



INTERIM REPORT 中期報告

2005



金朝陽集團有限公司
SOUNDWILL HOLDINGS LIMITED

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

證券代號 Stock code : 0878

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The Board of directors submit herewith the Interim Report and Condensed Financial Statements of Soundwill Holdings Limited (the “Company”) and its subsidiaries (the “Group”) for the six months ended 30 June 2005. The consolidated income statement and consolidated cash flow statement for the six months ended 30 June 2005 and the consolidated balance sheet as at 30 June 2005 of the Group, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 17 to 42 of this report.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

Underpinned by the Individual Visit Scheme, the Disneyland notion and the Closer Economic Partnership Arrangement (CEPA), Hong Kong continued to benefit from steady economic growth in the first half of 2005. As the retail and property markets remained buoyant, the property leasing market performed strongly while rental rates of shops and retail commercial buildings in prime tourist locations rose sharply. The traffic flow and occupancy of Soundwill Plaza, the Group’s flagship property, remained robust benefiting from the healthy economy and its occupancy rate remains one of the highest amongst Grade A commercial buildings in Causeway Bay. The Group saw a healthy financial position with solid performance in property leasing during the period under review.

Business in Hong Kong

Property Leasing

Soundwill Plaza, the Group’s flagship development, is situated in a prime commercial and retail location in Causeway Bay, Hong Kong. With a gross floor area of about 250,000 square feet, Soundwill Plaza is currently one of the largest leisure and shopping hot spots operating under the concept of upper-floor retailing. It is occupied by about 50 tenants, the majority of which are high-end shops including world-renowned beauty saloons, slimming centres, spas as well as fashion, optical and accessories shops that target customers who pursue relaxation in mind and body.

Soundwill Plaza, which is held for rental purpose, recorded a steady occupancy rate of near 100% during the period. Driven by the continued improvement in market conditions, rental rates at Soundwill Plaza recorded an increment of about 10% as compared with the same period last year, generating stable and respectable rental income for the Group.

In addition, the Group adopted a proactive strategy to assist tenants in launching promotional campaigns including joint promotional activities with tenants, renowned retailers, F & B outlets, media, newspapers, magazines and travel publications, which all contributed towards increasing the exposure of Soundwill Plaza while raising the tenants’ competitive edge. Furthermore, the Group maintained close association with its tenants by ensuring a thorough understanding of their business activities and exploring joint marketing and promotional opportunities with a view to achieve stable development.

Property Development

The Group has commenced development of low-density residential projects located in Yuen Long and Sai Kung in the New Territories. The projects, occupying a total site area of approximately 300,000 square feet and a gross floor area of approximately 200,000 square feet, have commenced construction and are scheduled for completion in phases from 2006.

Urban Redevelopment

Leveraging on its substantial experience in urban redevelopment accumulated over the years, the Group will continue to focus on urban redevelopment. In view of the inadequate land supply in Hong Kong, the Group is actively and prudently selecting suitable sites for redevelopment and will participate in suitable Urban Redevelopment Authority projects with a view to build on the core assets of the Group as well as contribute towards an improved environment and living conditions for people in the old districts.

Property Management, E&M and Building Maintenance

The Group's two property management companies, Goldwell Property Management Limited ("Goldwell") and Strong Well Property Management Limited ("Strong Well"), specialize in providing property and facility management services, the former for large-scale commercial buildings, residential properties and shopping malls while the latter for small-to-medium-sized residential developments. Goldwell and Strong Well provide quality management service for near 50 buildings, which occupy a total floor area of over 2,000,000 square feet, with around 1,500 residents and tenants. The Group's subsidiary, Goldprofit (Consultants) Services Company Limited ("Goldprofit"), specializes in maintenance and repair of engineering and electrical systems. Goldprofit has conducted sizeable maintenance and renovation works for over 20 buildings of different types. During the first half of 2005, Goldwell, Strong Well and Goldprofit recorded an aggregate revenue of approximately HK\$6,300,000, representing a 39% increase compared with the same period last year.

Goldwell is committed to provide customers with unparalleled property management service, Goldwell has been accredited with the international ISO9001:2000 certification and is a full member of The Hong Kong Association of Property Management Companies Limited. In August 2005, Goldwell has been accredited with the ISO14001:2004 Environmental Management System certification and OHSAS18001:1999 Occupational Health and Safety Management System certification — collectively known as Integrated Management System (IMS) certification. The various international qualifications obtained by Goldwell are attributable to the company's quality management services and the expertise of its professional staff.

Business in The Mainland

Leveraging on the Group's healthy financial position and its solid experience in the property sector, the Group has been proactive in researching on property investment strategies and exploring business development opportunities in the urban infrastructure market of the Mainland.

Financial Review

During the first half of 2005, the Group achieved a healthy financial position, posting a turnover of approximately HK\$74,425,000, an increase of about 18% as compared with the same period in 2004. For the six months ended 30 June 2005, the Group recorded a profit attributable to equity holders of the Company of approximately HK\$183,065,000, representing a sharp increase of approximately 11 times as compared with the same period last year. Earnings per share reached HK\$1.21, representing a significant increase of 7 times over the same period last year. The drastic increase in profit was due to adoption of new accounting standard resulting in the recognition of gain arising from fair value change of investment properties in the consolidated income statement. Should the Group's revaluation gain on its investment properties of about HK\$200,360,000 and provision for related deferred tax of approximately HK\$35,063,000 be excluded, the Group also recorded positive results with underlying net profit of approximately HK\$17,768,000 during the period, representing approximately 12% increase over the corresponding period last year.

The improvement on the Group's operating results was attributable to the robust growth in the Hong Kong property market during the period under review. The Group's flagship property Soundwill Plaza achieved satisfactory performance in leasing activities, with rental rates recording an upward adjustment generating stable and respectable rental revenue for the Group. With all these favourable factors, the Group's profit increased steadily and the management is optimistic that the Group will continue to perform well. Currently, the Group has adequate working capital which, coupled with a prudent financing strategy, should be sufficient for its daily operational needs.

Prospects

With the Mainland Government's continuous support of the Individual Visit Scheme and the opening of the Disneyland in September 2005, the number of visitors entering Hong Kong is expected to grow significantly, the Hong Kong tourism and retail industry are likely to remain buoyant and a robust property market is expected for the second half of 2005. Soundwill Plaza is located at prime tourist area Causeway Bay. With a vivacious tourism industry expected, traffic flow at Causeway Bay will thrive as it continues to be a leisure and shopping hot spot not-to-be-missed by either local people and tourists. The Group is determined to capture this golden opportunity by maintaining its outstanding leasing performance. A number of leasing contracts of Soundwill Plaza will be due for renewal in the second half of 2005 and given positive market conditions, rental rates are expected to rise about 15% to 20%. The Group's profit is expected to increase benefiting from the rental increment brought about by the new leasing contracts.

