping, a TV home shopping business with initial coverage in Hangzhou. The Fund was fully invested at the end of the period.

Property Development Investment – SOL

In May, SOL formed a joint venture with SOCAM and Yida Group for the development of Dalian Software Park Phase II. It has a 48% effective equity interest in this joint venture.

SOL continues to implement its plan to form strategic partnerships with appropriate investors to sell parts of its interest in selected projects and/or co-develop selected projects. In June, it entered into sale and purchase agreements to dispose of 25% and 49% of its interest in the property development projects in Wuhan Tiandi, Wuhan and in Lot 116 of Taipingqiao, Shanghai for approximately RMB1,245 million and RMB364 million respectively. These will accelerate the development schedules of SOL and allow it to undertake more new projects.

The value of the Group's 17.84% shareholding in SOL at 30 June 2007, based on SOL's closing price of HK$7.01 per share, was approximately HK$5.23 billion as compared with HK$5.07 billion at 31 December 2006. The Group recognised this HK$164 million increase in the fair value of its shareholding in SOL directly in reserves. In August, after obtaining unanimous approval of the Company's independent shareholders voting, the Group disposed of approximately 220.4 million shares – equivalent to approximately 5.27% of the issued share capital of SOL – to Shui On Investment Company Limited (the private group) for HK$1.8 billion, at a price of HK$8.1664 per share, which represented a premium of 3.8% over the closing price of HK$7.87 on the date of signing the sale and purchase agreement, and recognised in the income statement a gain on disposal, net of transaction costs, of approximately HK$930 million, including the realisation of approximately HK$824 million gain previously included in the reserves. The proceeds received from the disposal have been used by the Group for working capital and bank borrowings repayments. This has strengthened the Group's financial position for expanding its other core businesses and investments.

Construction in Hong Kong, Macau and the Chinese Mainland

The division's total turnover for the first half year was HK$1,400 million, while contracts totalling HK$1,849 million were won. Despite cost pressures reflecting keen demand for materials, labour and specialist technical staff, both Shui On Building Contractors and Shui On Construction saw steady business in the first half year, with turnover and profit ahead of plan.

At 30 June 2007, the gross and outstanding values of contracts on hand were approximately HK$5.5 billion and HK$3.6 billion respectively (30 September 2006: approximately HK$4.7 billion and HK$3.2 billion respectively).

Shui On Building Contractors (SOBC)

SOBC secured a maintenance contract, worth approximately HK$105 million, from the Hong Kong Housing Authority, which means the Group continues to hold the maximum number of Housing Authority maintenance contracts allowed for any single contractor. SOBC also won a further maintenance contract, worth approximately HK$270 million, from the Architectural Services Department. Six new Hong Kong Housing Authority tenders are expected to be released in the second half year for which SOBC will compete vigorously.

Shui On Construction (SOC)

In the first half year, SOC was awarded a major design-and-build project by the Architectural Services Department, valued at approximately HK$1.1 billion, to build the Customs Headquarters Building for the Hong Kong Customs and Excise Department.

During the period, SOC completed the Independent Commission Against Corruption Headquarters Building, as well as a Rehabilitation Block at Tuen Mun Hospital and the extension facilities at Prince of Wales Hospital.

Pat Davie
In Hong Kong, Pat Davie continued to secure projects from the commercial sector. Major projects completed or in progress during the first half year included office fit-out jobs for Hang Seng Bank, the Hong Kong Airport Authority and UBS AG Bank. In Macau, Pat Davie maintained its strong track record in the gaming and hospitality sectors and won further projects from Venetian, Wynn and MGM. Turnover in Macau, which amounted to HK$220 million, accounted for 70% of the total turnover of this company.

Pat Davie continued to provide close support to CCP's distressed property development projects in Dalian and Qingdao, and expects to undertake project management and fit-out work for the projects in Beijing and Chengdu.

PROSPECTS

The acquisition and development of distressed property in the Chinese Mainland is now a core SOCAM business. With continuing robust, economic growth in the Chinese Mainland, the Group is confident that its interest in CCP – the vehicle for its distressed property development activity – will deliver attractive returns and value growth. The Group expects CCP to achieve its target portfolio of a GFA of 1,000,000 square metres under development by the end of 2007. This would represent more than double the GFA of 425,000 square metres that accrued from the initial five projects injected into the company at the outset. SAM will also stand to benefit from the rapidly expanding property portfolio of CCP under its management, generating a new source of recurrent income for the Group.

The Group will continue its strategy of building a strong position as one of the leading corporations in the Mainland's high-quality cement market through the LSOC joint venture. Already Southwest China's leading cement producer, LSOC has the vision to be one of the top cement suppliers in the Chinese Mainland adhering to world-class standards for safety, environmental protection and accountability. Production capacity at the end of 2007 is estimated at 24 million tonnes per annum. LSOC has embarked on an aggressive capacity-expansion programme for the next few years.

Listings and other fund-raising initiatives are expected to bring improved returns from our venture capital investments.

As a leading Mainland property developer, SOL is playing an important role in developing seven projects in five major cities – Shanghai, Hangzhou, Chongqing, Wuhan and Dalian. Currently, it has a land bank of approximately 12 million square metres of GFA (including Dalian Software Park Phase II) in the Chinese Mainland. SOCAM's joint venture with SOL on the Dalian Software Park Phase II Development is also well-placed to bring attractive, long-term returns, combining the respective strengths of the two sister companies.

On the construction front, the Group remains well positioned to win competitive tenders in Hong Kong, while in Macau, the growing gaming and hospitality sectors will continue to deliver promising growth opportunities for Pat Davie in the medium term.

LIQUIDITY AND FINANCING

At 30 June 2007, the Group's borrowings, including bank borrowings and outstanding convertible bonds but net of bank balances, deposits and cash, amounted to approximately HK$4,798 million (31 December 2006: HK$3,515 million).

The Group's gearing ratio, calculated on the basis of net borrowings over shareholders' equity, increased from 68% at 31 December 2006 to 86% at 30 June 2007, largely due to the cash subscription of shares and convertible bonds in CCP.

In August, the Group disposed of about 220.4 million shares in SOL, representing around 5.27% of the issued share capital of SOL, to the Shui On private group for approximately HK$1.8 billion in cash. As a result, the borrowings of the Group have markedly decreased, freeing up considerable gearing capacity for the Group's future investments.

In addition, the progressive conversion of the convertible bonds issued by the Company has lowered the Group's gearing and strengthened its equity base. At the end of August, convertible bonds of approximately HK$406 million, out of a total of HK$930 million, had been converted into about 23.7 million ordinary shares of the Company. The Group's gearing ratio was approximately 59% at 31 August 2007.

TREASURY POLICIES

Bank borrowings are mainly denominated in Hong Kong dollars and have been arranged on a floating rate basis. The convertible bonds are denominated in Hong Kong dollars and are zero coupon. Investments in the Chinese Mainland are partly financed by borrowings in Hong Kong dollars. Given that income from operations in the Chinese Mainland is denominated in Renminbi, the Group expects that fluctuation in the Renminbi exchange rate will have very little negative effect on the business performance and the financial status of the Group. Therefore no hedging against Renminbi exchange risk has been effected.

EMPLOYEES

At 30 June 2007, the number of employees of the Group was approximately 830 (30 September 2006: 820) in Hong Kong and Macau and 13,200 (30 September 2006: 15,500) in subsidiaries and jointly controlled entities in the Chinese Mainland. Employee remuneration packages are maintained at competitive levels and employees are rewarded on a performance-related basis. Other staff benefits include provident fund schemes, medical insurance, in-house training and subsidies for job-related seminars, and programmes organised by professional bodies and educational institutes. Share options are granted annually by the Board of Directors to senior management staff members as appropriate. Likewise, in the Chinese Mainland, staff benefits are commensurate with market levels, with an emphasis on provision of training and development opportunities.

