Interim Report 2005

COL Capital Limited

(Incorporated in Bermuda with Limited Liability)


NEC
L1
N850
N840
e1101

UNAUDITED RESULTS OF THE GROUP

The Board of Directors (the "Directors") of COL Capital Limited (the "Company") announces the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2005 together with the comparative figures for the corresponding period in 2004 as follows. The consolidated interim financial statements have not been audited, but have been reviewed by the Company's auditors, Deloitte Touche Tohmatsu, in accordance with the Hong Kong Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" and by the Company's Audit Committee.

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30 June	
		2005	2004
	Notes	**HK$'000**	HK$'000
		(Unaudited)	(Unaudited)
			(restated)
Turnover	*4*	**84,413**	509,646
Cost of sales		**(59,586)**	(382,802)
Gross profit		**24,827**	126,844
Net gains (losses) on investments	*5*	**21,805**	(23,363)
Other operating income	*6*	**2,968**	5,294
Distribution costs		**(3,795)**	(6,163)
Administrative expenses		**(8,507)**	(25,371)
Other operating expenses		**(682)**	(137)
Finance costs	*8*	**(2)**	(467)
Profit before taxation		**36,614**	76,637
Tax charge	*9*	**(116)**	(613)
Profit for the period		**36,498**	76,024
Attributable to :			
Equity holders of the parent company		**36,498**	76,024
Minority interests		**–**	–
		36,498	76,024
Dividends	*10*	**3,018**	3,018
Basic earnings per share	*11*	**12.10 HK cents**	20.47 HK cents

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	**As at 30 June 2005 HK$'000 (unaudited)**	As at 31 December 2004 HK$'000 (audited)
Non-current assets			
Investment properties	*12*	**124,645**	44,640
Property, plant and equipment	*12*	**6,089**	6,426
Construction in progress	*12*	**47,034**	–
Investments in securities	*13*	**–**	313,919
Loans and receivables	*13*	**96,248**	–
Available-for-sale investments	*13*	**162,111**	–
Other non-current assets		**528**	528
		436,655	365,513
Current assets			
Inventories		**9,250**	9,626
Debtors, deposits and prepayments	*14*	**8,605**	28,405
Loans receivable	*15*	**65,458**	103,018
Investments in securities	*13*	**–**	709,854
Investments held for trading	*13*	**752,081**	–
Pledged bank deposits	*19*	**15,303**	15,182
Bank balances and cash		**44,973**	32,265
		895,670	898,350
Current liabilities			
Creditors and accrued charges	*16*	**58,891**	32,383
Customers' deposits and receipts in advance		**8,515**	3,513
Taxation payable		**4,370**	4,315
		71,776	40,211

CONDENSED CONSOLIDATED BALANCE SHEET *(Continued)*

	Notes	As at 30 June 2005 HK$'000 (unaudited)	As at 31 December 2004 HK$'000 (audited)
Net current assets		**823,894**	858,139
Total assets less current liabilities		**1,260,549**	1,223,652
Capital and reserves			
Share capital	*17*	**3,018**	3,018
Reserves		**1,240,144**	1,220,634
Equity attributable to equity holders of the parent company		**1,243,162**	1,223,652
Minority interests		**11,996**	–
Total equity		**1,255,158**	1,223,652
Non-current liability			
Deferred tax liability	*18*	**5,391**	–
		1,260,549	1,223,652