The Group's low-density residential development in Yuen Long and Sai Kung in the New Territories is scheduled for completion in phases between 2006 to 2008. These projects are expected to bring in considerable profit for the Group.

The Mainland's economy continued to record positive growth with an increase of 9.5% in GDP in the first half of 2005 portraying unlimited market prospects. The Group will continue to explore urban infrastructure and property development opportunities in the Mainland provinces to broaden the Group's earning base.

Looking forward, the Group will continue its pragmatic and entrepreneurial vision by focusing on property investment and leasing. Leveraging on its extensive experience in urban redevelopment, construction of Grade A commercial, residential buildings and property management coupled with solid financial position, the Group is optimistic towards the successful acquisition of a few sites in old districts for redevelopment in the coming year. This is expected to replenish the Group's land for construction as well as enhance the Group's profitability and the shareholders' returns.

Interim Dividend

The Directors do not recommend any interim dividend for the six months ended 30 June 2005 (30 June 2004: Nil).

Financial Highlights

	30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Restated) HK\$'000
Total equity	1,715,399	1,452,748
Interest bearing borrowings	1,219,075	1,299,337
Total borrowing costs	17,966	36,634
Average cost of borrowings	3.271%	2.3%
Gearing ratio (included all borrowings)	71%	89%

The Group's monetary assets, loans and transactions are principally denominated in Hong Kong dollars and Renminbi ("RMB"), the Group believes its exposure to exchange rate risk is not material. Meanwhile, the Group is also reviewing and implementing various measures in reducing any exchange impact arising from the current reformation of RMB exchange rate mechanism and the small scale revaluation of RMB against the US dollars.

During the period, the Group did not engage in any derivative activities and did not commit to any financial instruments to hedge its balance sheet exposures.

Funding and treasury policies of existing subsidiaries in the Group are centrally managed and controlled by the top management in Hong Kong.

LIQUIDITY AND FINANCIAL RESOURCES

The Group continues to be in a stable financial position with cash and bank balances of approximately HK\$35,799,000 as at 30 June 2005 (31 December 2004: approximately HK\$46,724,000).

As at 30 June 2005, the Group's total net assets amounted to HK\$1,715,399,000 as compared to HK\$1,452,748,000 (restated) as at 31 December 2004. As at 30 June 2005, the Group's current ratio, expressed as a ratio of current assets to current liabilities, was 0.65 (31 December 2004: 0.62) and the Group's gearing ratio, expressed as a ratio of interest bearing borrowings to total equity, was reduced from 89% at 31 December 2004 to 71% at 30 June 2005.

DETAILS OF MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

There was no material acquisitions and disposals of subsidiaries and associated companies during the six months ended 30 June 2005.

SIGNIFICANT INVESTMENTS HELD

There was no material change in the significant investments held by the Group during the six months ended 30 June 2005.

EMPLOYEES

There was no material change regarding the number and remuneration of the employees of the Group since the publication of the Company's 2004 annual report.

PLEDGE OF ASSETS

As at 30 June 2005, investment properties of the Group with a fair value of approximately HK\$3,230,941,000 (31 December 2004: approximately HK\$2,999,332,000 (restated)) were pledged to secure banking facilities for the Group.

DIRECTORS' INTERESTS AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

(a) Directors' interest in the Company

As at 30 June 2005, the interests of the Directors and chief executive in the share, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571) (the "SFO")) which are required to be (i) notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have taken under such provisions of the SFO); or (ii) entered in the register kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

(i) Long positions in the shares:

Name of Director	Capacity	Number of Shares	Approximate Percentage of Shareholding
Foo Kam Chu, Grace	Interest of controlled corporation	114,615,035 (Note)	69.49
	Beneficial owner	96,000	0.06
Tse Chun Kong, Thomas	Interest of Spouse	6,000	0.00
	Beneficial owner	723	0.00

Note: The 114,615,035 shares are held by Ko Bee Limited, the entire issued share capital of which is held by Foo Kam Chu, Grace.

(ii) Long position in underlying shares of equity derivatives of the Company — interest in bonus warrants each of which is convertible into one share at the subscription price of HK\$2.00 (subject to adjustment):

Name of Director	Capacity	Number of Underlying Shares held as Bonus Warrants	Approximate Percentage of Underlying Shares
Tse Chun Kong, Thomas	Interest of Spouse	1,000	0.00
	Beneficial owner	120	0.00

(iii) *Long positions in underlying shares of equity derivatives of the Company — interests in share options of the Company (being granted and remained outstanding):*

Name	Capacity	Number of Shares in the Option	Exercise Period	Price of Grant	Subscription Price per Share
Foo Kam Chu, Grace	Beneficial owner	76,000	2 July 2001 to 24 February 2007	HK\$1.00	HK\$2.97
		200,000	6 January 2005 to 5 January 2010	HK\$1.00	HK\$1.47
Tse Chun Kong, Thomas	Beneficial owner	50,000	2 July 2001 to 24 February 2007	HK\$1.00	HK\$2.97
		60,000	8 January 2004 to 7 January 2009	HK\$1.00	HK\$1.50
		90,000	6 January 2005 to 5 January 2010	HK\$1.00	HK\$1.47
Chan Wai Ling	Beneficial owner	60,000	2 July 2001 to 24 February 2007	HK\$1.00	HK\$2.97
		60,000	8 January 2004 to 7 January 2009	HK\$1.00	HK\$1.50
		90,000	6 January 2005 to 5 January 2010	HK\$1.00	HK\$1.47
Kwan Chai Ming	Beneficial owner	20,000	1 June 2001 to 24 February 2007	HK\$1.00	HK\$12.40
		10,000	2 January 2002 to 24 February 2007	HK\$1.00	HK\$2.97
Liu Hanbo	Beneficial owner	60,000	8 January 2004 to 7 January 2009	HK\$1.00	HK\$1.50
		90,000	6 January 2005 to 5 January 2010	HK\$1.00	HK\$1.47
Meng Qinghui	Beneficial owner	60,000	8 January 2004 to 7 January 2009	HK\$1.00	HK\$1.50
		90,000	6 January 2005 to 5 January 2010	HK\$1.00	HK\$1.47

- (iv) *Long positions in underlying shares of equity derivatives of the Company — interest in convertible bonds each of which is convertible into one share at the conversion price HK\$1.66 (subject to adjustment):*

Name of Director	Capacity	Principal Amount of Convertible Bonds	Number of Underlying Shares
Foo Kam Chu, Grace	Interest of controlled corporation	HK\$93,499,490	56,324,994 <i>(Note)</i>

Note: These underlying shares are held by Ko Bee Limited, a company wholly owned by Foo Kam Chu, Grace who is deemed, by virtue of the SFO, to be interested in these underlying shares.