FINANCIAL INFORMATION

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Six months ended 30 June 2007 HK$ million (unaudited)	Six months ended 30 September 2006 HK$ million (unaudited)
Continuing operations			
Turnover			
The Company and its subsidiaries		**1,413**	843
Share of jointly controlled entities		**885**	660
		2,298	1,503
Group turnover	3	**1,413**	843
Other income		**42**	37
Changes in inventories of finished goods, work in progress, contract work in progress and properties held for sale		**55**	28
Raw materials and consumables used		**(219)**	(127)
Staff costs		**(164)**	(142)
Depreciation and amortisation expenses		**(4)**	(4)
Subcontracting, external labour costs and other expenses		**(1,127)**	(625)
Dividend income from available-for-sale investments		**45**	–
Fair value changes on investment properties		**17**	–
Fair value changes on financial assets at fair value through profit or loss		**–**	(16)
Fair value changes on derivative financial instruments	4	**2**	534
Convertible bonds issued			
– Fair value changes on embedded derivatives	4	**(182)**	(21)
– Imputed interest expense	5	**(48)**	(16)
Interest on bank loans and other borrowing costs	5	**(93)**	(88)
Impairment loss recognised in respect of interests in jointly controlled entities		**–**	(1)
Gain on disposal of interests in jointly controlled entities	20	**110**	–
Loss on deemed disposal of interest in an associate	20	**(21)**	–
Loss on partial disposal of interest in a subsidiary		**–**	(10)
Gain on deemed disposal of interest in an associate		**–**	79
Share of results of jointly controlled entities		**252**	40
Share of results of an associate		**(9)**	(8)
Profit before taxation		**69**	503
Taxation	6	**(6)**	(6)
Profit for the period from continuing operations		**63**	497
Discontinued operations			
Loss for the period from discontinued operations		**–**	(5)
Profit for the period	7	**63**	492

	Notes	Six months ended 30 June 2007 HK$ million (unaudited)	Six months ended 30 September 2006 HK$ million (unaudited)
Attributable to:			
Equity holders of the Company		**60**	491
Minority interests		**3**	1
		63	492
Dividends	8		
Paid		**151**	69
Proposed		**47**	50
Earnings per share	9		
Basic		**HK$0.21**	HK$1.78
Diluted		**HK$0.21**	HK$1.51

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	30 June 2007 HK$ million (unaudited)	31 December 2006 HK$ million (audited)
Non-current Assets			
Investment properties		**82**	63
Property, plant and equipment		**31**	30
Prepaid lease payments		**42**	41
Interests in jointly controlled entities		**3,081**	2,549
Available-for-sale investments	10	**5,234**	5,070
Interests in an associate	20	**1,752**	–
Investment in convertible bonds	11	**165**	–
Club memberships		**1**	1
Defined benefit assets		**90**	83
		10,478	7,837
Current Assets			
Inventories		**27**	22
Prepaid lease payments		**1**	1
Properties held for sale		**55**	55
Debtors, deposits and prepayments	12	**617**	812
Derivative financial instruments		**44**	9
Amounts due from customers for contract work		**172**	109
Amounts due from jointly controlled entities		**552**	1,205
Amounts due from related companies		**1**	1
Amounts due from an associate		**119**	–
Taxation recoverable		**2**	–
Held-for-trading investments		**43**	–
Pledged bank deposits	13	**80**	200
Bank balances, deposits and cash		**137**	65
		1,850	2,479
Non-current assets held for sale		**32**	31
		1,882	2,510

	Notes	30 June 2007 HK$ million (unaudited)	31 December 2006 HK$ million (audited)
Current Liabilities			
Creditors and accrued charges	14	790	865
Amounts due to customers for contract work		149	143
Amounts due to jointly controlled entities		42	156
Loan from a related company		350	–
Amounts due to an associate		64	–
Taxation payable		6	11
Derivative financial instruments	17	295	175
Bank borrowings due within one year		3,043	2,395
		4,739	3,745
Net Current Liabilities		(2,857)	(1,235)
Total Assets Less Current Liabilities		7,621	6,602
Capital and Reserves			
Share capital	15	301	284
Reserves	16	5,291	4,880
Total equity attributable to equity holders of the Company		5,592	5,164
Minority interests	16	56	52
Total Equity		5,648	5,216
Non-current Liabilities			
Bank borrowings		1,309	567
Convertible bonds	17	663	818
Deferred tax liabilities		1	1
		1,973	1,386
		7,621	6,602

CONDENSED CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

	Six months ended	
	30 June 2007 HK$ million (unaudited)	30 September 2006 HK$ million (unaudited)
Gain on fair value changes of available-for-sale investments	**164**	–
Exchange difference arising on translation of financial statements of operations outside Hong Kong	**58**	38
Recognition of actuarial loss	**–**	(18)
Share of reserves of an associate	**–**	20
Net income recognised directly in equity	**222**	40
Transfer from exchange reserve to profit or loss upon disposal of interests in jointly controlled entities	**(10)**	–
Profit for the period	**63**	492
Total recognised income and expense for the period	**275**	532
Attributable to:		
Equity holders of the Company	**271**	531
Minority interests	**4**	1
	275	532

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended	
	30 June 2007 HK$ million (unaudited)	30 September 2006 HK$ million (unaudited)
Net cash from (used in) operating activities	**199**	(108)
Net cash used in investing activities (Note 1)	**(1,252)**	(337)
Net cash from financing activities (Note 2)	**1,127**	970
Net increase in cash and cash equivalents	**74**	525
Cash and cash equivalents at the beginning of the period	**62**	83
Effect of foreign exchange rate changes	**1**	–
Cash and cash equivalents at the end of the period	**137**	608
Analysis of the balances of cash and cash equivalents		
Bank balances, deposits and cash	**137**	608

Notes:

1. Included in the net cash used in investing activities is the injection of £63 million (HK$975 million) and US$25 million (HK$196 million) into China Central Properties Limited ("CCP"), an associate of the Group, to subscribe for shares and convertible bonds of CCP, respectively during the period.

2. During the period, the Group made drawdowns on bank loans totaling HK$1,720 million and loan repayments totaling HK$329 million.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2007

1. Basis of Preparation

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The condensed consolidated financial statements for the current period cover the six-month period from 1 January 2007 to 30 June 2007. The corresponding comparative amounts shown for the condensed consolidated income statement, condensed consolidated statement of recognised income and expense, condensed consolidated cash flow statement and related notes cover the six-month period from 1 April 2006 to 30 September 2006 and therefore may not be comparable with amounts shown for the current period. The Company resolved to change its financial year end date to 31 December during the nine-month period ended 31 December 2006 in order to align financial reporting dates within the Group.

2. Principal Accounting Policies

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments which are measured at fair values.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the period ended 31 December 2006 except as described below.

In the current interim period, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the HKICPA, which are effective for the Group's financial period beginning 1 January 2007. The application of these new HKFRSs has had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new/revised standards or interpretations that have been issued but are not yet effective. The Directors of the Company anticipate that the application of these new standards or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 23 (Revised)	Borrowing costs[1]
HKFRS 8	Operating segment[1]
HK(IFRIC)-Int 11	HKFRS 2: Group and Treasury Share Transactions[2]
HK(IFRIC)-Int 12	Service Concession Arrangements[3]

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 March 2007
[3] Effective for annual periods beginning on or after 1 January 2008

3. Business and Geographical Segments

An analysis of the Group's turnover and results by business segments is as follows:

For the six months ended 30 June 2007

	Construction and building maintenance HK$ million	Cement operations: Through LSOC# HK$ million	Cement operations: Other cement operations HK$ million	Property development HK$ million	Property investment and others HK$ million	Total HK$ million	Eliminations HK$ million	Consolidated HK$ million
TURNOVER								
External sales	1,400	–	–	–	13	1,413	–	1,413
Inter-segment sales	1	–	–	–	–	1	(1)	–
Group turnover	1,401	–	–	–	13	1,414	(1)	1,413
Share of jointly controlled entities	5	708	169	–	3	885	–	885
Total	1,406	708	169	–	16	2,299	(1)	2,298

Inter-segment sales are charged at mutually agreed prices.