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2005

	Attributable to equity holders of the parent company										
	Share capital HK$'000	Share premium HK$'000	Negative goodwill HK$'000	Leasehold land and buildings revaluation reserve HK$'000	Investments revaluation reserve HK$'000	Capital redemption reserve HK$'000	Translation reserve HK$'000	Retained profits HK$'000	Sub-total HK$'000	Minority interests HK$'000	Total HK$'000
At 1 January 2004	3,715	759,776	32,883	456	16,422	1,922	–	288,363	1,103,537	–	1,103,537
Deficit on available-for-sale investments recognised directly in equity	–	–	–	–	(4,892)	–	–	–	(4,892)	–	(4,892)
Profit for the period	–	–	–	–	–	–	–	76,024	76,024	–	76,024
Total recognised income and expense for the period	–	–	–	–	(4,892)	–	–	76,024	71,132	–	71,132
Dividend paid	–	–	–	–	–	–	–	(14,859)	(14,859)	–	(14,859)
At 30 June 2004	3,715	759,776	32,883	456	11,530	1,922	–	349,528	1,159,810	–	1,159,810
Surplus on available-for-sale investments	–	–	–	–	22,658	–	–	–	22,658	–	22,658
Surplus on revaluation of leasehold land and buildings	–	–	–	608	–	–	–	–	608	–	608
Exchange differences arising from translation of financial statements of overseas subsidiary	–	–	–	–	–	–	(2)	–	(2)	–	(2)
Net income (expenses) recognised directly in equity	–	–	–	608	22,658	–	(2)	–	23,264	–	23,264
Profit for the period	–	–	–	–	–	–	–	127,250	127,250	–	127,250
Total recognised income and expense for the period	–	–	–	608	22,658	–	(2)	127,250	150,514	–	150,514
Dividend paid	–	–	–	–	–	–	–	(3,017)	(3,017)	–	(3,017)
Repurchase of shares	(697)	(82,958)	–	–	–	–	–	–	(83,655)	–	(83,655)
At 31 December 2004	3,018	676,818	32,883	1,064	34,188	1,922	(2)	473,761	1,223,652	–	1,223,652

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Continued)

For the six months ended 30 June 2005

	Attributable to equity holders of the parent company										
	Share capital HK$'000	Share premium HK$'000	Negative goodwill HK$'000	Leasehold land and buildings revaluation reserve HK$'000	Investments revaluation reserve HK$'000	Capital redemption reserve HK$'000	Translation reserve HK$'000	Retained profits HK$'000	Sub-total HK$'000	Minority interests HK$'000	Total HK$'000
At 1 January 2005	3,018	676,818	32,883	1,064	34,188	1,922	(2)	473,761	1,223,652	–	1,223,652
Effect of change in accounting policies (Note 3)	–	–	(32,883)	–	–	–	–	32,883	–	–	–
As restated	3,018	676,818	–	1,064	34,188	1,922	(2)	506,644	1,223,652	–	1,223,652
Deficit on available-for-sale investments recognised directly in equity	–	–	–	–	(4,918)	–	–	–	(4,918)	–	(4,918)
Profit for the period	–	–	–	–	–	–	–	36,498	36,498	–	36,498
Total recognised income and expense for the period	–	–	–	–	(4,918)	–	–	36,498	31,580	–	31,580
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	11,996	11,996
Dividend paid	–	–	–	–	–	–	–	(12,070)	(12,070)	–	(12,070)
At 30 June 2005	**3,018**	**676,818**	**–**	**1,064**	**29,270**	**1,922**	**(2)**	**531,072**	**1,243,162**	**11,996**	**1,255,158**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2005

	Six months ended 30 June	
	2005	2004
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Net cash used in operating activities	**(16,629)**	(169,013)
Net cash from (used in) investing activities	**41,407**	(18,522)
Financing activities		
New borrowings raised	**–**	335,400
Repayments of borrowings	**–**	(183,231)
Dividend paid	**(12,070)**	(14,859)
Net cash (used in) from financing activities	**(12,070)**	137,310
Net increase (decrease) in cash and cash equivalents	**12,708**	(50,225)
Cash and cash equivalents at beginning of the period	**32,265**	134,600
Cash and cash equivalents at end of the period	**44,973**	84,375
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**44,973**	84,375

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2005

1. BASIS OF PREPARATION

The condensed 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 on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Rental income arising from property investment had been redefined as part of turnover since the year ended 31 December 2004. Accordingly, the comparative rental income of HK$1,174,000 has also been reclassified from other operating income to turnover for the period ended 30 June 2004.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost basis except for certain properties and financial instruments, which are measured at fair values or revalued amounts, as appropriate.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2004 except as described below.