(b) Directors' interests in Associated Corporations

Name of Director	Name of Associated Corporation	Capacity	Number and Class of Shares	Percentage of Shareholding
Foo Kam Chu, Grace	Ko Bee Limited	Beneficial owner	1 ordinary share	100%

Save as disclosed above, as at 30 June 2005, none of the Directors and chief executive of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEMES

The Company have two share option schemes adopted on 25 February 1997 (the “1997 Share Option Scheme”) and 22 July 2002 (the “2002 Share Option Scheme”) respectively, details of outstanding share options granted under which are as follows:

1997 Share Option Scheme

Name of grantee	Date of grant	Exercise price	Exercise period	As at 1 January 2005	Number of options		As at 30 June 2005
					Granted during the 6 months period ended 30 June 2005	Exercised during the 6 months period ended 30 June 2005	
Directors							
Foo Kam Chu, Grace	2 January 2001	HK\$2.97	2 July 2001 to 24 February 2007	76,000	—	—	76,000
Chan Wai Ling	2 January 2001	HK\$2.97	2 July 2001 to 24 February 2007	60,000	—	—	60,000
Tse Chun Kong, Thomas	2 January 2001	HK\$2.97	2 July 2001 to 24 February 2007	50,000	—	—	50,000
Kwan Chai Ming	1 June 2000	HK\$12.40	1 June 2001 to 24 February 2007	20,000	—	—	20,000
	2 January 2001	HK\$2.97	2 January 2002 to 24 February 2007	10,000	—	—	10,000
Other employees							
	1 June 2000	HK\$12.40	1 December 2000 to 1 December 2005	10,000	—	—	10,000
	2 January 2001	HK\$2.97	2 July 2001 to 24 February 2007	188,000	—	—	188,000
				414,000	—	—	414,000

Note:

None of the share options granted was exercised during the period.

2002 Share Option Scheme

Name of grantee	Date of grant	Weighted average closing price immediately before Exercise Date	Exercise price	Exercise period	Number of options			As at 30 June 2005	Value of the options granted
					Granted during the 6 months 1 January period ended 2005	30 June 2005	Exercised during the 6 months period ended 30 June 2005		
Directors									
Foo Kam Chu, Grace	6 July 2004	N/A	HK\$1.47	6 January 2005 to 5 January 2010	200,000	—	—	200,000	HK\$96,200
Chan Wai Ling	10 July 2003	N/A	HK\$1.50	8 January 2004 to 7 January 2009	60,000	—	—	60,000	N/A
	6 July 2004	N/A	HK\$1.47	6 January 2005 to 5 January 2010	90,000	—	—	90,000	HK\$43,290
Tse Chun Kong, Thomas	14 July 2003	N/A	HK\$1.50	8 January 2004 to 7 January 2009	60,000	—	—	60,000	N/A
	6 July 2004	N/A	HK\$1.47	6 January 2005 to 5 January 2010	90,000	—	—	90,000	HK\$43,290
Kwan Chai Ming	6 July 2004	HK\$3.10	HK\$1.47	6 January 2005 to 5 January 2010	75,000	—	75,000	—	HK\$36,075
Liu Hanbo	16 July 2003	N/A	HK\$1.50	8 January 2004 to 7 January 2009	60,000	—	—	60,000	N/A
	6 July 2004	N/A	HK\$1.47	6 January 2005 to 5 January 2010	90,000	—	—	90,000	HK\$43,290
Meng Qinghui	16 July 2003	N/A	HK\$1.50	8 January 2004 to 7 January 2009	60,000	—	—	60,000	N/A
	6 July 2004	N/A	HK\$1.47	6 January 2005 to 5 January 2010	90,000	—	—	90,000	HK\$43,290
Other employees									
	10 July 2003	HK\$2.35	HK\$1.50	8 January 2004 to 7 January 2009	40,000	—	40,000	—	N/A
	11 July 2003	N/A	HK\$1.50	8 January 2004 to 7 January 2009	30,000	—	—	30,000	N/A
	6 July 2004	HK\$3.02	HK\$1.47	6 January 2005 to 5 January 2010	475,000	—	385,000	90,000	HK\$228,475
					1,420,000	—	500,000	920,000	HK\$533,910

The Company has used the Black-Scholes option pricing model (the “Model”) to value the share option granted during the review period. The Model is one of the commonly used models to estimate the fair value of an option. The value of an option varies with different variables of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option.

According to the transitional provision of the new Hong Kong Financial Reporting Standard No. 2, this new recognition and measurement has been applied to share options granted after 7 November 2002 that had not yet vested at 1 January 2005. The fair value of the options determined at the dates of grant using the Model were HK\$533,910 and such value will be expensed through the Group’s income statement over the six-months vesting period of the options.

DIRECTORS’ RIGHT TO ACQUIRE SHARES

Save as disclosed above, at no time during the six months ended 30 June 2005, were rights to subscribe for equity or debt securities of the Company granted to any director or chief executive of the Company or to the spouse or children under 18 years of age of any such director or chief executive as recorded in the register required to be kept under Part XV of the SFO, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries a party to any arrangement to enable any such persons to acquire any such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2005, the persons other than a director or chief executive of the Company who has 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, were as follows:

(a) Long positions in the Shares

<u>Name of Shareholder</u>	<u>Capacity</u>	<u>Number of Shares</u>	<u>Approximate Percentage of Shareholding</u>
Ko Bee Limited	Beneficial owner	114,615,035	69.49
China Ocean Shipping (Group) Company (<i>Note</i>)	Interest of a controlled corporation	7,937,664	4.81
Peaktrade Investments Limited (<i>Note</i>)	Beneficial owner	4,447,104	2.70
Graceful Nice Limited (<i>Note</i>)	Beneficial owner	3,490,560	2.11

Notes: China Ocean Shipping (Group) Company is deemed (by virtue of the SFO) to be interested in 7,937,664 shares held by both Peaktrade Investments Limited and Graceful Nice Limited as they are its indirect subsidiaries.

(b) **Long positions in underlying shares of equity derivatives of the Company — interest in the warrants of the Company:**

Name of Shareholder	Capacity	Units of Warrant	Number of Underlying Shares
China Ocean Shipping (Group) Company (Note 1)	Interest of a controlled corporation	1,322,944	1,322,944
Peaktrade Investments Limited (Note 1)	Beneficial owner	741,184 (Note 2)	741,184
Graceful Nice Limited (Note 1)	Beneficial owner	581,760 (Note 2)	581,760

Notes:

1. China Ocean Shipping (Group) Company is deemed (by virtue of the SFO) to be interested in 1,322,944 underlying shares together held by both Peaktrade Investments Limited and Graceful Nice Limited as they are its indirect subsidiaries.
2. 741,184 and 581,760 units of bonus warrant of the Company had been granted to Peaktrade Investments Limited and Graceful Nice Limited respectively and these bonus warrant remained unexercised.

(c) **Long positions in underlying shares of equity derivatives of the Company — interest in the convertible bonds of the Company:**

Name of Shareholder	Capacity	Principal Amount of Convertible Bonds	Number of Underlying Shares
Ko Bee Limited	Beneficial owner	HK\$93,499,490	56,324,994

CONTINGENT ASSET

The property related proceedings as mentioned in the Company's 2004 annual report relating to the purchase of certain properties in Yuen Long by Pacific Well Realty Limited, a subsidiary of the Company is still under progress. The case is pending appeal.