LSOC denotes Lafarge Shui On Cement Limited, a jointly controlled entity of the Group.

	Construction and building maintenance HK$ million	Cement operations: Through LSOC# HK$ million	Cement operations: Other cement operations HK$ million	Property development HK$ million	Property investment and others HK$ million	Total HK$ million	Eliminations HK$ million	Consolidated HK$ million
RESULTS								
Segment results	34	4	(3)	(6)	(41)	(12)		(12)
Interest income	1	–	3	–	3	7		7
Interest income from convertible bonds	–	–	–	1	–	1		1
Fair value changes on investment properties	–	–	–	–	17	17		17
Fair value changes on derivative financial instruments	–	–	–	2	–	2		2
Dividend income from available-for-sale investments	–	–	–	45	–	45		45
Convertible bonds issued								
– Fair value changes on embedded derivatives	–	–	–	–	(182)	(182)		(182)
– Imputed interest expense	–	–	–	–	(48)	(48)		(48)
Interest on bank loans and other borrowing costs	–	–	(5)	–	(88)	(93)		(93)
Gain on disposal of interests in jointly controlled entities	–	–	–	110	–	110		110
Loss on deemed disposal of interest in an associate	–	–	–	(21)	–	(21)		(21)
Share of results of jointly controlled entities								
Cement operations in								
– LSOC	–	40	–	–	–	40		40
– Guizhou	–	–	2	–	–	2		2
Venture capital investments	–	–	–	–	24	24		24
Distressed asset development	–	–	–	187	–	187		187
Others	(1)	–	–	–	–	(1)		(1)
						252		252
Share of results of an associate	–	–	–	(9)	–	(9)		(9)
Profit before taxation						69		69
Taxation						(6)		(6)
Profit for the period						63		63

For the six months ended 30 September 2006

	Continuing operations						Discontinued operations		
		Cement operations							
	Construction and building maintenance HK$ million	Through LSOC HK$ million	Other cement operations HK$ million	Property development HK$ million	Property investment and others HK$ million	Total HK$ million	Sale of construction materials HK$ million	Eliminations HK$ million	Consolidated HK$ million
TURNOVER									
External sales	817	–	–	–	26	843	–	–	843
Inter-segment sales	1	–	–	–	2	3	–	(3)	–
Group turnover	818	–	–	–	28	846	–	(3)	843
Share of jointly controlled entities	60	436	141	–	23	660	–	–	660
Total	878	436	141	–	51	1,506	–	(3)	1,503

Inter-segment sales are charged at mutually agreed prices.

	Construction and building maintenance HK$ million	Through LSOC HK$ million	Other cement operations HK$ million	Property development HK$ million	Property investment and others HK$ million	Total HK$ million	Sale of construction materials HK$ million	Eliminations HK$ million	Consolidated HK$ million
RESULTS									
Segment results	24	5	(11)	(13)	(38)	(33)	(5)		(38)
Interest income	1	1	3	–	8	13	–		13
Interest income from preference shares	–	–	–	14	–	14	–		14
Fair value changes on derivative financial instruments	–	–	–	534	–	534	–		534
Convertible bonds issued									
– Fair value changes on embedded derivatives	–	–	–	–	(21)	(21)	–		(21)
– Imputed interest expense	–	–	–	–	(16)	(16)	–		(16)
Interest on bank loans and other borrowing costs	–	–	(1)	–	(87)	(88)	–		(88)
Impairment loss recognised in respect of interests in jointly controlled entities	–	–	(1)	–	–	(1)	–		(1)
Loss on disposal of interest in a subsidiary	–	–	–	–	(10)	(10)	–		(10)
Gain on deemed disposal of interest in an associate (Note)	–	–	–	79	–	79	–		79
Share of results of jointly controlled entities									
Cement operations in									
– LSOC	–	2	–	–	–	2	–		2
– Guizhou	–	–	4	–	–	4	–		4
Venture capital investments	–	–	–	–	3	3	–		3
Distressed asset development	–	–	–	32	–	32	–		32
Others	–	–	(1)	–	–	(1)	–		(1)
						40	–		40
Share of results of an associate	–	–	–	(8)	–	(8)	–		(8)
Profit (loss) before taxation						503	(5)		498
Taxation						(6)	–		(6)
Profit (loss) for the period						497	(5)		492

Note: Gain on deemed disposal of interest in an associate arose from the issue of shares by the associate to an investor during that period.

Geographical segments

The Group's operations are located in Hong Kong and other regions in the People's Republic of China (the "PRC").

Analysis of the Group's turnover by geographical markets, irrespective of the origin of the goods/services, is as follows:

	Six months ended	
	30 June 2007 HK$ million	30 September 2006 HK$ million
Hong Kong	**1,077**	757
Other regions in the PRC	**336**	86
	1,413	843

4. Fair Value Changes on Derivative Financial Instruments

	Six months ended	
	30 June 2007 HK$ million	30 September 2006 HK$ million
Changes in fair values of embedded derivatives in:		
– Convertible bonds issued by an associate	**2**	–
– Convertible bonds issued by the Company	**(182)**	(21)
– Convertible redeemable participating junior preference shares issued by an associate	**–**	534
Net (loss) gain recognised	**(180)**	513

5. Finance Costs

	Six months ended	
	30 June 2007 HK$ million	30 September 2006 HK$ million
Imputed interest expense on convertible bonds issued by the Company	**48**	16
Interest on bank loans and other borrowing costs	**93**	88
	141	104

6. Taxation

	Six months ended	
	30 June 2007 HK$ million	30 September 2006 HK$ million
The charge comprises:		
Current taxation		
Hong Kong Profits Tax	**3**	4
Income tax of other regions in the PRC	**3**	–
Deferred taxation	**–**	2
	6	6

Hong Kong Profits Tax is calculated at 17.5% (2006: 17.5%) on the estimated assessable profits for the period. Income tax outside Hong Kong is calculated at the rates prevailing in the respective jurisdictions.

7. Profit for the Period

	Six months ended	
	30 June 2007 HK$ million	30 September 2006 HK$ million
Profit for the period has been arrived at after charging (crediting):		
Depreciation and amortisation:		
Prepaid lease payments	**1**	1
Property, plant and equipment	**3**	3
	4	4
Impairment loss on prepaid lease payments (included in subcontracting, external labour costs and other expenses)	**–**	4
Fair value changes on held-for-trading investments	**3**	–
Share of tax of an associate (included in share of results of an associate)	**–**	115
Share of tax of jointly controlled entities (included in share of results of jointly controlled entities)	**(2)**	2

8. Dividends

The Board recommended the payment of an interim dividend of HK$0.15 per share for the six months ended 30 June 2007 (for the six months ended 30 September 2006: HK$0.18 per share).

	Six months ended	
	30 June 2007 HK$ million	30 September 2006 HK$ million
Dividends paid	**151**	69
Proposed interim dividend in respect of 2007 at HK$0.15 per share (2006: HK$0.18 per share)	**47**	50

On 15 June 2007, a dividend of HK$0.52 per share (for the year ended 31 March 2006: HK$0.25 per share) was paid to shareholders as the final dividend for the nine months ended 31 December 2006.

9. Earnings per Share

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	Six months ended	
	30 June 2007 HK$ million	30 September 2006 HK$ million
Earnings:		
Earnings for the purposes of basic earnings per share	**60**	491
Effect of dilutive potential ordinary shares for convertible bonds issued:		
Imputed interest expense	**–**	16
Fair value changes on derivative financial instruments	**–**	21
Effect of dilutive potential ordinary shares of an associate:		
Interest income on convertible redeemable participating junior preference shares	**–**	(14)
Adjustment to the share of results of an associate based on dilution of its earnings per share	**–**	(4)
Earnings for the purposes of diluted earnings per share	**60**	510

	Million	Million
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**285**	276
Effect of dilutive potential ordinary shares:		
Convertible bonds	**–**	54
Share options	**4**	8
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**289**	338

The computation of diluted earnings per share for the six months ended 30 June 2007 does not assume the conversion of outstanding convertible bonds issued by the Company and an associate, since their conversion would result in an increase in earnings per share for the current period.

