Hong Kong Construction (Holdings) Limited Interim Report 2005

香港建設(控股)有限公司
HONG KONG CONSTRUCTION (HOLDINGS) LIMITED

The Board of Directors ("the Board") of Hong Kong Construction (Holdings) Limited ("the Company") wishes to announce the unaudited condensed consolidated results of the Company and its subsidiaries ("the Group") for the six months ended 30th June 2005 as follows:–

CONDENSED CONSOLIDATED INCOME STATEMENT
for the six months ended 30th June 2005

		Unaudited	
		Six months ended 30th June	
		2005	2004
			Restated
	Note	***HK$ Million***	*HK$ Million*
Turnover	*3*	**162.8**	580.8
Cost of sales		**(96.7)**	(555.4)
Gross profit		**66.1**	25.4
Other net income	*4*	**134.4**	130.6
Administrative expenses		**(31.8)**	(22.1)
Other operating expenses		**(15.1)**	(36.2)
Operating profit	*5*	**153.6**	97.7
Finance costs	*6*	**(19.7)**	(29.7)
Gain on debt restructuring		**–**	360.5
Share of losses less profits of associated companies		**(44.3)**	(47.3)
Share of profits less losses of jointly controlled entities		**14.8**	1.0
Profit before taxation		**104.4**	382.2
Taxation	*7*	**(0.9)**	(4.6)
Profit for the period		**103.5**	377.6
Attributable to:			
Equity holders of the Company		**103.5**	377.6
Earnings per share for profit attributable to the equity holders of the Company	*8*		
Basic		**5.0 cents**	31.7 cents
Diluted		**N/A**	24.1 cents

CONDENSED CONSOLIDATED BALANCE SHEET

as at 30th June 2005

	Note	**Unaudited as at 30th June 2005** *HK$ Million*	Audited as at 31st December 2004 Restated *HK$ Million*
ASSETS			
Non-current assets			
Investment properties		**1,244.7**	1,244.7
Construction-in-progress	*9*	**135.6**	–
Land use rights	*9*	**114.7**	–
Property, plant and equipment	*9*	**16.2**	8.6
Associated companies	*10*	**1,154.2**	1,089.9
Jointly controlled entities	*11*	**100.4**	123.6
Non-current receivables		**151.2**	166.8
Intangible assets	*9*	**33.6**	–
Derivative financial instrument		**21.0**	–
Non-trading securities		**–**	23.3
		2,971.6	2,656.9
Current assets			
Properties held for sale	*12*	**168.1**	180.1
Other financial assets at fair value through profit or loss		**43.7**	–
Trading securities		**–**	0.2
Trade and other receivables	*13*	**221.5**	247.7
Cash and cash equivalents			
– Pledged		**12.7**	10.1
– Unpledged		**399.2**	378.4
		845.2	816.5
Total assets		**3,816.8**	3,473.4
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	*14*	**2,328.4**	1,948.4
Reserves	*15*	**(493.2)**	(240.9)
		1,835.2	1,707.5
Minority interests		**(110.5)**	(110.5)
Total equity		**1,724.7**	1,597.0

	Note	**Unaudited as at 30th June 2005**	Audited as at 31st December 2004 Restated
		HK$ Million	*HK$ Million*
LIABILITIES			
Non-current liabilities			
Amount due to ultimate holding company	*16, 19*	**1.8**	1.8
Borrowings	*17, 19*	**887.2**	574.3
Non-current payables	19	**204.6**	219.4
		1,093.6	795.5
Current liabilities			
Trade and other payables	*18*	**699.9**	771.4
Borrowings	*17*	**222.7**	233.7
Taxation		**75.9**	75.8
		998.5	1,080.9
Total liabilities		**2,092.1**	1,876.4
Total equity and liabilities		**3,816.8**	3,473.4
Net current liabilities		**(153.3)**	(264.4)
Total assets less current liabilities		**2,818.3**	2,392.5

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30th June 2005

	Unaudited				
	Attributable to equity holders of the Company				
	Share capital	Other reserves	Accumulated losses	Minority interests	Total
	HK$ Million	*HK$ Million*	*HK$ Million*	*HK$ Million*	*HK$ Million*
Balance at 1st January 2004, as previously reported as equity	607.9	1,514.9	(2,006.4)	–	116.4
Balance at 1st January 2004, as previously separately reported as minority interest	–	–	–	(110.5)	(110.5)
Balance at 1st January 2004, as restated	607.9	1,514.9	(2,006.4)	(110.5)	5.9
Exchange difference on translation of financial statements of foreign entities	–	0.7	–	–	0.7
Net income recognised directly in equity	–	0.7	–	–	0.7
Profit for the period	–	–	377.6	–	377.6
Issue of shares	1,340.5	–	–	–	1,340.5
Share issue expenses	–	(1.9)	–	–	(1.9)
Balance at 30th June 2004	1,948.4	1,513.7	(1,628.8)	(110.5)	1,722.8
Balance at 1st January 2005, as previously reported as equity	**1,948.4**	**1,511.4**	**(1,752.3)**	**–**	**1,707.5**
Balance at 1st January 2005, as previously separately reported as minority interest	**–**	**–**	**–**	**(110.5)**	**(110.5)**
Prior year adjustments – HKAS 40 and HKAS Interpretation 21 *(note 2)*	**–**	**(2.4)**	**2.4**	**–**	**–**
Opening adjustment for the adoption of HKAS 39 *(note 2)*	**–**	**–**	**23.7**	**–**	**23.7**
Balance at 1st January 2005, as restated	**1,948.4**	**1,509.0**	**(1,726.2)**	**(110.5)**	**1,620.7**
Exchange difference on translation of financial statements of foreign entities	**–**	**0.5**	**–**	**–**	**0.5**
Net income recognised directly in equity	**–**	**0.5**	**–**	**–**	**0.5**
Profit for the period	**–**	**–**	**103.5**	**–**	**103.5**
Issue of shares	**380.0**	**–**	**–**	**–**	**380.0**
Share premium movement	**–**	**(380.0)**	**–**	**–**	**(380.0)**
Balance at 30th June 2005	**2,328.4**	**1,129.5**	**(1,622.7)**	**(110.5)**	**1,724.7**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
for the six months ended 30th June 2005