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

During the six months ended 30 June 2005, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

PUBLICATION OF INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE OF HONG KONG LIMITED

The information required by paragraphs 46(1) to 46(9) inclusive of Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") will be published on the Stock Exchange's website in due course.

AUDIT COMMITTEE

The Audit Committee comprising three independent non-executive Directors has reviewed with management, the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including a review of the unaudited interim financial statements for the six months ended 30 June 2005.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules during the six months ended 30 June 2005, with the following exceptions.

Under code provision A.4.1 of the Code, non-executive directors should be appointed for specific term and subject to re-election. The non-executive Directors of the Company are not appointed for a specific term of office. However, the non-executive Directors of the Company are subject to retirement by rotation and re-election at annual general meetings in accordance with the Company's Bye-Laws.

Under the second part of code provision A.4.2 of the Code, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. All Directors, except the chairman of the Board and/or the managing director of the Company, are subject to retirement by rotation pursuant to the Company's Bye-Laws. According to the Company's Bye-Laws, one-third of the Directors for the time being, (or, if their number is not a multiple of three, then the number nearest to but not greater than one-third) shall retire from office by rotation. The relevant provisions of the Company's Bye-Laws will be reviewed and amendment will be proposed, if necessary, to ensure full compliance with code provision A.4.2 of the Code.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS (THE "MODEL CODE")

The Company has adopted a code of conduct regarding directors' securities dealing transactions on term no less than the required standard set out in the Model Code (Appendix 10 of the Listing Rules).

Having made specific enquiry of all Directors, all Directors have complied with the required standard set out in the Model Code during the period under review.

APPRECIATION

As a final note, I wish to take this opportunity to thank the Directors and staff for their contributions and good performance during the period.

By order of the Board
Foo Kam Chu, Grace
Chairman

Hong Kong, 16 September 2005

CONDENSED CONSOLIDATED INCOME STATEMENT

	<i>Notes</i>	Six months ended 30 June	
		2005 (Unaudited) HK\$'000	2004 (Restated) HK\$'000
Revenue	5	74,425	63,214
Cost of sales		(9,191)	(4,922)
Gross profit		65,234	58,292
Other income	6	1,735	1,788
Administrative expenses		(23,738)	(17,973)
Other operating expenses		(2,451)	(270)
Changes in fair value of investment properties		200,360	—
Profit from operations	7	241,140	41,837
Finance costs	8	(17,966)	(19,607)
Share of profits less losses of associates		(61)	(19)
Profit before taxation		223,113	22,211
Taxation	9	(40,256)	(6,407)
Profit for the period		182,857	15,804
Attributable to:			
Equity holders of the Company		183,065	15,832
Minority interests		(208)	(28)
Profit for the period		182,857	15,804
Earnings per share for profit attributable to the equity holders of the Company			
— basic	11	HK\$1.21	HK\$0.15
— diluted	11	HK\$0.99	HK\$0.15

CONDENSED CONSOLIDATED BALANCE SHEET

	<i>Notes</i>	30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Restated) HK\$'000
ASSETS			
Non-current assets			
Investment properties	12	3,242,707	3,011,636
Property, plant and equipment		23,727	22,346
Prepaid leasehold land		43,812	41,584
Interests in associates		2,844	2,910
Available-for-sale financial assets		11	11
Intangible assets		4,092	3,643
Goodwill		1,314	1,314
		3,318,507	3,083,444
Current assets			
Inventories		33,322	28,076
Debtors, prepayments and deposits	13	42,661	39,011
Instalments receivable		—	66
Cash and cash equivalents		35,799	46,724
		111,782	113,877

CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

	<i>Notes</i>	30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Restated) HK\$'000
Current liabilities			
Creditors, accruals and deposits received	14	90,833	80,672
Borrowings — current portion	15	76,805	100,124
Taxation		4,246	3,142
		171,884	183,938
Net current liabilities		(60,102)	(70,061)
Total assets less current liabilities		3,258,405	3,013,383
Non-current liabilities			
Borrowings	15	1,049,189	1,051,252
Deferred tax		400,736	361,422
Convertible bonds	16	93,081	147,961
		1,543,006	1,560,635
NET ASSETS		1,715,399	1,452,748
EQUITY			
Share capital	17	16,495	12,116
Reserves		1,687,832	1,429,952
Total equity attributable to the Company's equity holders		1,704,327	1,442,068
Minority interests		11,072	10,680
TOTAL EQUITY		1,715,399	1,452,748

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

The Group

	For the period ended 30 June 2005 (Unaudited)										
	Share capital	Share premium	Investment property revaluation reserve	Asset revaluation reserve	Other equity reserve	Employee share-based compensation reserve	(Accumulated losses)/ Retained earnings	Exchange reserve	Special reserve	Minority interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2005, as originally stated	12,116	84,680	2,003,937	—	—	—	(300,668)	(462)	5,970	—	1,805,593
Balance as at 1 January 2005, as separately reported as minority interests	—	—	—	—	—	—	—	—	—	10,680	10,680
<i>Effect of changes in accounting policies:</i>											
— Reversal of revaluation reserve for leasehold land	—	—	(12,013)	—	—	—	—	—	—	—	(12,013)
— Amortisation arising from reclassification of prepaid leasehold land	—	—	—	—	—	—	(108)	—	—	—	(108)
— Reclassification of revaluation reserve of owner-occupied properties to asset revaluation reserve	—	—	(14,008)	14,008	—	—	—	—	—	—	—
— Deferred tax arising from revaluation reserve of owner-occupied properties	—	—	—	(2,283)	—	—	—	—	—	—	(2,283)
— Depreciation arising from reclassification of owner-occupied properties	—	—	—	—	—	—	(3,520)	—	—	—	(3,520)
— Deferred tax arising from revaluation surplus of investment properties	—	—	(346,139)	—	—	—	—	—	—	—	(346,139)
— Granting of share option — employee service	—	—	—	—	—	517	(517)	—	—	—	—
— Issue of convertible bonds — equity component	—	—	—	—	590	—	—	—	—	—	590
— Increase in finance costs of convertible bonds	—	—	—	—	—	—	(52)	—	—	—	(52)
	12,116	84,680	1,631,797	11,725	590	517	(304,865)	(462)	5,970	10,680	1,452,748
<i>Opening adjustment for the adoption of HKAS 40:</i>											
— Transfer of investment properties revaluation reserve to accumulated losses	—	—	(1,631,797)	—	—	—	1,631,797	—	—	—	—
Balance at 1 January 2005, as restated	12,116	84,680	—	11,725	590	517	1,326,932	(462)	5,970	10,680	1,452,748
— Revaluation surplus of owner-occupied properties	—	—	—	1,600	—	—	—	—	—	—	1,600
— Deferred tax arising from revaluation surplus of owner-occupied properties	—	—	—	(266)	—	—	—	—	—	—	(266)
— Granting of share option — employee service	—	—	—	—	—	17	—	—	—	—	17
— Issue of shares upon exercise of share options	50	907	—	—	—	(221)	—	—	—	—	736
— Issue of shares upon exercise of warrants	15	284	—	—	—	—	—	—	—	—	299
— Intangible asset contributed by minority interests	—	—	—	—	—	—	—	—	—	600	600
— New placing of shares	1,000	25,254	—	—	—	—	—	—	—	—	26,254
— Payment of 2004 final dividend	—	—	—	—	—	—	—	—	(4,124)	—	(4,124)
— Issue of shares upon conversion of convertible bonds	3,314	51,675	—	—	(218)	—	—	—	—	—	54,771
— Exchange difference	—	—	—	—	—	—	—	(95)	—	—	(95)
— Share of loss by minority interests	—	—	—	—	—	—	—	—	—	(208)	(208)
— Profit for the period	—	—	—	—	—	—	183,065	—	—	—	183,065
Balance at 30 June 2005	16,495	162,800	—	13,059	372	313	1,509,997	(555)	1,846	11,072	1,715,399