10. Available-for-sale Investments

	30 June 2007 HK$ million	31 December 2006 HK$ million
Listed equity securities in Hong Kong (at market price)	**5,234**	5,070

Available-for-sale investments at 30 June 2007 and 31 December 2006 represent the Group's 17.8% equity interest in Shui On Land Limited ("SOL"), a fellow subsidiary of the Company.

As disclosed in note 23(b), the Group has disposed of approximately 5.27% equity interest in SOL in August 2007. The net proceeds have been used to repay the Group's existing debts.

11. Investment in Convertible Bonds

On 13 June 2007, the Group subscribed for US$25 million 2% convertible bonds due 2012 of CCP, an associate of the Group, upon the listing of CCP's shares on the AIM Board of the London Stock Exchange plc ("Listing"). The effective interest rate of the straight debt component is 13.8% per annum. Details of the transaction are set out in the announcements of the Company dated 12 April 2007, 15 May 2007, 23 May 2007 and 8 June 2007.

The investment in convertible bonds of CCP has been split between a straight debt receivable component and embedded derivatives. The Group engaged independent valuers to assess the fair values of the embedded derivatives, which were determined in accordance with generally acceptable option pricing models. The movement of the convertible bonds for the period is as follows:

	Straight debt HK$ million	**Embedded derivatives** HK$ million
Convertible bonds subscribed on 13 June 2007	164	32
Interest income recognised during the period	1	–
Changes in fair value	–	2
At 30 June 2007	**165**	**34**

12. Debtors, Deposits and Prepayments

The Group maintains a defined credit policy. The general credit term ranges from 30 to 90 days.

Included in debtors, deposits and prepayments are debtors with an aged analysis at the balance sheet date as follows:

	30 June 2007 HK$ million	31 December 2006 HK$ million
Within 90 days	**250**	326
91 days to 180 days	**1**	12
181 days to 360 days	**–**	1
Over 360 days	**5**	5
	256	344
Retentions receivable	**123**	90
Prepayments, deposits and other receivables	**238**	378
	617	812

13. Pledged Bank Deposits

	30 June 2007 HK$ million	31 December 2006 HK$ million
In relation to:		
Short term bank loan granted to the Group	**80**	80
Standby letter of credit issued relating to a bank loan granted to a jointly controlled entity	**–**	120
	80	200

14. Creditors and Accrued Charges

The aged analysis of creditors of HK$96 million (31 December 2006: HK$266 million) which are included in the Group's creditors and accrued charges is as follows:

	30 June 2007 HK$ million	31 December 2006 HK$ million
Within 30 days	**79**	246
31 days to 90 days	**7**	10
91 days to 180 days	**3**	3
Over 180 days	**7**	7
	96	266
Retentions payable	**123**	112
Dividend payable	**–**	51
Accruals and other payables	**571**	436
	790	865

15. Share Capital

	Number of shares			
	30 June 2007	31 December 2006	30 June 2007 HK$ million	31 December 2006 HK$ million
Ordinary shares of HK$1 each:				
Authorised				
At the beginning and the end of the period/year	**1,000,000,000**	1,000,000,000	**1,000**	1,000
Issued and fully paid				
At the beginning of the period/year	**283,600,000**	274,632,000	**284**	275
Exercise of share options	**4,749,000**	8,968,000	**4**	9
Conversion of convertible bonds	**12,775,760**	–	**13**	–
At the end of the period/year	**301,124,760**	283,600,000	**301**	284

16. Reserves

	Attributable to equity holders of the Company												
	Share premium account HK$ million	Translation reserve HK$ million	Contributed surplus HK$ million	Goodwill HK$ million	Retained profits HK$ million	Reserve funds HK$ million	Share option reserve HK$ million	Actuarial gain and loss HK$ million	Investment revaluation reserve HK$ million	Other reserve HK$ million	Total HK$ million	Minority interests HK$ million	Total equity HK$ million
At 1 April 2006	597	46	197	(3)	979	1	2	64	–	165	2,048	98	2,146
Exchange differences arising on translation of financial statements of operations outside Hong Kong	–	38	–	–	–	–	–	–	–	–	38	–	38
Recognition of actuarial loss	–	–	–	–	–	–	–	(18)	–	–	(18)	–	(18)
Share of translation reserve of an associate	–	20	–	–	–	–	–	–	–	–	20	–	20
Net income recognised directly in equity	–	58	–	–	–	–	–	(18)	–	–	40	–	40
Profit for the period	–	–	–	–	491	–	–	–	–	–	491	1	492
Total recognised income and expense for the period	–	58	–	–	491	–	–	(18)	–	–	531	1	532
Disposal of interest in a subsidiary	–	–	–	–	–	–	–	–	–	–	–	18	18
Premium on issue of shares	24	–	–	–	–	–	–	–	–	–	24	–	24
Recognition of share-based payment expense	–	–	–	–	–	–	3	–	–	–	3	–	3
Transfer upon exercise of share options	1	–	–	–	–	–	(1)	–	–	–	–	–	–
Dividends paid	–	–	–	–	(69)	–	–	–	–	–	(69)	(1)	(70)
Capital contribution from minority shareholders	–	–	–	–	–	–	–	–	–	–	–	(1)	(1)
Share of reserves of an associate	–	–	–	–	–	–	–	–	–	(1)	(1)	–	(1)
At 30 September 2006	622	104	197	(3)	1,401	1	4	46	–	164	2,536	115	2,651
At 1 January 2007	647	52	197	(3)	1,460	1	7	76	2,188	255	4,880	52	4,932
Gain on fair value changes of available-for-sale investments	–	–	–	–	–	–	–	–	164	–	164	–	164
Exchange differences arising on translation of financial statements of operations outside Hong Kong	–	57	–	–	–	–	–	–	–	–	57	1	58
Net income recognised directly in equity	–	57	–	–	–	–	–	–	164	–	221	1	222
Disposal of interests in jointly controlled entities	–	(10)	–	–	–	–	–	–	–	–	(10)	–	(10)
Profit for the period	–	–	–	–	60	–	–	–	–	–	60	3	63
Total recognised income and expense for the period	–	47	–	–	60	–	–	–	164	–	271	4	275
Premium on issue of shares	26	–	–	–	–	–	–	–	–	–	26	–	26
Conversion of convertible bonds	253	–	–	–	–	–	–	–	–	–	253	–	253
Recognition of share-based payment expense	–	–	–	–	–	–	12	–	–	–	12	–	12
Transfer upon exercise of share options	1	–	–	–	–	–	(1)	–	–	–	–	–	–
Dividends paid	–	–	–	–	(151)	–	–	–	–	–	(151)	–	(151)
At 30 June 2007	**927**	**99**	**197**	**(3)**	**1,369**	**1**	**18**	**76**	**2,352**	**255**	**5,291**	**56**	**5,347**

17. Convertible Bonds

On 31 July 2006, the Company issued HK$930 million zero coupon convertible bonds due 2009. The convertible bonds are listed on the Stock Exchange. The effective interest rate of the straight debt component is 12.5% per annum.

The Group engaged independent valuers to assess the fair values of the embedded derivatives, which were determined in accordance with generally acceptable option pricing models. The movement of the convertible bonds for the period is as follows:

		Derivative financial instruments	
	Straight debt HK$ million	**Early redemption option** HK$ million	**Conversion option** HK$ million
Issued on 31 July 2006	777	(10)	149
Amortised interest charged during the period	16	–	–
Changes in fair value	–	(1)	22
At 30 September 2006	793	(11)	171
At 1 January 2007	818	(9)	175
Amortised interest charged during the period	48	–	–
Changes in fair value	–	(3)	185
Conversion during the period	(203)	2	(65)
At 30 June 2007	**663**	**(10)**	**295**

18. Commitments

(a) Capital commitments

The Group's share of the capital commitments of its jointly controlled entities is as follows:

	30 June 2007 HK$ million	31 December 2006 HK$ million
Contracted but not provided for	**139**	394

(b) Other commitments

At 30 June 2007, the Group had commitments in respect of an investment project contracted but not provided for in the condensed consolidated financial statements amounting to approximately HK$508 million. In the event that any third party funding is required for the development of the investment project, the Group shall, if required by the lender, provide guarantee for such fund up to a maximum amount of RMB110 million. Details of the transaction subsequent to the balance sheet date are set out in note 23(a).