	Unaudited Six months ended 30th June	
	2005	2004
	HK$ Million	*HK$ Million*
Net cash generated from operating activities	**132.2**	6.1
Net cash used in investing activities	**(93.8)**	(89.1)
Net cash (used in)/generated from financing activities	**(17.6)**	334.7
Net increase in cash and cash equivalents	**20.8**	251.7
Cash and cash equivalents at 1st January	**378.4**	164.6
Cash and cash equivalents at 30th June	**399.2**	416.3
Analysis of balances of cash and cash equivalents		
Cash at bank and in hand	**310.7**	320.3
Short term bank deposits	**101.2**	103.7
Pledged deposits	**(12.7)**	(7.7)
	399.2	416.3

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. Basis of preparation and accounting policies

The unaudited condensed consolidated financial information has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

This condensed consolidated financial information should be read in conjunction with the 2004 annual financial statements.

The accounting policies and methods of computation used in the preparation of this condensed consolidated financial information are consistent with those used in the annual financial statements for the year ended 31st December 2004 except that the Group has changed certain of its accounting policies following its adoption of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods commencing on or after 1st January 2005.

The changes to the Group's accounting policies and the effect of adopting these new policies are set out in note 2 below.

2. Changes in accounting policies

(a) Effect of adopting new HKFRSs

In 2005, the Group adopted the new/revised standards of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Investments in Joint Ventures
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKAS-Int 15	Operating Leases – Incentives
HKAS-Int 21	Income Taxes – Recovery of Revalued Non-Depreciated Assets
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27, 28, 31, 33 and HKAS-Int 15 did not result in substantial changes to the Group's accounting policies. In summary:

– HKAS 1 has affected the presentation of minority interest, share of net after-tax results of associates and other disclosures.

– HKASs 2, 7, 8, 10, 16, 23, 27, 28, 31, 33 and HKAS-Int 15 had no material effect on the Group's policies.

– HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity financial statements.

– HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of land use rights from properties held for sale to operating leases. The up-front prepayments made for the land use rights are expensed in the income statement on a straight line basis over the period of the lease or where there is impairment, the impairment is expensed in the income statement. In prior years, the leasehold land was accounted for at cost less accumulated depreciation and accumulated impairment.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss and available-for-sale financial assets. It has also resulted in the recognition of derivative financial instruments at fair value and the change in the recognition and measurement of hedging activities.

The adoption of revised HKAS 40 has resulted in a change in the accounting policy of which the changes in fair values are recorded in the income statement as part of other income. In prior years, the increases in fair value were credited to the investment properties revaluation reserve. Decreases in fair value were first set off against increases on earlier valuations on a portfolio basis and thereafter expensed in the income statement.

The adoption of revised HKAS-Int 21 has resulted in a change in the accounting policy relating to the measurement of deferred tax liabilities arising from the revaluation of investment properties. Such deferred tax liabilities are measured on the basis of tax consequences that would follow from recovery of the carrying amount of that asset through use. In prior years, the carrying amount of that asset was expected to be recovered through sale.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31st December 2004, the provision of share options to employees did not result in an expense in the income statements. Effective on 1st January 2005, the Group expenses the cost of share options in the income statement.

The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for goodwill.

In accordance with the provisions of HKFRS 3, from the year ending 31st December 2005 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All standards adopted by the Group require retrospective application other than:

– HKAS 16 – the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted at fair value prospectively only to future transactions;

– HKAS 21 – prospective accounting for goodwill and fair value adjustments as part of foreign operations;

– HKAS 39 – does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous SSAP 24 "Accounting for investments in securities" to trading securities for the 2004 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1st January 2005;

– HKAS 40 since the Group has adopted the fair value model, there is no requirement for the Group to restate the comparative information, any adjustment should be made to the retained earnings as at 1st January 2005, including the reclassification of any amount held in investment properties revaluation reserve for investment properties;

– HKAS-Int 15 – does not require the recognition of incentives for leases beginning before 1st January 2005;

– HKFRS 2 – only retrospective application for all equity instruments granted after 7th November 2002 and not vested at 1st January 2005; and

– HKFRS 3 – prospective after the adoption date.

The adoption of HKAS 39 resulted in an increase in opening reserves at 1st January 2005 by HK$23.7 million and the details of the adjustments to the balance sheet at 30th June 2005 and profit and loss for the six months ended 30th June 2005 are as follows:

	As at 30th June 2005
	HK$ Million
Increase in derivative financial instruments	21.0
Increase in other financial assets at fair value through profit or loss	43.5

	For the six months ended 30th June 2005
	HK$ Million
Increase in fair value gain on other financial assets at fair value through profit or loss	4.6

There was no impact on basic and diluted earnings per share and opening accumulated losses at 1st January 2004 from adoption of HKAS 39.

(b) *New Accounting Policies*

The accounting policies used for the unaudited condensed consolidated financial information for the six months ended 30th June 2005 are the same as those set out in note 1 to the 2004 annual financial statements. The major changes in the Group's accounting policies are detailed below:

(i) Acquisition of subsidiaries and associated companies

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

An investment in an associated company is accounted for using the equity method from the date on which it becomes an associated company. On acquisition of the investment, the measurement and recognition of goodwill is same as that of goodwill arising from the acquisition of subsidiaries. Goodwill relating to an associated company is included in the carrying amount of the investment. Appropriate adjustments to the investor's share of the profits or losses after acquisition are made to account based on their fair values at the date of acquisition.

(ii) Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in HK dollars, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(iii) Property, plant and equipment

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

(iv) Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the consolidated Group, is classified as investment property.

Investment property is measured initially at its cost, including related transaction costs.

After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections.