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

The Group (Continued)

	For the period ended 30 June 2004 (Restated)							Minority interests	Total equity
	Attributable to equity holders of the Company								
	Share capital	Share premium	Investment property revaluation reserve	Asset revaluation reserve	Accumulated losses	Exchange reserve	Special reserve		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2004, as originally stated	6,970	14,004	1,219,497	—	(331,027)	12	10,030	—	919,486
Balance as at 1 January 2004, as separately reported as minority interests	—	—	—	—	—	—	—	10,577	10,577
<i>Effect of changes in accounting policies:</i>									
— Reversal of revaluation reserve for leasehold land	—	—	(2,713)	—	—	—	—	—	(2,713)
— Amortisation arising from reclassification of prepaid leasehold land	—	—	—	—	(95)	—	—	—	(95)
— Reclassification of revaluation reserve of owner-occupied properties to asset revaluation reserve	—	—	(10,608)	10,608	—	—	—	—	—
— Deferred tax arising from revaluation reserve of owner-occupied properties	—	—	—	(1,596)	—	—	—	—	(1,596)
— Depreciation arising from reclassification of owner-occupied properties	—	—	—	—	(2,604)	—	—	—	(2,604)
— Deferred tax arising from revaluation reserve of investment properties	—	—	(211,081)	—	—	—	—	—	(211,081)
Balance at 1 January 2004, as restated	6,970	14,004	995,095	9,012	(333,726)	12	10,030	10,577	711,974
— Revaluation surplus of owner-occupied properties	—	—	—	2,000	—	—	—	—	2,000
— Deferred tax arising from revaluation reserve of owner-occupied properties	—	—	—	(346)	—	—	—	—	(346)
— Revaluation surplus of investment properties	—	—	293,000	—	—	—	—	—	293,000
— Deferred tax arising from revaluation surplus of investment properties	—	—	(51,275)	—	—	—	—	—	(51,275)
— Bonus issue	2,025	(2,035)	—	—	—	—	—	—	(10)
— Issue of shares upon exercise of warrants	63	1,020	—	—	—	—	—	—	1,083
— Loan capitalisation	1,700	41,492	—	—	—	—	—	—	43,192
— New placing of shares	1,394	28,706	—	—	—	—	—	—	30,100
— Share of loss by minority interests	—	—	—	—	—	—	—	(28)	(28)
— Exchange difference	—	—	—	—	—	(292)	—	—	(292)
— Profit for the period	—	—	—	—	15,832	—	—	—	15,832
Balance at 30 June 2004	12,152	83,187	1,236,820	10,666	(317,894)	(280)	10,030	10,549	1,045,230

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	<i>Note</i>	Six months ended 30 June	
		2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Net cash inflow from operating activities		24,869	11,425
Net cash outflow from investing activities		(33,579)	(601)
Net cash outflow from financing activities		(2,215)	(9,824)
(Decrease)/Increase in cash and cash equivalents		(10,925)	1,000
Cash and cash equivalents at beginning of period		46,724	36,039
Translation difference		—	(96)
Cash and cash equivalents at end of period	18	35,799	36,943

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For six months ended 30 June 2005

1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and 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”).

2. PRINCIPAL ACCOUNTING POLICIES

The accounting policies and methods of computation used in the preparation of these condensed consolidated financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2004 except that the Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations (“new HKFRS”) which are effective for accounting period commencing on or after 1 January 2005.

These interim financial statements have been prepared in accordance with those HKFRS issued and effective as at the time of preparing these information. The new HKFRS that will be applicable at 31 December 2005, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing these interim financial statements.

The changes to the Group’s accounting policies and the effect of adopting these new policies are set out below:

Presentational changes

The adoption of HKAS 1 “Presentation of Financial Statements” has affected the presentation of minority interests and share of after-tax results of associates. In the consolidated balance sheet, minority interests are now shown within total equity. In the consolidated income statement, minority interests are presented as an allocation of the total profit for the period.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Share-based Payments

The adoption of HKFRS 2 “Share-based Payment” has resulted in a change in accounting policy for share-based payments. The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors’ and employees’ share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the adoption of HKFRS 2, the Group did not recognize the financial effect of these share options until they were exercised. According to the transitional provision of HKFRS 2, the share options granted after 7 November 2002 that had not yet vested at the first application of this standard are required to be recognised retrospectively in the Group’s financial statements.

Investment Properties

In the current period, the Group has, for the first time, applied HKAS 40 “Investment Property”. The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the profit or loss for the period in which they arise. In previous periods, investment properties under the Statement of Standard Accounting Practice (“SSAP”) 13 were measured at open market values, with revaluation surplus or deficit credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and revaluation subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 as a result of which, the amount held in investment property revaluation reserve at 1 January 2005 has been transferred to the Group’s accumulated losses.

The adoption of HKAS 40 has resulted in a change of classification of certain properties which were previously classified as investment properties according to SSAP 13. In previous periods, property with 15% or less by area of value that was occupied by the Company or another company in the Group would normally be regarded as an investment property in its entirety even though part of it was not held for investment purposes. According to HKAS 40, if a portion of the properties could be sold separately (or leased out separately under a finance lease), an entity accounts for the portion separately. If the portion could not be sold separately, the property is investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. In the current period, the Group applied HKAS 40 and has reclassified certain such owner-occupied properties that could be sold separately (or leased out separately under a finance lease) from investment properties to property, plant and equipment retrospectively. Comparative figures for 2004 have been restated.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Investment Properties (Continued)

Accordingly, the amount previously held in investment property revaluation reserve relating to these owner-occupied properties has been reclassified to the Group's asset revaluation reserve. Any difference resulting between the carrying amount and the fair value of these properties is recognised in equity as a revaluation of property, plant and equipment under HKAS 16.