19. Share-based Payments

The Company has a share option scheme for eligible employees of the Group. Details of the share options outstanding during the current period are as follows:

	Number of share options
Outstanding at the beginning of the period	10,233,000
Granted during the period	20,611,000
Exercised during the period	(4,749,000)
Outstanding at the end of the period	26,095,000

The following table discloses details of the share options granted during the period.

Date of grant	**3 January 2007**	**3 January 2007**	**14 June 2007**	**14 June 2007**	**14 June 2007**
Options granted	8,800,000	3,525,000	4,200,000	900,000	3,186,000
Exercise price	HK$16.78	HK$16.78	HK$20.96	HK$20.96	HK$20.96
Exercise period	3-1-2010 to 2-1-2012	3-1-2010 to 2-1-2017	1-7-2010 to 13-6-2012	14-12-2008 to 13-6-2012	14-12-2007 to 13-6-2012
Average fair value of the share options	HK$4.39	HK$3.46	HK$5.85	HK$5.78	HK$5.72
Share price on the date of grant	HK$16.50	HK$16.50	HK$20.90	HK$20.90	HK$20.90

20. Gain on Disposal of Interests in Jointly Controlled Entities/Loss on Deemed Disposal of Interest in an Associate

On 12 April 2007, the Group and the co-investors of certain jointly controlled entities which hold five distressed property development projects in the PRC, entered into asset injection agreements with a wholly-owned subsidiary of CCP in connection with the disposal of the entire equity interest in, and a majority of their related shareholders loans to these jointly controlled entities.

The transaction was completed on 13 June 2007 upon Listing and the Group received 56,924,000 ordinary shares of CCP as the consideration from CCP, representing about 47.8% of the then equity of CCP. The transaction was accounted for as the disposal of interests in jointly controlled entities. Incidental to the disposal and pursuant to the subscription agreement dated 12 April 2007, the Group has further injected £63 million (HK$975 million) and US$25 million (HK$196 million) to subscribe for 63,012,000 ordinary shares and convertible bonds of CCP, respectively upon Listing.

Subsequent to the Listing and the allotment of new CCP shares under the subscription agreement, the Group's equity interest in CCP has been diluted to 40.2%. This was accounted for as a deemed disposal of interest in an associate. Details of the transactions are set out in the circular of the Company dated 18 April 2007 and announcements of the Company dated 12 April 2007, 15 May 2007, 23 May 2007 and 8 June 2007.

As a result of the above transactions, the Group has recognised a net gain of approximately HK$89 million in the condensed consolidated income statement for the six months ended 30 June 2007.

At 30 June 2007, the Group holds a 40.2% equity interest in CCP, which is classified as an associate of the Group.

21. Contingent Liabilities

At 30 June 2007, performance bonds established amounting to approximately HK$219 million (31 December 2006: HK$233 million) have not been provided for in the condensed consolidated financial statements.

At 30 June 2007, the Company has given a corporate guarantee in favour of a bank with respect to a RMB730 million (about HK$749 million) bank loan granted to a subsidiary of an associate. In the opinion of the Directors of the Company, the fair value of the corporate guarantee is insignificant at initial recognition and the Directors consider that the possibility of the default of the parties involved is remote, accordingly, no value has been recognised in the condensed consolidated financial statements.

22. Related Party Transactions

(a) During the period, the Group had the following transactions with Shui On Company Limited ("SOCL") and its subsidiaries and associates other than those of the Group ("SOCL Group").

	Six months ended	
Nature of transactions	**30 June 2007 HK$ million**	30 September 2006 HK$ million
Income received:		
Project management services	**3**	–
Construction work	**31**	–
Cost and expenses paid:		
Interest expense	**9**	3

(b) During the period, the Group had the following transactions with jointly controlled entities.

	Six months ended	
Nature of transactions	**30 June 2007 HK$ million**	30 September 2006 HK$ million
Income received:		
Interest income	**2**	3
Management fee	**18**	10
Rental income	**1**	1
Sales of construction materials	**–**	3
Construction/subcontracting work	**11**	7
Cost and expenses paid:		
Construction/subcontracting work	**8**	6
Supply of construction materials	**–**	1

(c) The Group is licensed by Shui On Holdings Limited, a wholly-owned subsidiary of SOCL, the Company's ultimate holding company, to use the trademark, trade name "Shui On", "瑞安" and/or the Seagull devices on a non-exclusive, royalty-free basis for an unlimited period of time.

(d) During the period, the Group was granted an interest bearing short-term loan of HK$350 million from SOCL Group, and incurred interest on such loan amounting to HK$9 million. The loan and the related interest accrued have been repaid in August 2007.

(e) During the period, the Group received dividend income amounting to HK$119 million (2006: HK$16 million) from certain jointly controlled entities.

(f) During the period, the Group recognised management fee income and interest income in respect of convertible bonds from an associate amounting to HK$1 million and HK$1 million, respectively.

(g) The remuneration of Directors and seven (2006: five) other members of key management during the period was as follows:

	Six months ended	
	30 June 2007 HK$ million	30 September 2006 HK$ million
Fees	**1**	1
Salaries and other benefits	**13**	10
Bonuses	**18**	7
Retirement benefit scheme contributions	**1**	1
Share-based payments	**8**	–
	41	19

(h) The emoluments paid or payable to each of the nine (2006: eleven) directors which were included in note (g) above are set out as follows:

Name of Director	Notes	**Fees** HK$'000	**Salaries and other benefits** HK$'000	**Bonuses** HK$'000	**Retirement benefit scheme contributions** HK$'000	**Share based payments** HK$'000	**Six months ended 30 June 2007 Total** **HK$'000**	Six months ended 30 September 2006 Total HK$'000
Mr. Lo Hong Sui, Vincent		5	–	–	–	–	**5**	5
Mr. Choi Yuk Keung, Lawrence		5	1,642	2,100	76	452	**4,275**	3,241
Mr. Wong Yuet Leung, Frankie		5	2,585	7,000	117	2,786	**12,493**	5,693
Mrs. Lowe Hoh Wai Wan, Vivien		5	1,022	1,200	41	530	**2,798**	1,575
Prof. Michael John Enright	(i)	138	–	–	–	–	**138**	138
Mr. Anthony Griffiths	(ii)	175	–	–	–	–	**175**	175
Mr. Cheng Mo Chi, Moses	(ii)	138	–	–	–	–	**138**	138
Prof. K. C. Chan	(iii)	138	–	–	–	–	**138**	138
Mr. Wong Fook Lam, Raymond	(iv)	5	1,301	1,700	49	603	**3,658**	2,099
Mr. Wong Ying Wai, Wilfred	(v)	–	–	–	–	–	**–**	2
Mr. Wong Hak Wood, Louis	(vi)	–	–	–	–	–	**–**	33
		614	6,550	12,000	283	4,371	**23,818**	13,237

Notes:

(i) Non-executive Director.

(ii) Independent Non-executive Directors.

(iii) Professor K. C. Chan resigned as Independent Non-executive Director on 1 July 2007.

(iv) Mr. Wong Fook Lam, Raymond resigned as Executive Director on 14 June 2007.

(v) Mr. Wong Ying Wai, Wilfred resigned as Executive Director on 1 June 2006.

(vi) Mr. Wong Hak Wood, Louis resigned as Non-executive Director on 1 June 2006.