Changes in fair values are recognised in the income statement.

(v) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(vi) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

(vii) Investments

From 1st January 2004 to 31st December 2004:

The Group classified its investments in securities, other than subsidiaries, associated companies and jointly controlled entities, as non-trading securities and trading securities.

(a) Non-trading securities

Investments which were held for non-trading purpose were stated at fair value at the balance sheet date. Changes in the fair value of individual securities were credited or debited to the investment revaluation reserve until the security was sold, or was determined to be impaired. Upon disposal, the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amount of the relevant security, together with any surplus/deficit transferred from the investment revaluation reserve, was dealt with in the income statement.

Where there was objective evidence that individual investments were impaired the cumulative loss recorded in the revaluation reserve was taken to the income statement.

(b) Trading securities

Trading securities were carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of trading securities were recognised in the income statement. Profits or losses on disposal of trading securities, representing the difference between the net sales proceeds and the carrying amounts, were recognised in the income statement as they arose.

From 1st January 2005 onwards:

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains or losses from investment securities.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

(viii) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

(ix) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(x) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(xi) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

3. Segmental information

(a) Primary reporting format – geographical segments

An analysis of the Group's revenue, results, assets and liabilities for the period by the location of customers is as follows:

	Hong Kong *HK$ Million*	**Mainland China** *HK$ Million*	**Total** *HK$ Million*
Six months ended 30th June 2005 –			
Turnover from external customers	**47.4**	**115.4**	**162.8**
Segment profit	**14.0**	**52.1**	**66.1**
Unallocated operating income and expenses			**87.5**
Operating profit			**153.6**

	Hong Kong *HK$ Million*	Mainland China *HK$ Million*	Total *HK$ Million*
Six months ended 30th June 2004 –			
Turnover from external customers	432.5	148.3	580.8
Segment profit	11.2	14.2	25.4
Unallocated operating income and expenses			72.3
Operating profit			97.7

Turnover is allocated based on the places/countries in which customers are located.

	Hong Kong *HK$ Million*	**Mainland China** *HK$ Million*	**Total** *HK$ Million*
As at 30th June 2005			
Segment assets	**155.9**	**1,775.6**	**1,931.5**
Associated companies and jointly controlled entities	**126.1**	**1,128.5**	**1,254.6**
Unallocated assets			**630.7**
Total assets			**3,816.8**
Segment liabilities	**(203.0)**	**(210.7)**	**(413.7)**
Unallocated liabilities			**(1,678.4)**
Total liabilities			**(2,092.1)**

	Hong Kong	Mainland China	Total
	HK$ Million	*HK$ Million*	*HK$ Million*
As at 31st December 2004			
Segment assets	244.2	1,522.8	1,767.0
Associated companies and jointly controlled entities	146.5	1,067.0	1,213.5
Unallocated assets			492.9
Total assets			3,473.4
Segment liabilities	(310.8)	(214.2)	(525.0)
Unallocated liabilities			(1,351.4)
Total liabilities			(1,876.4)

(b) *Secondary reporting format – business segments*

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

	Construction	**Property leasing**	**Property development and sales**	**Other operations**	**Total**
	HK$ Million	***HK$ Million***	***HK$ Million***	***HK$ Million***	***HK$ Million***
Six months ended 30th June 2005 –					
Turnover from external customers	**57.2**	**25.3**	**61.9**	**18.4**	**162.8**
Segment profit	**17.0**	**25.3**	**9.8**	**14.0**	**66.1**
Unallocated operating income and expenses					**87.5**
Operating profit					**153.6**
Segment assets	**510.9**	**1,249.5**	**171.1**	**–**	**1,931.5**
Capital expenditure					**3.2**

	Construction *HK$ Million*	Property leasing *HK$ Million*	Property development and sales *HK$ Million*	Other operations *HK$ Million*	Total *HK$ Million*
Six months ended 30th June 2004 –					
Turnover from external customers	570.2	8.1	2.5	–	580.8
Segment profit	17.2	8.1	0.1	–	25.4
Unallocated operating income and expenses					72.3
Operating profit					97.7
As at 31st December 2004 –					
Segment assets	337.9	1,245.9	183.2	–	1,767.0
Capital expenditure					3.1

4. Other net income

	Six months ended 30th June **2005** ***HK$ Million***	2004 *HK$ Million*
Interest income	**1.4**	1.0
Property fee income	**5.3**	6.5
Reversal of impairment loss on properties held for sale	**50.0**	–
Provision written back on loan due from an associated company	**15.2**	62.9
Provision written back on a subsidiary under liquidation	**–**	54.5
Waiver of other loan and payables	**52.4**	–
Gain on revaluation of financial assets	**4.6**	–
Gain on disposal of fixed assets	**–**	0.5
Gain on dissolution of other investment	**–**	0.5
Exchange gain	**0.5**	5.4
Others	**5.0**	(0.7)
	134.4	130.6

5. Operating profit

Operating profit is arrived at after crediting/(charging) the following:

	Six months ended 30th June **2005** ***HK$ Million***	2004 *HK$ Million*
Crediting:		
Write back of provision for restructing costs	**–**	8.9
Charging:		
Net provision for bad and doubtful debts	**(8.9)**	(20.3)
Provision for foreseeable losses	**–**	(7.5)
Depreciation	**(0.8)**	(0.5)

6. Finance costs

	Six months ended 30th June	
	2005	2004
	HK$ Million	*HK$ Million*
Interest on bank advance and other borrowings repayable		
Within five years	**(17.3)**	(27.8)
Over five years	**(2.4)**	(1.9)
	(19.7)	(29.7)

7. Taxation

	Six months ended 30th June	
	2005	2004
		Restated
	HK$ Million	*HK$ Million*
Current taxation		
Mainland China income tax	**(0.9)**	(4.6)

Hong Kong profits tax has not been provided as the Group has sufficient tax losses brought forward to offset taxable profit for the period (2004: Nil). Mainland China income tax has been provided on the estimated assessable profits of the Group operating in the Mainland China at the rates ranging from 15% to 33% (2004: 15% to 33%).