Deferred taxes related to investment properties

In previous period, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor interpretation (SSAP-Interpretation 20). In the current period, the Group has applied HKAS-Interpretation 21 ("INT-21") "Income Taxes — Recovery of Revalued Non-Depreciable Assets" which removes the presumption that the carrying amount of investment properties are to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflect the consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. In the absence of any specific transitional provisions in INT-21, this change in accounting policy has been applied retrospectively. Comparative figures for 2004 have been restated.

Owner-occupied leasehold interest in land

Upon adoption of HKAS 17, the Group's leasehold interest in land and buildings (excepting leasehold interests in investment properties) is separated into leasehold land and leasehold buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified as prepaid leasehold land, while any buildings held for own use is presented as part of property, plant and equipment and stated at fair value. The separation of the leasehold interest in land and in building is determined by the Directors of the Company according to their best estimation. Prepaid leasehold land for land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight line basis over lease term.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Convertible Bonds

The adoption of HKAS 32 “Financial Instruments: Disclosure and Presentation” and HKAS 39 “Financial Instruments: Recognition and Measurement” has resulted in a change in the accounting policy for recognition, measurement, derecognition and disclosure of convertible bonds.

Under HKAS 32, convertible bonds issued are split into their liability and equity components at initial recognition by recognizing the liability component at its fair value which is determined using a market interest rate for equivalent non-convertible bonds and attributing to the equity component the difference between the proceeds from the issue and the fair value of the liability component. The liability component is subsequently carried at amortised cost. The equity component is recognized in the capital reserve until the bond is either converted (in which case it is transferred to share premium) or the bond is redeemed (in which case it is released directly to retained profits). In prior year, convertible bonds were stated at face value. Retrospective application is required for adoption on HKAS 32.

Under HKAS 39, equity investments held on a continuing basis for an identifiable long-term purpose are classified as available-for-sale financial assets and are carried at fair value, with changes in fair values recognised in the equity. Prospective application is required on adoption of HKAS 39. Comparative amounts have not been restated.

Goodwill and Intangible Assets

The adoption of HKFRS 3 “Business Combinations”, HKAS 36 “Impairment of Assets” and HKAS 38 “Intangible Assets” results in changes in the accounting policy for goodwill and prospective application is required. Until 31 December 2004, goodwill was amortised on a straight line basis over its useful life of 20 years and was subject to impairment testing when there were indication of impairment. In accordance with the provisions of HKFRS 3, the Group ceased amortisation of goodwill from 1 January 2005; whilst the accumulated amortisation as at 31 December 2004 has been deducted from the cost of goodwill and, from the year ending 31 December 2005 onwards, goodwill will be tested annually for impairment. This results in a decrease of amortisation of goodwill of approximately HK\$37,000 as compared to last period.

The Group has reassessed the useful lives of its intangible assets in accordance with the provision of HKAS 38. No adjustment resulted from this reassessment.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

The Group has not early applied the following new Standards or Interpretation that has been issued but are not yet effective. The Directors of the Company anticipate that the application of these Standards or Interpretation will have no material impact on the financial statements of the Group:

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 (Amendment)	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKFRS-Interpretation 4	Determining whether an Arrangement Contains a Lease

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements used in preparing the financial statements are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant effect on the carrying amounts of assets and liabilities include those related to investment properties, impairment of assets and income taxes.

4. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of changes in accounting policies described in Note 2 above on the condensed consolidated income statements for the current and prior periods are as follows:

	Six months ended 30 June	
	2005 HK\$'000	2004 HK\$'000
Gain arising from fair value changes in investment properties	200,360	—
Increase in deferred tax liabilities arising from changes in fair value of investment properties	(35,063)	—
Expenses in relation to share options granted to the directors and employees	(17)	—
Increase in amortisation arising from prepaid leasehold land	(7)	(7)
Increase in depreciation arising from owner-occupied properties	(239)	(209)
Increase in finance costs on convertible bonds	98	—
Increase/(Decrease) in net profit for the period	165,132	(216)

4. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES (CONTINUED)

The effect of changes in the accounting policies described in Note 2 above on the condensed consolidated balance sheet as at 31 December 2004 and 1 January 2005 are as follows:

	As at 31.12.2004 (originally stated) HK\$'000	Adjustments HK\$'000	As at 31.12.2004 (restated) HK\$'000	Adjustments HK\$'000	As at 01.01.2005 (restated) HK\$'000
Investment properties	3,057,336	(45,700)	3,011,636	—	3,011,636
Property, plant and equipment	3,866	18,480	22,346	—	22,346
Prepaid leasehold land	—	41,584	41,584	—	41,584
Debtors, prepayments and deposits	39,011	—	39,011	—	39,011
Other assets	112,749	(30,005)	82,744	—	82,744
Current liabilities	(183,938)	—	(183,938)	—	(183,938)
Deferred tax	(13,000)	(348,422)	(361,422)	—	(361,422)
Borrowings	(1,051,252)	—	(1,051,252)	—	(1,051,252)
Convertible bonds	(148,499)	538	(147,961)	—	(147,961)
Net assets	1,816,273	(363,525)	1,452,748	—	1,452,748
Share capital	12,116	—	12,116	—	12,116
Share premium	84,680	—	84,680	—	84,680
Investment property revaluation reserve	2,003,957	(372,160)	1,631,797	(1,631,797)	—
Asset revaluation reserve	—	11,725	11,725	—	11,725
Other equity reserve	—	590	590	—	590
Employee share-based compensation reserve	—	517	517	—	517
(Accumulated losses)/ Retained earnings	(300,668)	(4,197)	(304,865)	1,631,797	1,326,932
Exchange reserve	(462)	—	(462)	—	(462)
Special reserve	5,970	—	5,970	—	5,970
Minority interests	10,680	—	10,680	—	10,680
Total equity	1,816,273	(363,525)	1,452,748	—	1,452,748

5. SEGMENTAL INFORMATION

In accordance with the Group's internal financial reporting, the Group has determined that business segments are its primary reporting format, with each segment organized and managed separately.