23. Post Balance Sheet Events

(a) On 25 May 2007, the Group entered into a joint venture agreement with a wholly-owned subsidiary of SOL and an independent third party, in relation to the formation of a joint venture for the development of Dalian Software Park Phase II ("Dalian Project"), whereby the Group ultimately holds a 22% effective interest in the Dalian Project. Pursuant to the joint venture agreement, the Group provided a HK$508 million shareholders' loan to the joint venture on 24 July 2007. Details of the transactions are set out in a circular of the Company dated 4 June 2007.

(b) On 16 July 2007, the Group entered into a sale and purchase agreement with a wholly-owned subsidiary of SOCL for the disposal of approximately HK$1.8 billion worth of SOL shares, representing approximately 5.27% of the issued share capital of SOL. The transaction was completed on 17 August 2007. The Group will recognise a gain on disposal, before transaction costs, of approximately HK$949 million including the realisation of an approximately HK$824 million gain from the Investment Revaluation Reserve, in the consolidated income statement for the year ending 31 December 2007. Details of the transaction are set out in a circular of the Company dated 31 July 2007.

(c) Subsequent to the balance sheet date and up to the date of approval of the condensed consolidated financial statements on 13 September 2007, the total principal amount of HK$187 million of the Company's zero coupon convertible bonds due 2009 was converted into 10,913,960 ordinary shares of the Company.

DISCLOSURE UNDER RULES 13.21 AND 13.22 OF THE LISTING RULES

(i) Financial assistance and guarantees to affiliated companies

Financial assistance and guarantees provided by the Group to its affiliated companies amounted to HK$1,613 million at 30 June 2007, details of which are as follows:

		Balance at 30 June 2007				
		Unsecured loans				
Affiliated companies	**Effective percentage of interest**	**Interest free with no fixed repayment terms** HK$ million	**Interest bearing with no fixed repayment terms** HK$ million (Note a)	**Investment in convertible bonds** HK$ million	**Guarantee** HK$ million	**Total** HK$ million
Brisfull Limited	50%	1	42	–	–	43
北京億達房地產開發有限公司	40%	92	–	–	–	92
Beijing ZhongTian HongYe Real Estate Consulting Co., Ltd.	40%	2	–	–	749	751
Chengdu Shui On Huida Property Co., Ltd.	40%	1	–	–	–	1
China Central Properties Limited	40%	10	–	199	–	209
Coral Waters (Barbados) SRL	40%	10	–	–	–	10
Guangzhou On Track Construction Precast Products Company Ltd.	40%	2	–	–	–	2
Guizhou Bijie Shui On Cement Co. Ltd.	80%	7	44	–	–	51
Guizhou Changda Shui On Cement Co. Ltd.	51%	4	–	–	–	4
Guizhou Kaili Ken On Concrete Co. Ltd.	75%	3	2	–	–	5
Guizhou Kaili Shui On Cement Co. Ltd.	90%	43	20	–	–	63
Guizhou Xinpu Shui On Cement Co. Ltd.	36%	1	–	–	–	1
Guizhou Xishui Shui On Cement Co. Ltd.	90%	30	–	–	–	30
Guizhou Yuqing Shui On Cement Co. Ltd.	80%	16	–	–	–	16
Guizhou Zunyi Ken On Concrete Co. Ltd.	75%	1	3	–	–	4
Guizhou Zunyi Shui On Cement Co. Ltd.	80%	81	–	–	–	81
Lamma Yue Jie Company Limited	60%	17	–	–	–	17
Mountain Breeze (Barbados) SRL	40%	2	–	–	–	2
Mountain Mist (Barbados) SRL	40%	2	–	–	–	2
Nanjing Jiangnan Cement Co., Limited	60%	130	–	–	–	130
Sichuan Hejiang Shui On Cement Co. Ltd.	90%	3	20	–	–	23
Sommerset Investments Limited	45%	1	–	–	–	1
The Yangtze Ventures II Limited	75%	75	–	–	–	75
		534	**131**	**199**	**749**	**1,613**

The proforma combined balance sheet of the above affiliated companies at 30 June 2007 is as follows:

	HK$ million
Non-current assets	4,622
Current assets	5,911
Current liabilities	(3,572)
Net current assets	2,339
Non-current liabilities	(1,844)
Minority interests	(59)
Shareholders' funds	5,058

Notes:

(a) Loans made by the Group to the following affiliated companies are charged at various interest rates.

Affiliated companies	**Interest rate per annum**
Brisfull Limited	Fixed at 2.5%
Guizhou Bijie Shui On Cement Co. Ltd.	HIBOR + 2%
Guizhou Kaili Ken On Concrete Co. Ltd.	HIBOR + 2%
Guizhou Kaili Shui On Cement Co. Ltd.	HIBOR + 2%
Guizhou Zunyi Ken On Concrete Co. Ltd.	HIBOR + 2%
Sichuan Hejiang Shui On Cement Co. Ltd.	HIBOR + 2%

(b) All affiliated companies are accounted for as jointly controlled entities or associates of the Group.

(ii) Banking facilities with covenants relating to specific performance by the controlling shareholder

The Company was granted the following banking facilities:

(a) a 3-year revolving loan of HK$200 million in October 2004; and

(b) a 3-year term loan of HK$200 million in February 2005.

These loans require SOCL and/or Mr. Lo Hong Sui, Vincent, who is a discretionary beneficiary of a discretionary trust which holds SOCL, to retain an equity interest of not less than 50% in the Company throughout the tenure of the related loan agreements. Breach of such obligation will cause a default in respect of these loans.

GENERAL INFORMATION

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE

At 30 June 2007, the interests and short positions of the Directors and the Chief Executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have been taken under such provisions of the SFO) or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") or which were required to be entered in the register required to be kept under section 352 of the SFO were as follows:

(a) Long position in the shares of the Company

	Number of ordinary shares in the Company		Approximate percentage of shareholding in the Company
Name of Director	**Personal interests**	**Other interests**	
Mr. Lo Hong Sui, Vincent	–	185,915,000 (Note)	61.74%
Mr. Choi Yuk Keung, Lawrence	1,840,000	–	0.61%
Mr. Wong Yuet Leung, Frankie	800,000	–	0.26%
Mrs. Lowe Hoh Wai Wan, Vivien	676,000	–	0.22%

Note:

These shares comprise 181,871,000 shares beneficially owned by SOCL and 4,044,000 shares and underlying shares in which SOCL is deemed to be interested under sections 317 and 318 of the SFO.

Among the 181,871,000 shares beneficially owned by SOCL, 166,148,000 shares and 15,723,000 shares were held respectively by SOCL and Shui On Finance Company Limited, which is an indirect wholly-owned subsidiary of SOCL. SOCL is owned by the Bosrich Unit Trust, the trustee of which is Bosrich Holdings Inc. The units of the Bosrich Unit Trust are the property of a discretionary trust, of which Mr. Lo Hong Sui, Vincent is a discretionary beneficiary and HSBC International Trustee Limited is the trustee. Accordingly, Mr. Lo Hong Sui, Vincent, HSBC International Trustee Limited and Bosrich Holdings Inc. are deemed to be interested in such shares under the SFO.

On 27 August 2002, SOCL granted call options over certain existing shares of the Company beneficially owned by SOCL to each of Mr. Wong Ying Wai, Wilfred ("Mr. Wilfred Wong"), Mr. Wong Hak Wood, Louis ("Mr. Louis Wong") and Mr. Wong Yuet Leung, Frankie as part of an incentive reward for their services to the Company. A maximum of 50% of the shares transferred or to be transferred upon exercise of call options are subject to a restriction of disposal within 12 months from the date such shares are transferred. Mr. Wilfred Wong and Mr. Louis Wong had exercised all their call options and accordingly are deemed to be parties to an agreement to acquire shares under sections 317 and 318 of the SFO. As such, SOCL is deemed to be interested in the shares and underlying shares owned by Mr. Wilfred Wong and Mr. Louis Wong.

(b) Short position in the shares of the Company

Name of Director	Number of ordinary shares in the Company Personal interests	Other interests	Approximate percentage of shareholding in the Company
Mr. Lo Hong Sui, Vincent	–	1,600,000 (Note)	0.53%

Note:

These shares represent the outstanding balance of the call options granted by SOCL under the call option arrangement mentioned in the note to item (a) above.