Share of associated companies' taxation for the six months ended 30th June 2005 (2004: HK$0.2 million) of HK$9.2 million are included in the income statement as share of losses less profits of associated companies.

8. Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit for the period of HK$103.5 million (2004: HK$377.6 million) and the weighted average of 2,059.7 million (2004: 1,189.7 million) ordinary shares in issue during the period.

(b) Diluted earnings per share

On 9th May 2005, Creator Holdings Limited ("Creator"), the controlling shareholder of the Company, fully exercised the call option under the terms of the Debt Conversion Agreement, 380 million new ordinary shares of HK$1.00 each were issued and credited as fully paid at par by way of bonus issue. There are no dilutive potential ordinary shares in existence during the six months ended 30th June 2005.

For the period ended 30th June 2004, the calculation of diluted earnings per share is based on profit attributable to shareholders of HK$377.6 million and the weighted average number of ordinary shares of 1,189.7 million plus the weighted average number of 380.0 million ordinary shares deemed to be issued at no consideration if the outstanding call options had been exercised.

9. Capital expenditure

During the six months ended 30th June 2005, the Group acquired property, plant and equipment, land use rights, construction-in-progress and intangible asset amounting to HK$292.6 million (six months ended 30th June 2004: HK$0.3 million), in which HK$289.4 million is related to the acquisition of a subsidiary during the period and disposed fixed assets amounting to HK$0.2 million (six months ended 30th June 2004: HK$5.8 million).

10. Associated companies

	As at 30th June 2005 HK$ Million	As at 31st December 2004 HK$ Million
Share of net liabilities	**(596.6)**	(593.9)
Amounts due from associated companies, less provision	**1,775.9**	1,710.3
	1,179.3	1,116.4
Amounts due to associated companies	**(25.1)**	(26.5)
	1,154.2	1,089.9

The balances with associated companies are unsecured, interest free and have no fixed terms of repayment except for the amounts due from associated companies of HK$1,053.9 million (at 31st December 2004: HK$1,015.3 million) which bears interests ranging from Hong Kong dollar prime rate to 1% plus Hong Kong dollar prime rate.

On 29th March 2005, Sinoriver International Limited, a wholly owned subsidiary of the Company, agreed to acquire 29% in the registered capital in Asia Wind Power (Mudanjiang) Company Limited which is engaged in the construction, operation and management of a 30 megawatts wind power plant in Heilongjiang, PRC.

On 17th May 2005, Best Spring Properties Limited, a wholly owned subsidiary of the Company, entered into the sale and purchase agreement with an independent third party to acquire 18% share interests in Hong Kong Jing-Guang Development Limited ("HK Jing-Guang") which holds 100% interest in the operation of Jing-Guang New World Hotel in Beijing, PRC for a total consideration of USD3.6 million. As a result, the Group currently owns an effective 50% share of interest in HK Jing-Guang.

11. Jointly controlled entities

	As at 30th June 2005 HK$ Million	As at 31st December 2004 HK$ Million
Share of net liabilities	**(17.1)**	(31.9)
Amounts due from jointly controlled entities, less provision	**167.1**	158.8
	150.0	126.9
Amounts due to jointly controlled entities	**(49.6)**	(3.3)
	100.4	123.6

The balances with jointly controlled entities are unsecured, interest-free and have no fixed terms of repayment.

12. Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value and include land use rights amounting to HK$30.8 million at 30th June 2005 (31st December 2004: HK$31.2 million).

13. Trade and other receivables

	As at 30th June 2005 *HK$ Million*	As at 31st December 2004 *HK$ Million*
Gross amount due from customers for contract works	**44.6**	51.3
Trade debtors	**18.9**	42.8
Retention receivables	**51.7**	57.6
Other receivables and deposits	**106.3**	96.0
	221.5	247.7

Included in trade and other receivables are trade debtors, net of specific provisions, with their aging analysis as follows:

	As at 30th June 2005 *HK$ Million*	As at 31st December 2004 *HK$ Million*
0 to less than 2 months	**5.8**	35.9
2 to less than 6 months	**1.0**	2.1
6 to less than 12 months	**7.9**	1.9
12 months and more	**4.2**	2.9
	18.9	42.8

The Group's credit terms for contracting business are negotiated with and entered into under normal commercial terms with its trade customers. Retention money receivables in respect of contracting services are settled in accordance with the terms of respective contracts.

14. Share capital

	No. of shares	***HK$ Million***
Issued and fully paid:		
At 1st January 2005	1,948,409,272	1,948.4
Shares issued	380,000,000	380.0
At 30th June 2005	**2,328,409,272**	**2,328.4**

On 9th May 2005, Creator fully exercised the call option under the terms of the Debt Conversion Agreement dated 11th February 2004. 380,000,000 new shares of HK$1.00 each were issued, credited, as fully paid at par, by way of bonus issue.

The details of the share option scheme of the Company are stated in pages 33 to 37 in the 2004 annual report. At 30th June 2005, all the share options outstanding under the Old Option Scheme were cancelled or lapsed. No share options were granted under the New Option Scheme during the period.

15. Reserves

	Share premium	Capital redemption reserve	Capital reserve	Exchange reserve	Investment properties revaluation reserve	Accumulated losses	Total
	HK$ Million	*HK$ Million*	*HK$ Million*	*HK$ Million*	*HK$ Million*	*HK$ Million*	*HK$ Million*
Balance at 1st January 2005, as previously reported	1,367.7	14.6	151.3	(24.6)	2.4	(1,752.3)	(240.9)
Prior year adjustments – HKAS 40 and HKAS-Int 21	–	–	–	–	(2.4)	2.4	–
Opening adjustment for the adoption of HKAS 39	–	–	–	–	–	23.7	23.7
Balance at 1st January 2005, as restated	1,367.7	14.6	151.3	(24.6)	–	(1,726.2)	(217.2)
Exchange difference on translation of financial statements of foreign entities	–	–	–	0.5	–	–	0.5
Issue of shares	(380.0)	–	–	–	–	–	(380.0)
Profit for the period	–	–	–	–	–	103.5	103.5
Balance at 30th June 2005	**987.7**	**14.6**	**151.3**	**(24.1)**	**–**	**(1,622.7)**	**(493.2)**

16. Amount due to ultimate holding company

The amount due to ultimate holding company is secured, interest bearing at HIBOR plus 2.75% and not expected to be settled within one year.