Construction in progress

Buildings in the course of development for production, rental or administrative purposes or for purposes not yet determined, are carried at cost, less any identified impairment loss. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Construction in progress (Continued)

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods of the Group are prepared and presented.

Business combinations

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with HKFRS 3 "Business Combinations" any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous periods, negative goodwill arising on acquisitions prior to 1 January 2001 was held in reserves, and negative goodwill arising on acquisitions after 1 January 2001 was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provisions in HKFRS 3, the Group has derecognised all negative goodwill at 1 January 2005 of HK$32,883,000 which was previously recorded in negative goodwill reserve, with a corresponding increase to retained profits.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Financial instruments

In the current period, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for accounting periods beginning on or after 1 January 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

At 31 December 2004, the Group classified and measured its debt and equity securities in accordance with the alternative treatment of Statement of Standard Accounting Practice ("SSAP") 24. Under SSAP 24, investments in debt or equity securities are classified as "trading securities", "non-trading securities" or "held-to-maturity investments" as appropriate. Both "trading securities" and "non-trading securities" are measured at fair value. Unrealised gains or losses of "trading securities" are reported in the profit or loss for the period in which gains or losses arise. Unrealised gains or losses of "non-trading securities" are reported in equity until the securities are sold or determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for that period. From 1 January 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" that are not part of the hedging relationship and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Financial instruments (Continued)

Financial assets and financial liabilities other than debt and equity securities

From 1 January 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)". "Other financial liabilities" are carried at amortised cost using the effective interest method.

Derecognition

HKAS 39 provides more rigorous criteria for the derecognition of financial assets than the criteria applied in previous periods. Under HKAS 39, a financial asset is derecognised, when and only when, either the contractual rights to the asset's cash flows expire, or the asset is transferred and the transfer qualifies for derecognition in accordance with HKAS 39. The decision as to whether a transfer qualifies for derecognition is made by applying a combination of risks and rewards and control tests. The Group has applied the relevant transitional provisions and applied the revised accounting policy prospectively for transfers of financial assets on or after 1 January 2005. This change has had no material effect on the results for the current period.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Owner-occupied leasehold interest in land

In previous periods, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the revaluation model. In the current period, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment.

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 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 and elected to apply HKAS 40 from 1 January 2005 onwards. This change has had no material effect on the results for the current and prior period.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Deferred taxes related to investment properties

In previous periods, 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 tax 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 HKAS INT-21, this change in accounting policy has been applied retrospectively. This change has had no material effect on the results for the current and prior periods.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Deferred taxes related to investment properties (Continued)

The Group has not early applied the following new standards and interpretations that have been issued but are not yet effective. The Group has commenced considering the potential impact of these new standards and interpretations but is not yet in a position to determine whether these standards and interpretations would have a significant impact on how its results of operations and financial position are prepared and presented. These standards and interpretations may result in changes in the future as to how the results and financial position are prepared and presented.

HKFRS 6	Exploration for and Evaluation of Mineral Resources
Amendment to HKAS 19 Employee Benefits	Actuarial Gains and Losses, Group Plans and Disclosures
Amendment to HKAS 39 Financial Instruments: Recognition and Measurement	Transition and Initial Recognition of Financial Assets and Financial Liabilities
Amendment to HKAS 39 Financial Instruments: Recognition and Measurement	The Fair Value Option
HKFRS - Interpretation 4	Determining whether an Arrangement contains a Lease
HKFRS - Interpretation 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

3. SUMMARY OF THE EFFECT OF THE CHANGES IN ACCOUNTING POLICIES

The cumulative effect of the application of the new HKFRSs as at 31 December 2004 and 1 January 2005 are summarised below:

	As at 31.12.2004 and 1.1.2005 (originally stated) HK$'000	Adjustments HK$'000	**As at 1.1.2005 (restated) HK$'000**
Balance sheet items			
Investment properties	44,640	–	**44,640**
Property, plant and equipment	6,426	–	**6,426**
Other assets/liabilities	1,172,586	–	**1,172,586**
Total effects on assets and liabilities	1,223,652	–	**1,223,652**
Share capital	3,018	–	**3,018**
Share premium	676,818	–	**676,818**
Negative goodwill	32,883	(32,883)	**–**
Retained profits	473,761	32,883	**506,644**
Investment revaluation reserve	34,188	–	**34,188**
Leasehold land and buildings revaluation reserve	1,064	–	**1,064**
Other reserves	1,920	–	**1,920**
Total effects on equity	1,223,652	–	**1,223,652**

4. SEGMENT INFORMATION

Business and Geographical Information

For management purposes, the Group is currently organised into four main operating divisions – mobile phone distribution, securities trading and investments, financial services and property investment.