Business segments

Property development	:	Property development and sale of properties
Property leasing	:	Property rental including signage rental
Building management and other services	:	Provision of property management, repair and maintenance services
Urban infrastructure	:	Urban infrastructure development

The following table represents revenue and results information for the six months ended 30 June 2005 for the Group's business segments:

	Six months ended 30 June 2005 (Unaudited)						
	Property development HK\$'000	Property leasing HK\$'000	Building management and other services HK\$'000	Urban infrastructure HK\$'000	Others HK\$'000	Elimination HK\$'000	Total HK\$'000
Segment revenue							
External customers	—	52,022	6,274	15,706	423	—	74,425
Inter-segments	—	1,889	—	—	—	(1,889)	—
	—	53,911	6,274	15,706	423	(1,889)	74,425
Segment results	(302)	48,296	3,873	(4,326)	2,059	—	49,600
Inter-segments	—	3,863	—	—	(1,617)	(2,246)	—
Contribution from operations	(302)	52,159	3,873	(4,326)	442	(2,246)	49,600
Unallocated income and expenses							(8,820)
Changes in fair value of investment properties							200,360
Profit from operations							241,140
Finance costs							(17,966)
Operating profits							223,174
Share of profits less losses of associates							(61)
Taxation							(40,256)
Profit for the period							182,857

5. SEGMENTAL INFORMATION (CONTINUED)

	Six months ended 30 June 2004 (Restated)						Total HK\$'000
	Property development HK\$'000	Property leasing HK\$'000	Building management and other services HK\$'000	Urban infrastructure HK\$'000	Others HK\$'000	Elimination HK\$'000	
Segment revenue							
External customers	—	50,047	4,516	8,419	232	—	63,214
Inter-segments	—	1,673	—	—	—	(1,673)	—
	—	51,720	4,516	8,419	232	(1,673)	63,214
Segment results							
Inter-segments	—	2,057	551	—	—	(2,608)	—
Contribution from operations	—	50,840	3,423	(2,577)	(2,432)	(2,608)	46,646
Unallocated income and expenses							(4,809)
Profit from operations							41,837
Finance costs							(19,607)
Share of profits less losses of associates							(19)
Taxation							(6,407)
Profit for the period							15,804

Geographical segments

The following table shows the distribution of the Group's consolidated revenue by geographical markets:

	Six months ended 30 June	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Hong Kong	58,719	54,795
Other parts of the People's Republic of China ("PRC")	15,706	8,419
	74,425	63,214

6. OTHER INCOME

	Six months ended 30 June	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Commission income	—	218
Interest income	60	28
Miscellaneous income	1,675	1,542
	1,735	1,788

7. PROFIT FROM OPERATIONS

Profit from operations is arrived at after charging:

	Six months ended 30 June	
	2005 (Unaudited) HK\$'000	2004 (Restated) HK\$'000
Depreciation	685	615
Staff cost (including directors' remuneration)	8,614	7,630
Amortisation of goodwill	—	37
Amortisation of prepaid leasehold land	7	7
Amortisation of intangible assets	171	100
Loss on disposal of property, plant and equipment	196	—
Cost of inventories recognised as expenses	9,085	4,378
Provision for doubtful debts	2,141	—
Operating lease charges	1,052	686

8. FINANCE COSTS

	Six months ended 30 June	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Interest charges on:		
Bank loans	14,855	10,193
Other borrowings		
— wholly repayable within five years	577	9,160
— not wholly repayable within five years	1,168	240
Convertible bonds	1,363	—
Finance charges on finance leases	3	14
	17,966	19,607

9. TAXATION

	Six months ended 30 June	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
The charge comprises:		
Hong Kong profits tax		
— Current year	1,208	7
Deferred taxation		
— Changes in fair value of investment properties	35,063	—
— Other temporary differences	3,985	6,400
	40,256	6,407

Hong Kong profits tax is provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profit arising or derived from Hong Kong.

The Group's subsidiaries established and operating in the PRC are exempted from PRC enterprise income tax for the first two profitable years of operations, and thereafter, are eligible for a 50% relief from PRC enterprise income tax for the following three years under the Income Tax Law of the PRC. For the six months ended 30 June 2005, no provision for PRC enterprise income tax has been made as the Group's PRC subsidiaries were still within the tax exemption period.

9. TAXATION (CONTINUED)

Following the adoption of INT-21, deferred tax has been provided on the fair value changes of the investment property portfolio at the current profits tax rate. Deferred tax on other temporary differences has been provided for at 17.5% that is expected to apply in the period when the liability is settled or the asset is realised.

10. INTERIM DIVIDEND

The directors do not recommend any interim dividend for the six months ended 30 June 2005 (30 June 2004: Nil).

11. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the unaudited consolidated profit attributable to equity holders of the Company of HK\$183,065,000 (30 June 2004: approximately HK\$15,832,000 (restated)) and the weighted average of 151,479,017 shares (30 June 2004: 106,005,071 shares) in issue during the six months ended 30 June 2005.

The calculation of diluted earnings per share is based on the adjusted net profit attributable to equity holders of the Company of HK\$184,094,000 (30 June 2004: HK\$15,832,000 (restated)) and the weighted average of 186,867,570 shares (30 June 2004: 106,005,071 shares) in issue during the period adjusted for the effect of all dilutive shares.

The adjusted net profit attributable to equity holders of the Company is calculated on the net profit for the period of HK\$183,065,000 plus the reduction in interest payable of HK\$1,029,000 as a result of the deemed conversion of convertible bonds.

The weighted average number of shares used in calculation of diluted earnings per share is calculated based on the weighted average of 151,479,017 shares in issue during the period plus the weighted average of 35,388,553 shares deemed to be issued at no consideration as if all the dilutive potential shares been issued.

12. INVESTMENT PROPERTIES

	30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Restated) HK\$'000
At 1 January 2005, as originally stated	3,057,336	2,243,390
Effect on adoption of HKAS 40:		
— Reclassification to owner-occupied properties	(22,000)	(22,000)
— Reclassification to prepaid leasehold land	(23,700)	(23,700)
At 1 January 2005, as restated	3,011,636	2,197,690
Additions	31,909	18,050
Addition through acquisition of a subsidiary	—	11,436
Disposals	(1,198)	—
Fair value changes	200,360	784,460
At 30 June 2005	3,242,707	3,011,636

The investment properties of the Group were revalued at 30 June 2005 by an independent professional valuer, B.I. Appraisals Limited, on an open market value basis. The surplus arising on revaluation has been credited to consolidated income statement for the period following the adoption of HKAS 40.

All investment properties are situated in Hong Kong which are held under long-term lease and are held for rental under operating leases.

13. DEBTORS, PREPAYMENTS AND DEPOSITS

As at balance sheet date, trade debtors included in debtors, prepayments and deposits were approximately HK\$34,411,000 (31 December 2004: HK\$29,173,000). The aging of these debtors was set out below:

	30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Audited) HK\$'000
0-30 days	13,963	20,944
31-90 days	4,995	1,751
Over 90 days	15,453	6,478
	34,411	29,173

14. CREDITORS, ACCRUALS AND DEPOSITS RECEIVED

As at balance sheet date, trade payables included in creditors, accruals and deposits received were approximately HK\$30,826,000 (31 December 2004: HK\$27,588,000). The aging of these payables was set out below:

	30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Audited) HK\$'000
0-30 days	18,986	18,712
31-90 days	852	189
Over 90 days	10,988	8,687
	30,826	27,588

15. BORROWINGS

	30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Audited) HK\$'000
Loans		
— Bank loans — secured	1,045,122	1,054,775
— Other loans	80,850	96,576
	1,125,972	1,151,351
Obligations under finance leases	22	25
	1,125,994	1,151,376
Less: Current portion due within one year included under current liabilities	(76,805)	(100,124)
Non-current portion	1,049,189	1,051,252