(c) Share options of the Company

Pursuant to the share option scheme of the Company, certain Directors were granted share options to subscribe for the shares of the Company and details of the Directors' interests in share options were set out under the section headed "SHARE OPTIONS" below.

(d) Call option over the shares of the Company

At 30 June 2007, the following Director had a call option granted by SOCL over the shares of the Company pursuant to the arrangement mentioned in the note to item (a) above:

Name of Director	Exercise price	Exercise period	Number of ordinary shares subject to the call option
Mr. Wong Yuet Leung, Frankie	HK$6.00	27-8-2005 to 26-8-2010	1,600,000

(e) Long position in the shares of SOL

Name of Director	Number of ordinary shares in SOL Personal interests	Other interests	Approximate percentage of shareholding in SOL
Mr. Lo Hong Sui, Vincent	–	2,250,565,225 (Note)	53.78%

Note:

These shares are directly held by subsidiaries of SOCL, namely, Shui On Properties Limited, Shui On Investment Company Limited and New Rainbow Investments Limited. SOCL is owned by the Bosrich Unit Trust. The units of the Bosrich Unit Trust are the property of a discretionary trust, of which Mr. Lo Hong Sui, Vincent is a discretionary beneficiary. Accordingly, Mr. Lo Hong Sui, Vincent is deemed to be interested in such shares under the SFO.

Save as disclosed above, at 30 June 2007, none of the Directors or Chief Executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have been taken under such provisions of the SFO) or pursuant to the Model Code or which were required to be entered in the register required to be kept under section 352 of the SFO.

SHARE OPTIONS

The Company has adopted a share option scheme on 27 August 2002 to replace the share option scheme of the Company ("Old Scheme") adopted on 20 January 1997. The Old Scheme was terminated on 27 August 2002 and since then, no further option could be granted under the Old Scheme.

The movements in the share options of the Company during the period are set out as follows:

			Number of options								
Name or category of eligible participants	Date of grant	Subscription price per share HK$	At 1.1.2007	Transferred from other category during the period (Note b)	Granted during the period (Note a)	Exercised during the period	Lapsed during the period	Transferred to other category during the period (Note b)	At 30.6.2007	Period during which options outstanding at 30.6.2007 are exercisable	Price of Company's shares before exercise date of options (Note c) HK$
Directors											
Mr. Choi Yuk Keung,	27.8.2002	6.00	168,000	–	–	(168,000)	–	–	–	27.2.2003 to 26.8.2007	22.15
Lawrence	27.8.2002	6.00	2,175,000	–	–	(2,175,000)	–	–	–	27.8.2005 to 26.8.2010	22.15
(Note d)	3.1.2007	16.78	–	–	700,000	–	–	–	700,000	3.1.2010 to 2.1.2017	–
	14.6.2007	20.96	–	–	250,000	–	–	–	250,000	14.12.2007 to 13.6.2012	–
Mr. Wong Yuet Leung	27.8.2002	6.00	1,600,000	–	–	(1,600,000)	–	–	–	27.8.2005 to 26.8.2010	20.70
Frankie	1.8.2006	14.00	2,000,000	–	–	–	–	–	2,000,000	1.2.2007 to 31.7.2011	–
(Note d)	3.1.2007	16.78	–	–	1,500,000	–	–	–	1,500,000	3.1.2010 to 2.1.2017	–
	14.6.2007	20.96	–	–	500,000	–	–	–	500,000	14.12.2007 to 13.6.2012	–
Mrs. Lowe Hoh Wai	27.8.2002	6.00	660,000	–	–	(360,000)	–	–	300,000	27.8.2005 to 26.8.2010	22.80
Wan, Vivien	1.8.2006	14.00	150,000	–	–	(30,000)	–	–	120,000	1.2.2007 to 31.7.2011	22.80
	3.1.2007	16.78	–	–	625,000	–	–	–	625,000	3.1.2010 to 2.1.2017	–
	14.6.2007	20.96	–	–	176,000	–	–	–	176,000	14.12.2007 to 13.6.2012	–
Mr. Wong Fook Lam,	1.8.2006	14.00	176,000	–	–	–	–	(176,000)	–	1.2.2007 to 31.7.2011	–
Raymond	3.1.2007	16.78	–	–	700,000	–	–	(700,000)	–	3.1.2010 to 2.1.2017	–
(resigned on 14 June 2007)	14.6.2007	20.96	–	–	200,000	–	–	(200,000)	–	14.12.2007 to 13.6.2012	–
Sub-total			6,929,000	–	4,651,000	(4,333,000)	–	(1,076,000)	6,171,000		

Name or category of eligible participants	Date of grant	Subscription price per share HK$	At 1.1.2007	Transferred from other category during the period (Note b)	Granted during the period (Note a)	Exercised during the period	Lapsed during the period	Transferred to other category during the period (Note b)	At 30.6.2007	Period during which options outstanding at 30.6.2007 are exercisable	Price of Company's shares before exercise date of options (Note c) HK$
			Number of options								
Employees											
Mr. Wong Kun To,	3.1.2007	16.78	–	–	2,800,000	–	–	–	2,800,000	3.1.2010 to 2.1.2012	–
Philip (Note d)	14.6.2007	20.96	–	–	200,000	–	–	–	200,000	1.7.2010 to 13.6.2012	–
Other employees											
(in aggregate)	27.8.2002	6.00	104,000	–	–	(94,000)	–	–	10,000	27.2.2003 to 26.8.2007	17.19
	4.8.2003	5.80	190,000	–	–	(42,000)	–	–	148,000	4.2.2004 to 3.8.2008	17.05
	26.7.2004	7.25	454,000	–	–	(42,000)	–	–	412,000	26.1.2005 to 25.7.2009	17.04
	29.7.2005	9.30	776,000	–	–	(84,000)	–	–	692,000	29.1.2006 to 28.7.2010	17.03
	1.8.2006	14.00	1,780,000	–	–	(154,000)	–	–	1,626,000	1.2.2007 to 31.7.2011	18.31
	3.1.2007	16.78	–	–	6,000,000	–	–	–	6,000,000	3.1.2010 to 2.1.2012	–
	14.6.2007	20.96	–	–	2,060,000	–	–	–	2,060,000	14.12.2007 to 13.6.2012	–
	14.6.2007	20.96	–	–	900,000	–	–	–	900,000	14.12.2008 to 13.6.2012	–
	14.6.2007	20.96	–	–	4,000,000	–	–	–	4,000,000	1.7.2010 to 13.6.2012	–
Sub-total			3,304,000	–	15,960,000	(416,000)	–	–	18,848,000		
Others	1.8.2006	14.00	–	176,000	–	–	–	–	176,000	1.2.2007 to 31.7.2011	–
	3.1.2007	16.78	–	700,000	–	–	–	–	700,000	3.1.2010 to 2.1.2017	–
	14.6.2007	20.96	–	200,000	–	–	–	–	200,000	14.12.2007 to 13.6.2012	–
Sub-total			–	1,076,000	–	–	–	–	1,076,000		
			10,233,000	1,076,000	20,611,000	(4,749,000)	–	(1,076,000)	26,095,000		

Notes:

(a) The closing prices of the Company's shares preceding the dates on which the options were granted on 3 January 2007 and 14 June 2007 were HK$16.48 and HK$20.55 respectively.

(b) The share options held by Mr. Wong Fook Lam, Raymond, a former Director of the Company, was re-classified under the category "Others" after his resignation as a Director of the Company on 14 June 2007.

(c) The price of the Company's shares as disclosed is the weighted average closing price of the Company's shares immediately before the dates on which the options were exercised during the period for each category of eligible participants.

(d) Mr. Choi Yuk Keung, Lawrence, Mr. Wong Yuet Leung, Frankie and Mr. Wong Kun To, Philip have been granted share options in excess of their respective maximum individual entitlement of 1%.