These divisions are the bases on which the Group reports its primary segment information.

The revenue and attributable profit from operations of the Group for the period, analysed by business segments and geographical segments, are as follows:

By business segments :

For the six months ended 30 June 2005

	Mobile phone distribution HK$'000	Securities trading and investments HK$'000	Financial services HK$'000	Property investment HK$'000	Consolidated HK$'000
Revenue					
External turnover	43,601	31,857	7,562	1,393	84,413
Other operating income	–	2,571	10	–	2,581
	43,601	34,428	7,572	1,393	86,994
Segment result	(940)	35,697	7,558	282	42,597
Unallocated other operating income					351
Unallocated corporate expenses					(6,332)
Finance costs					(2)
Profit before taxation					36,614
Tax charge					(116)
Profit for the period					36,498

4. SEGMENT INFORMATION *(Continued)*

By business segments : (Continued)

For the six months ended 30 June 2004

	Mobile phone distribution HK$'000	Securities trading and investments HK$'000	Financial services HK$'000	Property investment HK$'000	Consolidated HK$'000 (restated)
Revenue					
External turnover	124,374	377,567	6,531	1,174	509,646
Other operating income	–	4,718	–	–	4,718
	124,374	382,285	6,531	1,174	514,364
Segment result	12,235	80,651	6,495	103	99,484
Unallocated other operating income					576
Unallocated corporate expenses					(22,956)
Finance costs					(467)
Profit before taxation					76,637
Tax charge					(613)
Profit for the period					76,024

4. SEGMENT INFORMATION *(Continued)*

By geographical segments :

The Group's operations are located in Hong Kong and the Mainland China ("China").

During the period under review, the Group's distribution of mobile phones, securities trading and investments and financial services are carried out in Hong Kong. Rental income from property investment is from Hong Kong and China. Commission income is earned in Hong Kong.

The following table provides an analysis of the Group's revenue by geographical market:

	Revenue by geographical market Six months ended	
	30 June 2005	30 June 2004
	HK$'000	HK$'000
Hong Kong	**86,309**	513,728
China	**685**	636
	86,994	514,364

5. NET GAINS (LOSSES) ON INVESTMENTS

	Six months ended	
	30 June 2005	30 June 2004
	HK$'000	HK$'000
Net realised gain on derivatives	**–**	1,552
Fair value changes on investments held for trading	**22,805**	–
Net unrealised loss on trading investments	**–**	(24,915)
Discount on early redemption of loan notes	**(1,000)**	–
	21,805	(23,363)

6. OTHER OPERATING INCOME

	Six months ended	
	30 June 2005	30 June 2004
	HK$'000	HK$'000
Interest income	**2,922**	5,137
Others	**46**	157
	2,968	5,294

7. CONSOLIDATED REVENUE/EXPENSES FOR THE PERIOD

	Six months ended	
	30 June 2005	30 June 2004
	HK$'000	HK$'000
Consolidated revenue/expenses for the period has been arrived at after charging (crediting) the following items:		
Depreciation and amortisation	**405**	535
Profit on sale of investments held for trading	**(11,648)**	–
Profit on sale of trading investments	**–**	(100,033)
Dividend income	**(7,970)**	(7,776)

8. FINANCE COSTS

The finance costs represent interest on bank and other borrowings wholly repayable within five years.

9. TAX CHARGE

	Six months ended	
	30 June 2005	30 June 2004
	HK$'000	HK$'000
The current tax comprises:		
Hong Kong Profits Tax	**55**	556
Income tax in China	**61**	57
	116	613

9. TAX CHARGE *(Continued)*

Hong Kong Profits Tax is calculated at 17.5% on the estimated assessable profit for both periods.