As at 30 June 2005, borrowings are repayable as follows:

	30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Audited) HK\$'000
Within 1 year or on demand	76,805	100,124
After 1 year but within 2 years	55,549	79,882
After 2 year but within 5 years	693,386	872,383
After 5 years	300,254	98,987
	1,049,189	1,051,252
Grand total	1,125,994	1,151,376

16. CONVERTIBLE BONDS

In August 2004, the Company issued convertible bonds (the “Bonds”) to the controlling shareholder of the Company, Ko Bee Limited (“Ko Bee”) at a nominal value of HK\$148,499,000. The Bonds bear interest at 3% per annum below prime lending rate quoted by Hong Kong and Shanghai Banking Corporation Limited. The Bonds mature four years from the issue date at their nominal value of HK\$148,499,000 and can be converted into shares at the holder’s option at the exercise price of HK\$1.66 (adjusted) per share (the “Conversion Price”). On 10 March 2005, Ko Bee exercised its rights and converted a total principal amount of HK\$55,000,000 at the Conversion Price.

In accordance with HKAS 32, the fair value of the liability component of the Bonds was calculated using a market interest rate (“MIR”) for an equivalent non-convertible bond. The residual amount, representing the value of equity conversion component, is included in shareholders’ equity in other equity reserve. The fair value of the liability component of the Bond at 30 June 2005 amounted to approximately HK\$87,378,000, which is calculated using cash flows discounted at MIR, which the Directors of the Company have estimated to be 2.12% per annum or HIBOR plus 1.75%. Interest expenses on the Bond is calculated using the effective interest method by applying the effective interest rate of 2.15% per annum to the liability component.

	30 June 2005 (Unaudited) HK\$’000	31 December 2004 (Restated) HK\$’000
Face value of convertible bonds	93,499	148,499
Equity component	(372)	(590)
Interest charged to finance costs	93,127	147,909
Interest paid/accrued	1,363	1,324
	(1,409)	(1,272)
Liability component	93,081	147,961

17. SHARE CAPITAL

	30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Audited) HK\$'000
<i>Authorized:</i>		
5,000,000,000 ordinary shares of HK\$0.10 each	500,000	500,000
	Number of Shares	Nominal value HK\$'000
<i>Issued and fully paid:</i>		
As at 1 January 2005	121,165,891	12,116
Share options/Warrants exercised	649,400	65
New placing of shares (<i>note (a)</i>)	10,000,000	1,000
Issue of shares upon conversion of convertible bonds (<i>note (b)</i>)	33,132,530	3,314
As at 30 June 2005	164,947,821	16,495

Notes:

- (a) On 10 January 2005, Ko Bee entered into an agreement with Sun Hung Kai International Limited and the Company for the placement of 10,000,000 shares at HK\$2.70 each to independent investors and subscribed for 10,000,000 new shares at the same price by Ko Bee.
- (b) On 10 March 2005, Ko Bee exercised its rights and converted convertible bonds of the Company in total principal amount of HK\$55,000,000 at the Conversion Price of HK\$1.66 (adjusted) whereby a total number of 33,132,530 shares of the Company were allotted to Ko Bee.

18. CASH AND CASH EQUIVALENTS

	Six months ended 30 June	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Bank balance and cash	35,799	36,943

19. RELATED PARTY TRANSACTIONS

- (a) A subsidiary of the Company entered into a tenancy agreement with a related company which is in association with the Chairman and an executive director of the Company for leasing a residential property situated in Hong Kong for a period of three years commencing from 1 May 2004 and expiring on 30 April 2007 at the monthly rental of HK\$80,000. Total rental paid for the six months ended 30 June 2005 amounted to HK\$480,000 (30 June 2004: HK\$160,000).
- (b) On 10 December 2004, a wholly owned subsidiary of the Company entered into a tenancy agreement with a related company, in which the Chairman and an executive director of the Company have interests, for leasing a property situated at Guangzhou, PRC for office purpose at monthly rental and management charge at HK\$61,097 for a period of 12 months from 1 December 2004 to 30 November 2005. On 10 May 2005, the monthly rental and management charge has been amended to HK\$41,837 due to a reduction in floor area rented.
- (c) On 10 January 2005, Ko Bee entered into an agreement with Sun Hung Kai International Limited and the Company for the placement of 10,000,000 existing ordinary shares at a placing price of HK\$2.70 each to institutional, professional and/or other investors who are independent third parties of the Company and the subscription of 10,000,000 new ordinary shares at the same price by Ko Bee. The net consideration of approximately HK\$26,000,000 were satisfied by cash payment.
- (d) On 10 March 2005, Ko Bee exercised its rights and converted convertible bonds of the Company in total principal amount of HK\$55,000,000 at the Conversion Price of HK\$1.66 (adjusted) each whereby a total number of 33,132,530 shares of the Company were allotted to Ko Bee.

19. RELATED PARTY TRANSACTIONS (CONTINUED)

- (e) On 30 April 2005, a related company in which the Chairman and an executive director of the Company have interests, advanced to a wholly owned subsidiary of the Company an unsecured revolving credit facility up to a maximum total principal amount of HK\$100,000,000 with interest rate at prime lending rate for Hong Kong dollars plus 1% per annum. The purpose of granting this unsecured revolving credit facility is to replace a previous unsecured revolving credit facility with a maximum total principal amount of HK\$50,000,000. The final maturity date is on 30 April 2008. As at the balance sheet date, approximately HK\$3,200,000 was utilised.
- (f) Interest on convertible bonds paid/payable to Ko Bee for the six months ended 30 June 2005 amounted to HK\$1,363,000 (30 June 2004: Nil).

20. OPERATING LEASE ARRANGEMENTS

The Group leases out all its investment properties under operating leases with average lease terms of 3 years. The future aggregate minimum rental receivable under non-cancellable operating leases are as follows:

	30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Audited) HK\$'000
Within one year	92,064	78,376
In the second to fifth years inclusive	82,973	57,183
	175,037	135,559

21. COMMITMENTS

(a) Operating lease commitments

As at 30 June 2005, the Group had total future aggregate minimum lease payments under non-cancellable operating leases in respect of two properties, details as follows:

	30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Audited) HK\$'000
Within one year	2,248	1,632
In the second to fifth year inclusive	3,376	1,280
	5,624	2,912

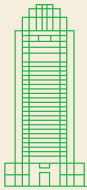
(b) Capital commitments

	30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Audited) HK\$'000
Commitments in respect of capital contribution to subsidiaries in the PRC	291,200	298,400

Of the total capital commitments, approximately HK\$147,800,000 (31 December 2004: approximately HK\$110,000,000) will be due for contribution by the subsidiaries of the Group in the coming twelve months.

22. POST BALANCE SHEET EVENT

Up to the date of this interim report, there was no significant event after the balance sheet date.



金朝陽集團有限公司
SOUNDWILL HOLDINGS LIMITED