SUBSTANTIAL SHAREHOLDERS

Save as disclosed below and under the section headed "INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE" above, the Directors are not aware of any other person (other than a Director or the Chief Executive of the Company or his/her respective associate(s)) who, at 30 June 2007, had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of shareholders	Capacity	Number of ordinary shares held	Approximate percentage of shareholding in the Company
Mr. Louis Wong	Beneficial owner/interests of party to an agreement to acquire shares under sections 317 and 318 of the SFO	185,915,000(L) (Note ii)	61.74%(L)
Mr. Wilfred Wong	Interest of controlled corporation/ interests of party to an agreement to acquire shares under sections 317 and 318 of the SFO	185,915,000(L) (Note ii)	61.74%(L)
Mr. John Zwaanstra	Interest of controlled corporations	24,665,247(L)	8.19%(L)
Penta Investment Advisers Limited	Investment manager	24,665,247(L)	8.19%(L)
Mr. Cheah Cheng Hye	Interest of controlled corporation	14,238,000(L) (Note iii)	4.72%(L)
Value Partners Limited	Investment manager	14,238,000(L) (Note iii)	4.72%(L)
Citigroup Inc.	Interest of controlled corporations/holder of security interest in shares/custodian corporation/approved lending agent	14,675,501(L) 702,000(P)	4.87%(L) 0.23%(P)

Notes:

(i) The letter "L" denotes a long position and the letter "P" denotes interest in a lending pool.

(ii) These shares include the aggregate interests of SOCL deemed under sections 317 and 318 of the SFO as mentioned in the note to item (a) under the section headed "INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE" above.

(iii) These shares are held by Value Partners Limited which is controlled by Mr. Cheah Cheng Hye.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2007.

CONNECTED TRANSACTIONS

As disclosed in the annual report for the nine months ended 31 December 2006 ("2006 Annual Report") and the announcement issued by the Company on 26 April 2007 (the "Announcement"), the provision of investment management services by 898 Management Limited (the "Investment Manager") to On Capital China Fund (formerly known as On Capital China Tech Fund) ("On Capital") during the period from 1 April 2006 to 29 December 2006 (the "Relevant Period") constituted continuing connected transaction of the Company. The Investment Manager is a company controlled and owned by Mr. Laurie Kan who is a director of On Capital and brother-in-law of Mr. Wilfred Wong, a former Director of the Company. On Capital is a company in which the Group owns one management share, representing 50% of the voting share capital, and approximately 66.83% interest in participating shares without voting rights. On Capital was treated as a subsidiary of the Group during the Relevant Period as its board composition was controlled by the Group. With effect from 29 December 2006, On Capital ceased to be a subsidiary of the Group and became a jointly controlled entity and accordingly, the aforesaid provision of investment management services by the Investment Manager to On Capital no longer constitutes continuing connected transaction of the Company. Details of the transaction have been set out in the Announcement.

As stated in the Announcement, the compliance with the annual review requirements under Rules 14A.37 and 14A.38 of the Listing Rules in respect of the aforesaid transaction would be reported in this interim report.

The base fee and performance fee payable by On Capital during the Relevant Period amounted to approximately HK$2.1 million and HK$8.4 million respectively. The Directors, including the Independent Non-executive Directors, of the Company, confirm that the aforesaid connected transaction has been entered into in the ordinary and usual course of business, the terms of agreement governing such transaction are on normal commercial terms after arm's length negotiations, and they are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Pursuant to Rule 14A.38 of the Listing Rules, the Board has engaged the auditor of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Company. The auditor has reported its factual findings on these procedures to the Board.

During the six months ended 30 June 2007, the Group has entered into the following connected transactions:

(1) On 25 May 2007, Main Zone Group Limited ("Main Zone"), a wholly-owned subsidiary of the Company, entered into a joint venture agreement (the "Joint Venture Agreement") with Innovate Zone Group Limited ("Innovate Zone"), a wholly-owned subsidiary of SOL, and Many Gain International Limited ("Many Gain"), a member of Yida Group Company Limited (together with its subsidiaries referred to as "Yida Group") whereby the parties agreed to form a joint venture company under the name of Richcoast Group Limited ("Dalian Offshore JV"), which would be owned as to 61.54%, 28.20% and 10.26% by Innovate Zone, Main Zone and Many Gain respectively. Dalian Offshore JV would in turn establish a chain of subsidiaries to acquire from the Yida Group 78% equity interest in each of the four companies to be established as wholly-owned subsidiaries by Yida Group in the PRC, which would hold the entire registered capital of the two project companies ("PRC

Project Companies") to be established in the PRC. The PRC Project Companies would acquire the 23 plots of land at Dalian Software Park Phase II and undertake the development and operation of the project.

Pursuant to the Joint Venture Agreement, Main Zone would contribute US$220 in cash in the equity capital of Dalian Offshore JV and provide a loan of HK$507.7 million to the subsidiaries of Dalian Offshore JV to fund the acquisition of the said interests in the project.

Mr. Lo Hong Sui, Vincent, the Chairman of the Company, is the chairman and a substantial shareholder of SOL. Therefore, SOL and Innovate Zone are associates of a connected person of the Company. Accordingly, the aforesaid transaction constitutes a discloseable and connected transaction of the Company and is subject to the reporting, announcement and independent shareholders' approval of the Company. Details of the transaction have been set out in an announcement and a circular of the Company dated 25 May 2007 and 4 June 2007 respectively. The transaction was approved by the independent shareholders of the Company on 20 June 2007.

(2) The construction contracts awarded by SOL and its subsidiaries in favour of上海瑞安建築有限公司 (Shanghai Shui On Construction Co., Ltd.) ("SSOC") under the framework agreement (the "Framework Agreement") dated 4 June 2006 made between SOL and SSOC constitute continuing connected transactions of the Company. Such transactions are subject to the cap of RMB285 million, RMB535 million and RMB750 million for the three financial years ending 31 December 2008 respectively. Details of the Framework Agreement and the transactions contemplated thereunder have been set out in the 2006 Annual Report. The compliance of the annual review requirements under Rules 14A.37 and 14A.38 of the Listing Rules in respect of such transactions for the year ending 31 December 2007 will be reported in the next annual report.

CODE ON CORPORATE GOVERNANCE PRACTICES

Save as disclosed below, the Company has complied with the Code on Corporate Governance Practices ("CG Code") set out in Appendix 14 to the Listing Rules throughout the period.

Code Provision A.4.1 of the CG Code stipulates that Non-executive Directors should be appointed for a specific term, subject to re-election. The Non-executive Directors of the Company are not appointed for a specific term, but are subject to retirement by rotation and re-election at annual general meetings in accordance with the Bye-laws of the Company. Under Code Provision A.4.2, every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. Directors of the Company retire not strictly under Code Provision A.4.2, but in accordance with the Bye-laws of the Company which stipulates that one-third of the Directors of the Company, except the Chairman and the Chief Executive Officer, shall retire from office by rotation at each annual general meeting.

The Board considers that all Directors (save for the Chairman and the Chief Executive Officer) are subject to retirement and re-election on a periodic basis under the Bye-laws. The Board also considers that the continuity of leadership is important for the stability and growth of the Company and that both the Chairman and the Chief Executive Officer should not be subject to retirement or hold office for a limited term.

AUDIT COMMITTEE

The Audit Committee comprises the three Independent Non-executive Directors and the Non-executive Director. The Audit Committee has reviewed the Group's unaudited condensed consolidated interim financial statements for the six months ended 30 June 2007, including the accounting principles and practices adopted by the Group, and has also considered selected auditing, internal control, and financial reporting matters of the Group, in conjunction with the Company's external auditor.

REMUNERATION COMMITTEE

The Remuneration Committee comprises the three Independent Non-executive Directors, the Non-executive Director and the Chairman of the Board. The Remuneration Committee has reviewed the remuneration packages of the Executive Directors as well as the annual bonus and share option grant recommendations for executives and management staff.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding Directors' securities transactions. The Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code during the period under review.

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