Income tax in China has been provided at the prevailing rates applicable in China on the estimated assessable profit.

10. DIVIDENDS

The amount represents interim dividend of HK$0.01 (2004: HK$0.01) per share for the current period.

Final dividend for 2004 of HK$0.04 per share (Final dividend for 2003: HK$0.04 per share) amounting to HK$12,070,000 (Final dividend for 2003: HK$14,859,000) was paid to shareholders during the current period, and was reflected in the condensed consolidated statement of changes in equity.

11. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit for the period of HK$36,498,000 (2004: HK$76,024,000) and on 301,755,547 (2004: 371,468,753) ordinary shares in issue during the period.

12. MOVEMENTS IN INVESTMENT PROPERTIES, PROPERTY, PLANT AND EQUIPMENT AND CONSTRUCTION IN PROGRESS

During the period, the Group acquired a piece of land in China held under a medium term lease at a fair value of HK$80,005,000 (1.1.2004 to 30.6.2004: nil) which was classified as an investment property and is carried at fair value in accordance with HKAS 40 and construction in progress amounted to HK$47,034,000 (1.1.2004 to 30.6.2004: nil) which was carried at cost, through the acquisition of a subsidiary.

12. MOVEMENTS IN INVESTMENT PROPERTIES, PROPERTY, PLANT AND EQUIPMENT AND CONSTRUCTION IN PROGRESS *(Continued)*

During the period, additions to the Group's property, plant and equipment amounted to approximately HK$68,000 (1.1.2004 to 30.6.2004: HK$233,000).

The directors consider that, other than those acquired through subsidiary during the period, the fair values of the investment properties and leasehold land and buildings at 30 June 2005 are not materially different from the professional valuation made at 31 December 2004 and, accordingly, no revaluation increase or decrease has been recognised in the current period.

13. INVESTMENTS IN SECURITIES, LOANS AND RECEIVABLES, AVAILABLE-FOR-SALE INVESTMENTS AND INVESTMENTS HELD FOR TRADING

Other investments included in investments in securities as at 31 December 2004 were reclassified as loans and receivables and as available-for-sale investments respectively in accordance with HKAS 39. The loans and receivable represent the loan notes issued by Sun Hung Kai & Co. Limited ("SHK") and Allied Group Limited ("AG") which formed part of the consideration for the sale of SHK's and AG's shares by the Group in year 2003 and were classified as part of the other investments included in the investments in securities as at 31 December 2004. The loan notes bear interest at 4% and 2.25% per annum and are redeemable on or before 7 March 2008 and 15 August 2008, respectively.

Trading investments included in investments in securities as at 31 December 2004 were reclassified as the investments held for trading in accordance with HKAS 39.

14. DEBTORS, DEPOSITS AND PREPAYMENTS

The Group has a policy of allowing an average credit period of 30 to 90 days to its trade debtors. An aged analysis of trade debtors is as follows:

	30 June 2005 HK$'000	31 December 2004 HK$'000
Within 90 days	**3,273**	8,792
91 – 180 days	**–**	41
181 – 360 days	**45**	48
Over 360 days	**48**	–
	3,366	8,881
Other debtors, deposits and prepayments	**5,239**	19,524
	8,605	28,405

15. LOANS RECEIVABLE

The amounts are unsecured, bear interests at commercial rate per annum and are repayable within one year.

16. CREDITORS AND ACCRUED CHARGES

An aged analysis of trade creditors is as follows:

	30 June 2005 HK$'000	31 December 2004 HK$'000
Trade creditors due within 90 days	**290**	24,776
Other creditors and accrued charges	**58,601**	7,607
	58,891	32,383

17. SHARE CAPITAL

	Number of shares	Share capital HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
At 30 June 2005 and 31 December 2004	30,000,000,000	300,000
Issued and fully paid:		
At 30 June 2005 and 31 December 2004	301,755,547	3,018

18. DEFERRED TAX LIABILITY

The amount represents taxable temporary difference arising from the fair value adjustment on leasehold land made at the acquisition of a subsidiary.