17. Borrowings

On 30th June 2005, the interest-bearing borrowings were shown as follows:

	As at 30th June 2005 *HK$ Million*	As at 31st December 2004 Restated *HK$ Million*
Bank and other loans *(note a)*		
Unsecured	**45.3**	45.3
Secured	**847.2**	543.4
	892.5	588.7
Loans from minority shareholders *(note b)*	**217.4**	219.3
	1,109.9	808.0
Current portion of bank and other loans	**(222.7)**	(233.7)
	887.2	574.3

Notes:

(a) As at 30th June 2005, the Group's bank and other loans were repayable as follows:

	Bank loans		**Other loans**	
	As at 30th June 2005 *HK$ Million*	As at 31st December 2004 *HK$ Million*	**As at 30th June 2005** *HK$ Million*	As at 31st December 2004 *HK$ Million*
Within one year	**222.7**	233.7	**–**	–
In the second year	**49.8**	73.2	**77.8**	131.1
In the third to fifth year	**73.3**	24.8	**–**	–
After the fifth year	**468.9**	125.9	**–**	–
	814.7	457.6	**77.8**	131.1

(b) Loans from minority shareholders are unsecured, interest free and have no fixed terms of repayment except for an amount of HK$214.4 million (31st December 2004: HK$216.3 million) which bears interest at Hong Kong dollar prime rate.

18. Trade and other payables

	As at 30th June 2005 *HK$ Million*	As at 31st December 2004 *HK$ Million*
Trade creditors	**60.3**	114.7
Retention payables	**49.4**	65.8
Other payable and accruals	**525.2**	525.2
Gross amount due to customers for contract works	**65.0**	65.7
	699.9	771.4

Included in trade and other payables are trade creditors with their aging analysis as follows:

	As at 30th June 2005	As at 31st December 2004
	HK$ Million	*HK$ Million*
0 to less than 2 months	**10.9**	49.5
2 to less than 6 months	**0.2**	3.4
6 to less than 12 months	**9.7**	9.9
12 months and more	**39.5**	51.9
	60.3	114.7

19. Non-current receivables and liabilities

The carrying amounts of non-current receivables and liabilities approximate their fair value.

20. Contingent liabilities

(a) Contingent liabilities at the balance sheet date in respect of guarantees given to banks and other lenders to secure loans and advances to associated companies amounted to HK$102.2 million (at 31st December 2004: HK$107.5 million).

(b) The Group has contingent liabilities in respect of performance bonds and guarantees under contracts and other agreements entered into in the normal course of business.

(c) The Group has contingent liabilities in respect of banking facilities granted to certain buyers of properties of the Group and its associated companies.

21. Business combinations

On 28th June 2005, the Company, through its wholly-owned subsidiaries acquired 100% equity interests in Guilin Biya Expressway Construction Company Limited, a domestic limited liability company which possesses the concession rights comprising principally construction rights for 3 years and operation rights for 29 years in relation to building, operation and transfer of the portion of the Cross-Border State Highway between Ning Chuan and San Tang via Guilin Municipality. The highway is under construction during the period ended 30th June 2005. If the acquisition had occurred on 1st January 2005, the Group's profit would have been HK$101.8 million.

Details of net assets acquired and goodwill are as follows:

	HK$ Million
Purchase consideration	114.0
Fair value of net assets acquired – shown as below	114.0
Goodwill	–

The assets and liabilities arising from the acquisition are as follows:

	Unaudited Fair value/ Acquiree's carrying amount
	HK$ Million
Land use rights	114.7
Construction-in-progress	135.6
Property, plant and equipment	5.5
Concession rights	33.6
Receivables	49.2
Cash and cash equivalents	93.2
Borrowings	(297.1)
Payables	(20.1)
Exchange reserve	(0.6)
Net assets acquired	114.0
Purchase consideration to be settled in cash	114.0
Cash and cash equivalents in subsidiary acquired	(93.2)
Cash outflow on acquisition	20.8

22. Events after balance sheet date

(a) On 17th June 2005, the Board announced the Proposed Reorganisation involving the capital reduction and share premium reduction. The special resolutions for which were duly passed by the shareholders by way of a poll at the Extraordinary General Meeting held on 18th July 2005. These are further subject to the confirmation of the Court of First Instance of the High Court of Hong Kong Special Administrative Region ("the Court") and the registration by the Companies Registrar of a copy of the order of the Court's confirmation and the compliance of other conditions required.

As a result of the capital reduction and the share premium cancellation, the issued and paid up capital of the Company will be reduced from HK$2,328,409,272 to HK$23,284,092.72 while the accumulated losses of approximately HK$1,801.3 million as of 31st December 2004 will be fully eliminated with the share premium and amount arising from the capital reduction.

(b) On 20th July 2005, the Company entered into the sale and purchase agreement with an independent third party to dispose of the entire issued share capital of Zonetime Limited for the total consideration of HK$100 million, which holds a parcel of land, occupying a site area of approximately 14,000 square metres and the right to use another parcel of land, occupying a site area of approximately 10,450 square metres. Both properties are located at Zhuhai, PRC.

23. Commitments

Capital commitments at the balance sheet date but not yet incurred is as follows:

	As at 30th June 2005 *HK$ Million*	As at 31st December 2004 *HK$ Million*
Property, plant and equipment		
Contracted but not provided for	**652.3**	–
Authorised but not contracted for	**292.3**	–
	944.6	–

24. Approval of interim financial report

The interim financial report was approved and authorised for issue by the Board on 26th September 2005.