19. PLEDGE OF ASSETS

At the balance sheet date, the following assets of the Group were pledged to banks and securities house to secure short term credit facilities:

	30 June 2005 HK$'000	31 December 2004 HK$'000
Investment properties	**15,000**	15,000
Investments held for trading	**660,628**	–
Investments in securities	**–**	631,924
Bank deposits	**15,303**	15,182
	690,931	662,106

20. ACQUISITION OF A SUBSIDIARY

On 28 June 2005, the Group acquired 75% of the issued share capital of 深圳市天利安實業發展有限公司 for a consideration of HK$35,988,000. This transaction has been accounted for using the purchase method of accounting.

The net assets acquired in the transaction are as follows:

	Acquiree's carrying amount before combination HK$'000	Fair value adjustments HK$'000	Fair value HK$'000
Net assets acquired:			
Investment property	44,065	35,940	80,005
Construction in progress	47,034	–	47,034
Debtors, deposits and prepayments	500	–	500
Bank and cash balances	9	–	9
Creditors and accrued charges	(51,669)	–	(51,669)
Amount due to a shareholder	(22,503)	–	(22,503)
Tax liability	(1)	–	(1)
Deferred tax liability	–	(5,391)	(5,391)
	17,435	30,549	47,984
Minority interest			(11,996)
			35,988
Satisfied by:			
Cash consideration paid			30,980
Loan receivable			5,008
			35,988

20. ACQUISITION OF A SUBSIDIARY *(Continued)*

In respect of the above acquisition, consideration of approximately HK$30,980,000 was satisfied by cash during the period, the remaining amount of approximately HK$5,008,000 was satisfied by the loan receivable.

If the acquisition had been completed on 1 January 2005, total group revenue for the period would have been HK$87,381,000, and profit for the period would have been HK$35,942,000. The proforma information is for illustrative purposes only and is not necessarily an indicative revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2005, nor is it intended to be a projection of future results.

21. COMMITMENTS

As at 30 June 2005, the Group was committed to capital expenditure of HK$16,556,000 (31.12.2004: nil) for the purchase of a leasehold property.

INTERIM DIVIDENDS

The Directors declared the payment of an interim dividend of HK$0.01 (2004: HK$0.01) per share amounting to approximately HK$3,018,000 to shareholders whose names appear on the Register of Members of the Company on 26 October 2005. Dividend warrants are expected to be dispatched on or before 10 November 2005.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Monday, 24 October 2005 to Wednesday, 26 October 2005, both days inclusive, during which no share transfer will be effected.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS

For the six months ended 30 June 2005, the Group's turnover decreased by 83.4% to HK$84,413,000 (2004: HK$509,646,000) and net profit decreased by 52.0% to HK$36,498,000 (2004: HK$76,024,000) mainly due to reduced securities trading and mobile handsets distribution activities. The Group's earnings per share for the period declined by 40.9% to HK12.10 cents (2004: HK20.47 cents).

As at 30 June 2005, the Group's net assets value per share was HK$4.1 (30 June 2004: HK$3.1).

BUSINESS REVIEW ON OPERATIONS

For the first half of 2005, the Group's mobile handset distribution business under Star Telecom Limited ("STAR") recorded a substantial drop in turnover to HK$43,601,000 (2004: HK$124,374,000) and a loss of HK$940,000 (2004: Profit of HK$12,235,000) amid a highly competitive mobile handset market. Sales, price and gross margin of 2G mobile handsets of STAR were all under immense pressure due to intense competition from the major brands and other Korean brands. The sales of 2G mobile handsets was further affected by the gradual acceptance of 3G services and 3G mobile handsets by consumers and the adverse impact of parallel imports. As the product life cycle of mobile handsets had been significantly shortened during the second quarter of 2005, STAR had been very selective in its distribution of new mobile handset models. Nevertheless, equipped with attractive features and superior quality, NEC mobile handsets distributed by STAR continued to be among the top ten best selling brands in the Hong Kong and Macau market.

On the trading and investment in financial instruments, the Group recorded a turnover of HK$31,857,000 (2004: HK$377,567,000) and a profit of HK$35,697,000 (2004: HK$80,651,000) for the period ended 30 June 2005. The stock market had been quite volatile during the first half of 2005 and resulted in the reduction of the volume of securities trading of the Group.

The Group's money lending business contributed a turnover comprising mainly interest income of HK$7,562,000 (2004: HK$6,531,000) and a profit of HK$7,558,000 (2004: HK$6,495,000) during the period under review.

The Group's investment properties holding in Hong Kong and the People's Republic of China (the "PRC") had recorded a turnover of HK$1,393,000 (2004: HK$1,174,000) and a profit of HK$282,000 (2004: HK$103,000). During the period under review, the Group acquired a 75% interest in a company holding an investment property, being a piece of land located at Buji Town, Shenzhen, the PRC, together with the acquisition of the related shareholder's loan for a total consideration of HK$58,491,000. The site area of this investment property, with the foundation works already completed, is about 5,241.3 square metre. This project is still under the conceptual design phase.

FINANCIAL RESOURCES, LIQUIDITY AND CAPITAL STRUCTURE

As at 30 June 2005, the Group's non-current assets consisted mainly of investment properties of HK$124,645,000 (31 December 2004: HK$44,640,000); property, plant and equipment of HK$6,089,000 (31 December 2004: HK$6,426,000); construction in progress of HK$47,034,000 (31 December 2004: Nil) and long term investments of HK$258,359,000 (31 December 2004: HK$313,919,000). These non-current assets were principally financed by shareholders' funds. As at 30 June 2005, the Group had net current assets of HK$823,894,000 (31 December 2004: HK$858,139,000).

All the Group's borrowings are arranged on short term basis, repayable within one year and secured on certain investment properties, marketable securities and bank deposits. As at 30 June 2005, the Group has no borrowing (31 December 2004: Nil).

During the period under review, the Group's assets, liabilities and transactions were mainly denominated in Hong Kong Dollar, Australian Dollar and Malaysian Ringgit. Because of its short term nature, the Group had not actively hedged risks arising from Australian Dollar denominated assets and transactions. As the exchange rate of Malaysian Ringgit was relatively stable during the period, the Group was not materially affected by these foreign exchange exposures.

CHARGE ON GROUP ASSETS

As at 30 June 2005, the Group's investment properties, investments held for trading or investments in securities, bank balances and cash with respective carrying values of HK$15,000,000 (31 December 2004: HK$15,000,000), HK$660,628,000 (31 December 2004: HK$631,924,000) and HK$15,303,000 (31 December 2004: HK$15,182,000) were pledged to financial institutions to secure credit facilities granted to the Group.

EMPLOYEES

The Group had 40 employees as at 30 June 2005 (31 December 2004: 47). The Group ensures that its employees are remunerated in line with market conditions and individual performance and with the remuneration policies reviewed on a regular basis.

PROSPECTS

The growing consumer acceptance of 3G services represents substantial business opportunities in 3G mobile handsets and related accessories. As a pioneer in handset distribution, STAR will take advantage of this new era to identify and offer quality 3G mobile handsets that meet the market's prevailing needs. Further, STAR will continue to explore business partnerships with China and Taiwan manufacturers which play an increasingly significant role in the R & D and manufacturing of products like mobile handsets, PDA and Smartphone. Currently, the Group is the authorized distributor of NEC, Alcatel and Xcell mobile handsets in Hong Kong and Macau.

Though the economic sentiment and consumer confidence in Hong Kong has improved, the negative impact from hikes of interest rate and oil price remains. The Group will cautiously continue to seek business and investment opportunities in China, Hong Kong and the Asia Pacific region to improve its profitability and enhance shareholders' value.