FINANCIAL REVIEW AND ANALYSIS

Results

The Group achieved a turnover of HK$162.8 million in the six months ended 30th June 2005, a decrease of 72.0% from the HK$580.8 million in the corresponding period last year. This decrease was mainly due to the substantial completion of some existing contracts. During the same period, the gross profit was HK$66.1 million, compared to HK$25.4 million for the corresponding period last year, due to an increase in rental income generated by properties in Shenzhen.

Other net income amounted to HK$134.4 million, compared with HK$130.6 million in the same period last year. This resulted mainly from revaluation of properties held in mainland China which were subsequently disposed and waiver of certain loans and payables. Basic earnings per share during the period was 5.0 cents, compared with 31.7 cents in the corresponding period last year.

Liquidity and financial resources

As at the balance sheet date, the Group's total borrowings were HK$1,109.9 million. These included Hong Kong Dollar borrowings of HK$361.7 million, United States Dollar borrowings of HK$77.8 million and Renminbi borrowings of HK$670.4 million. All these borrowings are interest bearing, with interest rates fixed at market rates plus margin at various intervals of time, from one month to one year after the previous fixing. The Group had pledged deposits of HK$12.7 million, and cash and cash equivalents amounting to HK$399.2 million at the balance sheet date. The Group has not used financial instruments for currency hedging purposes.

Details of charges on group assets

As at 30th June 2005, the Company and certain of its subsidiaries had charged certain properties as security for bank and other loans.

Gearing ratio

The Group's gearing ratio as at the 30th June 2005 was 27.9%, compared with 12.5% (restated) at 31st December 2004. This figure is the ratio of total borrowings (excluding the amounts due to minority shareholders) less cash and cash equivalents and pledged deposits divided by the total equity.

Contingent liabilities

Details of the Group's contingent liabilities are set out in note 20 to condensed consolidated financial statements.

BUSINESS REVIEW

Construction

The performance of this business segment was in line with expectations during the period under review. Excluding the shares of joint venture partners, the Group had contracts in hand valued at a total of HK$2.8 billion, as at the end of August 2005. Of these, the construction of residential developments in Tung Chung and Lai Chi Kok had been substantially completed by the end of August 2005. The Group also held a Shenzhen municipal government contract for the main construction work on the Shenzhen Convention and Exhibition Centre and a contract with the Chinese government for the main construction work on the National Grand Theatre in Beijing.

Apart from these construction contracts, the Group also provided construction contract management services for the Zhuhai Ocean Hot Spring Resort Development Project in the PRC.

Property

On the property front, the Group maintained its property investment portfolio in first-class commercial and residential developments in Shenzhen, Guangzhou and Beijing respectively. These generated a steady stream of rental revenue. As a long-term investment, the Group also has an interest in the Peninsula Palace Hotel and Jing-Guang New World Hotel in Beijing.

Infrastructure

During the period under review, the Group continued to make efforts to diversify its business activities. Its construction of a toll road in Guilin, Southwest China, under a Build-Operate-Transfer contract, continued to progress well. Most of the sub-contractors and suppliers for this project have now been appointed; and the toll road remains on schedule to open in late 2006 or early 2007.

In line with its commitment to business diversification, the Group remained keen on developing projects related to renewable energy generation. In respect of the project to develop wind-powered electricity generating stations in Heilongjiang, Northeastern China, the Group paid up its share of the registered share capital of HK$29 million for Phase One in May 2005, and a further HK$75 million for Phase Two registered share capital in July 2005. This marks another step forward in the development of the Group's infrastructure segment.

Employees

At the end of June 2005, the Group's operations in Hong Kong and mainland China employed a total of approximately 300 employees. In addition, the Group has appointed technical and engineering consultants on contract terms for its ongoing construction projects. All employees are remunerated according to the nature of their jobs, their individual performance, the Group's overall performance, and prevailing market conditions.

OUTLOOK

In view of the prevailing market uncertainties, which include the possibility of oil price rises, increases in interest rates and the volatility of currencies in Asia, the Group will continue to apply the principles of strict risk management and disciplined financial control to every aspect of its business.

To address the listing requirements specified in Appendices 14 and 23 of the Main Board Listing Rules, the Group recently established an Internal Control and Risk Management Department. Through raising awareness at all levels and conducting systematic reviews, the new department will provide constant advices on the existing internal control framework for further improvements as well as the risk management mechanism for early warning of significant matters. This will assist the Group in delivering an effective and efficient operation, a reliable financial reporting system, and better compliance with applicable laws and regulations. The Board trusts that these measures will ensure proper safeguarding of the Group's assets and investments for the better interest of all shareholders.

To lay a solid foundation for its future growth and development, the Group has undertaken a capital reorganisation exercise which involves a reduction of its capital and share premium. The proposed reorganisation is scheduled to be heard by the Court of First Instance of the High Court of the Hong Kong Special Administrative Region by the end of September 2005. If the reorganisation is confirmed by the Court, the Company will be able to eliminate the entire accumulated losses standing to its accounts as at the date when the reorganisation becomes effective. The benefit of the elimination of the accumulated losses will be the opportunity it will create for the Group to distribute dividends in the future. Its last dividend was paid in 1998. The Group underwent a complete turnaround in 2004. Its management intends to continue this positive trend in the future. It will also give the Group greater scope in pricing any new equity fund-raising exercises that it may decide to conduct in the future.

The Group will continue to exercise enthusiastic and moderate attitude while actively participating in bidding for construction contracts in Hong Kong, Macau, mainland China and Indonesia. Before submitting every tender, the Group's management studies the relevant documents in detail. It also carries out feasibility studies for these projects, covering both the technical and financial aspects, and it assesses both the potential risks and returns for the Group.

The Group's policy is to bid only for those projects that will produce the rates of return stipulated by the Board of Directors.