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVES

As at 30 June 2005, the interests and short positions of the directors and the chief executives of the Company and their associates in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Hong Kong (the "SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

Long positions in the shares of the Company

	Number of ordinary shares of HK$0.01 each					Percentage of issued
Name of Director	Personal interests	Family interests	Corporate interests	Other interests	Total	ordinary shares
Ms. Chong Sok Un ("Ms. Chong")	–	–	106,512,400 (Note)	–	106,512,400	35.30%

Note: Vigor Online Offshore Limited ("Vigor Online"), a 67.7% owned subsidiary of China Spirit Limited ("China Spirit") and Bilistyle Investments Limited ("Bilistyle") held 105,248,000 and 1,264,400 ordinary shares of the Company respectively. Ms. Chong maintains 100% beneficial interests in both China Spirit and Bilistyle. Accordingly, Ms. Chong is deemed to have corporate interests in 106,512,400 ordinary shares of the Company.

Save as disclosed above, as at 30 June 2005, none of the directors, the chief executives of the Company nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the period was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares, underlying shares or debentures of the Company or any other body corporate.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 30 June 2005, the following parties had interests or short positions in the shares and underlying shares of the Company as recorded in the register maintained by the Company pursuant to Section 336 of the SFO:

Long positions in the shares of the Company

Name	Capacity	Number of ordinary shares held	Percentage held
Ms. Chong	Held by controlled corporation (Notes 1 & 2)	106,512,400	35.30%
China Spirit	Held by controlled corporation (Note 2)	105,248,000	34.88%
Vigor Online	Beneficial owner	105,248,000	34.88%

Notes:

1. Bilistyle held 1,264,400 ordinary shares of the Company and Ms. Chong maintains 100% beneficial interest in Bilistyle. Accordingly, Ms. Chong is deemed to be interested in 1,264,400 ordinary shares of the Company under the SFO.

2. Vigor Online is a 67.7% owned subsidiary of China Spirit in which Ms. Chong maintains 100% beneficial interest. Accordingly, China Spirit and Ms. Chong are deemed to be interested in 105,248,000 ordinary shares of the Company under the SFO.

Save as disclosed above, as at 30 June 2005, there were no other parties who had interests or short positions in the shares or underlying shares of the Company as recorded in the register maintained by the Company pursuant to Section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

There was no purchase, sale or redemption by the Company or any of its subsidiaries of any listed securities of the Company during the period.

REMUNERATION COMMITTEE

The Company has established a remuneration committee with the terms of reference which are in line with the code provisions as set out in the Code on Corporate Governance Practices (the "Corporate Governance") in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

COMPLIANCE WITH CORPORATE GOVERNANCE

The Company has complied with the applicable code provisions of the Corporate Governance as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2005, except that:

Under the code provision A.2.1, the roles of chairman and chief executive officer (the "CEO") should be separate and should not be performed by the same individual. The division of the responsibilities between the chairman and the CEO should be clearly established and set out in writing. The Chairman of the Company is Ms. Chong Sok Un who is primarily responsible for the leadership of the Board while the function of the CEO are performed by two executive directors, namely Dato' Wong Peng Chong who is in charge of day-to-day business operations of the Group and Mr. Kong Muk Yin who is in charge of finance and accounts of the Group. The responsibilities between the Chairman and these two executive directors are clearly segregated.

Under the code provision A.4.2, every director should be subject to retirement by rotation at least once every three years. In accordance with the Company's bye laws, one third of the directors for the time being, or if their number is not three or a multiple of three, the number nearest one-third, shall retire from office by rotation at each annual general meeting of the Company provided that no director holding office as chairman or managing director shall be subject to retirement by rotation or be taken into account in determining the number of directors to retire. In order to comply with this code provision, the Chairman has agreed and confirmed to be voluntarily subject to the retirement by rotation at each annual general meeting of the Company.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the Directors. Having made specific enquiries of all Directors, they have confirmed their compliance with the required standard as set out in the Model Code throughout the six months ended 30 June 2005.

By Order of the Board
Chong Sok Un
Chairman

Hong Kong, 16 September 2005

As at the date of this report, the Board comprises Ms. Chong Sok Un (Chairman), Dato' Wong Peng Chong and Mr. Kong Muk Yin as executive directors and Messrs. Lo Wai On, Lau Siu Ki and Yu Qi Hao as independent non-executive directors.