The Group believes the trends in the property markets in Hong Kong and mainland China will remain positive during the coming months. It is currently aiming to enhance its market share and profitability by exploring and examining new opportunities to acquire interests in first-class commercial, hotel and residential developments on the Mainland, to further increase its exposure in this fast-growing market.

The Group is committed to a policy of prudent diversification. In line with this, it will continue to emphasise infrastructure development as part of its overall business portfolio. The Group believes it will benefit from the synergy achieved by systematically integrating various strategically selected projects with its core business. It will sustain its efforts to maintain a balanced business portfolio, with a view to broadening its income stream, achieving sustainable long-term development and creating greater value for its shareholders.

INTERIM DIVIDEND

The Directors do not recommend the payment of interim dividend for the first half year of 2005 (2004: Nil).

ADVANCES AND GUARANTEES TO AFFILIATED COMPANIES – DISCLOSURE PURSUANT TO RULES 13.13 TO 13.22 OF THE LISTING RULES

The Company itself and through its subsidiaries have entered into contractual joint venture agreements with several joint venture members and have undertaken substantial investments for development of certain properties and infrastructure projects, and construction works. Pursuant to these agreements, investments were made to joint venture companies in the form of capital and advances in proportion to the respective joint venture members' capital contribution ratio or in accordance with the terms of the joint venture agreements. These investments were classified under the headings "jointly controlled entities" and "associated companies" in the consolidated balance sheet of the Group. Details of such investments as at 30th June 2005 are disclosed below:

Affiliated companies	% interest attributable to the Group	Amounts due from affiliated companies	Annual interest rate on advances
		HK$ Million	
Right Choice International Limited *(note d)*	27.5%	224.5	Interest free
Dorboy Investment Limited *(note d)*	50%	505.6	Partial interest free/ Partial bearing interest at HK$ prime rate plus 1%
Quick Wealth Investments Limited *(note d)*	50%	457.6	Partial interest free/Partial bearing interest at HK$ prime rate
Hong Kong Construction Kam Lung Limited *(note d)*	45%	468.2	Interest free
Hong Kong Construction-AMEC Joint Venture *(note d)*	55%	99.4	Interest free
		1,755.3	

Notes:

(a) The advances are unsecured, without fixed repayment terms and are repayable in cash out of net cash surplus from operation of the affiliated companies.

(b) The advances made were funded by internal resources and by bank borrowings for general working capital purposes.

(c) Save for those mentioned above, no guarantee has been given by the Group for facilities granted to the above mentioned affiliated companies.

(d) The amounts due from and guarantees given on behalf of these affiliated companies, the aggregate of which is individually exceeds 8% of the Company's market capitalisation as at 30th June 2005, are related to these companies' property development/investment projects/working capital funds.

(e) Save as stated above, the Group has provided construction services to Hong Kong Construction SMC Development Limited for the development of a property in Guangzhou in prior years. The Group is still in process of assessing the final payments due from them.

As at 30th June 2005, total advances made to affiliated companies given by the Group for facilities utilised by affiliated companies, in aggregate, amounted to approximately HK$1,755.3 million which represented approximately 46.0% of the total asset value of the Group as at 30th June 2005.

As the circumstances giving rise to this disclosure will probably continue to exist, the Board will ensure that the required details will be disclosed in the subsequent interim reports and annual reports providing adequate and sufficient information to allow investors to make an informed assessment of the financial position of the Group.

A proforma combined balance sheet of the affiliated companies as at 30th June 2005 is presented below:

	Unaudited Combined total	
	HK$ Million	*HK$ Million*
Fixed assets		
Investment properties		400.0
Hotel properties		2,229.9
Land and buildings		8.4
Others		7.3
		2,645.6
Other non-current assets		815.5
Current assets		
Other current assets		303.9
Total assets		3,765.0
Share capital	0.1	
Reserves	(1,185.0)	(1,184.9)
Non-current liabilities		
Advances from shareholders	3,129.2	
Bank and other loans	108.5	
Other non-current liabilities	853.6	4,091.3
Current liabilities		
Amounts due to shareholders/joint ventures	334.6	
Current portion of bank loans	310.5	
Other current liabilities	213.5	858.6
Equity and liabilities		3,765.0

Attributable interest of the affiliated companies to the Group as at 30th June 2005 amounted to a deficit of HK$778.2 million.

SHARE OPTION SCHEMES

The share option scheme of the Company adopted on 22nd January 1998 (the "Old Option Scheme") was terminated on 3rd June 2004 and a new share option scheme of the Company was adopted on 3rd June 2004 (the "New Option Scheme").

During the six months ended 30th June 2005, there were no share options being granted under the New Option Scheme. Whereas, details of the share options granted under the Old Option Scheme were as follows:–

	Number of options outstanding at 1st January 2005	Number of options cancelled/ lapsed during the period	Number of options outstanding at 30th June 2005	Date of grant	Exercise period	Exercise price per share *HK$*	Closing price per share immediately before the date of grant *HK$*
CHEN Libo	4,000,000	(4,000,000)	–	20/5/1998	20/11/1998 to 19/5/2005	3.48	4.28
	2,000,000	(2,000,000)	–	18/6/1998	18/12/1998 to 18/6/2005	2.29	2.90
	3,000,000	(3,000,000)	–	28/9/1998	28/3/1999 to 28/9/2005	1.48	1.88
Employees	1,450,000	(1,450,000)	–	20/5/1998	20/11/1998 to 19/5/2005	3.48	4.28
	950,000	(950,000)	–	18/6/1998	18/12/1998 to 18/6/2005	2.29	2.90
Other participants	3,000,000	(3,000,000)	–	20/5/1998	20/11/1998 to 19/5/2005	3.48	4.28

No share option was exercised by employees and other participants during the six months ended 30th June 2005.

3,000,000 share options were cancelled and 11,400,000 share options were lapsed during the six months ended 30th June 2005.

DIRECTORS' INTERESTS

As at 30th June 2005, the interests or short positions of the Directors and Chief Executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), to be notified to the Company and the Stock Exchange were as follows:

(i) Interests of the Directors in shares and underlying shares of the Company:

Name of Director	Nature of interest	Number of shares (long position)	*Note*	Approximate percentage of the issued share capital of the Company	Number of shares (short position)	Approximate percentage of the issued share capital of the Company
Oei Kang, Eric	Corporate	1,532,412,572	*1*	65.814%	76,628,000	3.291%
	Joint	1,383,000	2	0.059%		
Chen Libo	Personal	50,300,000	*3*	2.160%		
Tsang Sai Chung, Kirk	Personal	850,000		0.037%		
Tang Sau Wai, Tom	Personal	100,000		0.004%		
	Family	142,000		0.006%		

Notes:

1. The corporate interest of Mr. Oei represents the interest in 1,138,993,905 shares held by Creator Holdings Limited ("Creator"), a company wholly-owned by Mr. Oei, and 393,418,667 shares held by Genesis Capital Group Limited ("Genesis"), a company owned as to 50% by Mr. Oei and as to the remaining 50% by his wife, Mrs. Oei Valonia Lau ("Mrs. Oei"). Mr. Oei is also a director of Creator and Genesis.

2. The joint interest of Mr. Oei represents the shares jointly held with Mrs. Oei.

3. The personal interest of Mr. Chen represents the interest in 19,300,000 shares, an interest in 31,000,000 underlying shares pursuant to the Placing Agreement dated 19th October, 2004 made with Creator.

(ii) Share options granted under the Old Share Option Scheme of the Company:

Name of Director	Number of options outstanding at 1st January 2005	Number of options outstanding at 30th June 2005	Date of grant	Exercise period	Number of options exercised during the year	Exercise price per share *HK$*	Closing price per share immediately before the date of grant *HK$*	Consideration paid for the options granted
CHEN Libo	4,000,000	–	20/5/1998	20/11/1998 to 19/5/2005	–	3.48	4.28	1
	2,000,000	–	18/6/1998	18/12/1998 to 18/6/2005	–	2.29	2.90	1
	3,000,000	–	28/9/1998	28/3/1999 to 28/9/2005	–	1.48	1.88	1

Note: The options are held by the Director under personal interests.

Save as disclosed above, at no time during the period under review was the Company, its holding company or its fellow subsidiaries a party to any arrangement to enable the Directors to hold any interests or short positions in the shares or underlying shares in, or debentures of, the company or its associated corporation.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30th June 2005, according to the register of interests kept by the Company under Section 336 of the SFO and so far as was known to the Directors and Chief Executive of the Company, the following persons (other than a Director or Chief Executive of the Company) had an interest or short position in the Shares and underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who were, directly or indirectly, interested in 10% or more of nominal value of any class of share capital (including any option in respect of such capital) carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Name of shareholders	Nature of interest	Number of shares (long position)	*Note*	Approximate percentage of the issued share capital of the Company	Number of shares (short position)	Approximate percentage of the issued share capital of the Company
Mrs. Oei	Corporate	393,418,667	*1*	16.90%		
	Joint	1,383,000	*2*	0.06%		
	Family	1,138,993,905	*3*	48.92%	76,628,000	3.29%
Creator	Beneficial owner	1,138,993,905		48.92%	76,628,000	3.29%
Genesis	Beneficial owner	393,418,667		16.90%		
Shanghai Construction (Group) General Corporation	Beneficial owner	149,000,000		6.40%		

Notes:

1. The corporate interest of Mrs. Oei represents the shares held by Genesis.

2. The joint interest of Mrs. Oei represents the shares jointly held with Mr. Oei.

3. The family interest of Mrs. Oei represents the interest held by Creator.

Save as stated above, no other person had any interests or short position in the shares or underlying shares which would fall to be disclosed to the Company under Part XV of the SFO.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30th June 2005, there was no purchase, sale or redemption of the listed securities of the Company by the Company or any of its subsidiaries.

CORPORATE GOVERNANCE

Save as disclosed below, the Company has complied with all the code provisions and, where applicable, the recommended best practices as set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Listing Rules throughout the six months ended 30th June 2005. The Company revised the terms of reference of Audit Committee in August 2005 with the terms written in line with the relevant provisions of the Code. The Company also set up the Remuneration Committee and Nomination Committee in August 2005 with the respective terms of reference in line with the relevant provisions of the Code or some best practices. The Code provision on internal controls effective on 1st July 2005. In this connection, the Company established an Internal Control and Risk Management Department in September 2005 to safeguard the shareholders' investment and the Group's assets.

The Company has adopted the Model Code for Securities Transactions by the Directors ("Model Code") set out in Appendix 10 of the Listing Rules as its own code of conduct regarding directors' securities transactions. Specified employees who are likely to be in possession of unpublished price-sensitive information of the Group are also subject to compliance with guidelines on no less exacting terms than the Model Code. A Code for Securities Dealings by Employees has also been adopted in this regards.

On specific enquiries made, all Directors have confirmed that, in respect of the six months ended 30th June 2005, they have complied with the required standard set out in the Model Code.

AUDIT COMMITTEE

The audit committee comprises three independent non-executive Directors and one non-executive Director with written terms of reference in accordance with the requirements of the Listing Rules, and reports to the Board. The audit committee has reviewed the Group's interim results for the six months ended 30th June 2005.

By order of the Board
OEI KANG, ERIC
Managing Director & Chief Executive Officer

Hong Kong, 26th September 2005

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong

INDEPENDENT REVIEW REPORT TO THE BOARD OF DIRECTORS OF HONG KONG CONSTRUCTION (HOLDINGS) LIMITED

(Incorporated in Hong Kong with limited liability)

Introduction

We have been instructed by the company to review the interim financial report set out on pages 1 to 25.

Respective responsibilities of directors and auditors

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Hong Kong Accounting Standard 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Review work performed

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants.

A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30th June 2005.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 26th September 2005