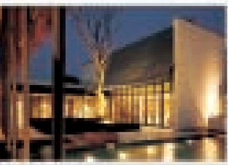
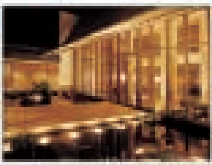
Interim Report

2005

SHANGHAI ZENDAI PROPERTY LIMITED

上海証大房地產有限公司

(incorporated in Bermuda with limited liability)


Contents

The board (the "Board") of directors (the "Directors") of Shanghai Zendai Property Limited (the "Company") is pleased to present the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2005.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2005

		Six months ended	
	Notes	**30 June 2005** **HK$'000** **(Unaudited)**	30 June 2004 *HK$'000* (Unaudited)
Turnover		750,401	26,880
Cost of sales		(592,871)	(21,251)
Gross profit		157,530	5,629
Other operating income		58,887	11,156
Selling expenses		(8,267)	(6,109)
Administrative expenses		(35,576)	(33,578)
Finance costs		(1,637)	(17)
Share of results of associates		(15,481)	29,597
Release of negative goodwill to income		–	7,734
Profit before taxation	6	155,456	14,412
Taxation	7	(13,651)	2,067
Net profit for the period		141,805	16,479
Attributable to:			
Shareholders of the parent		130,501	16,781
Minority interests		11,304	(302)
		141,805	16,479
Earnings per share	9		
Basic		HK2.82 cents	HK0.37 cent
Diluted		HK2.66 cents	HK0.37cent

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2005

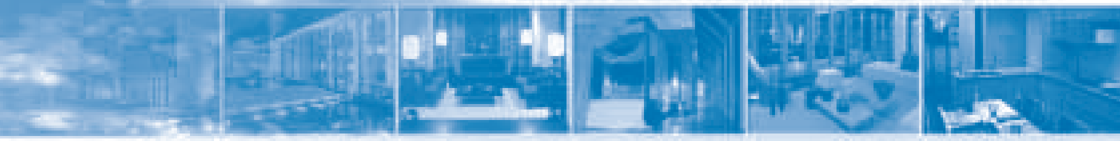
	Notes	30 June 2005 HK$'000 (Unaudited)	31 December 2004 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment	10	7,430	7,882
Deposits for acquisition of investment properties		207,547	–
Goodwill		9,048	9,048
Negative goodwill		–	(63,242)
Interests in associates		383,416	447,094
Available-for-sale investments		70,849	–
Restricted cash		500	500
		678,790	401,282
Current assets			
Properties for sale		987,915	986,869
Trade and other receivables	11	76,632	219,139
Deposits for property development		76,595	204,870
Advance for investment		–	12,858
Investment in securities		–	630
Amounts due from related companies		1,077	–
Investments at fair value through profit or loss		2,916	–
Tax recoverable		17,260	20,835
Cash and cash equivalents		195,404	271,476
		1,357,799	1,716,677
Current liabilities			
Trade and other payables	12	317,822	66,171
Receipts in advances		691,576	1,184,649
Amounts due to related companies		3,068	241
Amount due to a director		3,287	3,985
Bank loans-secured		240,566	141,509
		1,256,319	1,396,555
Net current assets		101,480	320,122
Total assets less current liabilities		780,270	721,404

	Notes	30 June 2005 HK$'000 (Unaudited)	31 December 2004 HK$'000 (Audited)
Non-current liabilities			
Convertible notes	13	78,029	–
Bank loans-secured		–	283,019
Deferred tax liabilities		–	9,204
		78,029	292,223
		702,241	429,181
Capital and reserves			
Share capital	14	98,225	92,458
Reserves		474,467	234,196
Equity attributable to shareholders of the parent		572,692	326,654
Minority interests		129,549	102,527
Total equity		702,241	429,181

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2005

	Share capital *HK$'000*	Share premium *HK$'000*	Capital redemption reserve *HK$'000*	Special capital reserve *HK$'000*	Convertible notes reserve *HK$'000*	(Accumulated losses)/ retained profits *HK$'000*	Total equity attributable to shareholders of the parent *HK$'000*	Minority interests *HK$'000*	Total equity *HK$'000*
At 1 January 2005									
– as originally stated	92,458	205,081	1,074	68,541	–	(40,500)	326,654	102,527	429,181
– release of negative goodwill	–	–	–	–	–	63,242	63,242	–	63,242
– as restated	92,458	205,081	1,074	68,541	–	22,742	389,896	102,527	492,423
Issue of shares	5,767	44,233	–	–	–	–	50,000	–	50,000
Recognition of equity component of convertible notes	–	–	–	–	2,295	–	2,295	–	2,295
Acquisition of subsidiaries	–	–	–	–	–	–	–	15,718	15,718
Net profit for the period	–	–	–	–	–	130,501	130,501	11,304	141,805
At 30 June 2005	98,225	249,314	1,074	68,541	2,295	153,243	572,692	129,549	702,241
At 1 January 2004	86,616	172,029	1,074	68,541	–	(156,326)	171,934	123,180	295,114
Issue of shares	6,000	34,000	–	–	–	–	40,000	–	40,000
Share issue expenses	–	(286)	–	–	–	–	(286)	–	(286)
Disposal of subsidiaries	–	–	–	–	–	–	–	(1,369)	(1,369)
Net profit for the period	–	–	–	–	–	16,781	16,781	(302)	16,479
At 30 June 2004	92,616	205,743	1,074	68,541	–	(139,545)	228,429	121,509	349,938



CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2005

	Six months ended	
	30 June 2005 ***HK$'000*** **(Unaudited)**	30 June 2004 *HK$'000* (Unaudited)
Net cash from operating activities	**338,867**	116,797
Net cash (used in)/from investing activities	**(310,977)**	17,324
Net cash (used in)/from financing activities	**(103,962)**	209,849
Net (decrease)/increase in cash and cash equivalents	**(76,072)**	343,970
Cash and cash equivalents at beginning of period	**271,476**	98,771
Cash and cash equivalents at end of period, representing bank balances and cash	**195,404**	442,741

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 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") and the Hong Kong Accounting Standard 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention except for certain financial instruments, which are measured at fair values.

The accounting polices 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.

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 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 and share of tax of associates 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 polices in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented:

Business combinations

In the current period, the Group has applied HKFRS 3 "Business combinations" which is effective for business combinations for which the agreement date is on or after 1 January 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Goodwill

In previous periods, goodwill arising on acquisitions was capitalised and amortised over its estimated useful life. With respect to goodwill previously capitalised on the balance sheet, the Group has discontinued amortising such goodwill from 1 January 2005 onwards and goodwill will be tested for impairment at least annually and in the financial year in which the acquisition takes place. Goodwill arising on acquisitions after 1 January 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current period. Comparative figures for 2004 have not been restated.

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

In accordance with HKFRS 3, 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 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, which was previously presented as deduction from assets, with a corresponding increase to retained earnings.

1. BASIS OF PREPARATION *(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 annual periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

Convertible notes

HKAS 32 requires an issuer of a compound financial instrument (that contains both financial liability and equity components) to separate the compound financial instrument into its liability and equity components on its initial recognition and to account for these components separately. In subsequent periods, the liability component is carried at amortised cost using the effective interest method. The principle impact of HKAS 32 on the Group is in relation to convertible notes issued by the Company that contain both liability and equity components.

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.

As at 31 December 2004, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 ("SSAP 24"). Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in the profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any). 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". The classification depends on the purpose for which the assets are acquired. "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. For "available-for-sale financial assets" that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, it will be measured at cost less impairment, if any. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

On 1 January 2005, the Group classified and measured its equity securities in accordance with the requirements of HKAS 39. Investment in securities classified under current assets with carrying amount of HK$630,000 as at 31 December 2004 was reclassified to investments at fair value through profit or loss on 1 January 2005.

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.

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

The effects of changes in the accounting policies described above on the results for the current and prior periods are as follows:

	Six months ended	
	30 June 2005 *HK$'000*	30 June 2004 *HK$'000*
Decrease in amortisation of goodwill	924	–
Decrease in release of negative goodwill to income	(9,316)	–
Discount on acquisition of subsidiaries recognised directly in the income statement	57,200	–
Increase in profit for the period	48,808	–

The effects of changes in the accounting policies described above on the condensed consolidated balance sheet as at 1 January 2005 are as follows:

	At 31 December 2004 (Originally stated) *HK$'000*	Effect of HKFRS 3 *HK$'000*	At 1 January 2005 (Restated) *HK$'000*
Negative goodwill	(63,242)	63,242	–
Effect on assets and liabilities	(63,242)	63,242	–
(Accumulated losses)/retained profits	(40,500)	63,242	22,742
Effect on equity	(40,500)	63,242	22,742

4. POTENTIAL IMPACT ARISING ON THE NEW ACCOUNTING STANDARDS NOT YET EFFECTIVE

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

HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS-Int 4	Determining whether an Arrangement contains a lease
HKFRS-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

5. SEGMENT INFORMATION

For management purpose, the Group is currently organised into two operating divisions, sales of properties and provision of travel and related services. These divisions are the basis on which the Group reports its primary segment information.

The Group's turnover and net profit for the period by business segment are as follows:

	Sales of properties Six months ended 30 June		Travel and related services Six months ended 30 June		Consolidated Six months ended 30 June	
	2005 **HK$'000**	2004 HK$'000	**2005** **HK$'000**	2004 HK$'000	**2005** **HK$'000**	2004 HK$'000
Revenue	735,900	5,281	14,501	21,599	750,401	26,880
Results						
Segment results	176,786	(24,741)	(1,719)	(449)	175,067	(25,190)
Unallocated income less expenses					(2,493)	2,288
Finance costs					(1,637)	(17)
Share of results of associates	(15,481)	29,597	–	–	(15,481)	29,597
Release of negative goodwill to income	–	7,706	–	28	–	7,734
Profit before taxation					155,456	14,412
Taxation					(13,651)	2,067
Net profit for the period					141,805	16,479

6. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

	Six months ended	
	30 June 2005 **HK$'000**	30 June 2004 HK$'000
Depreciation	1,008	451
Amortisation of goodwill	–	37
Loss on disposal of investments at fair value through profit or loss	219	4,525
Unrealised holding loss on investments at fair value through profit or loss	330	–
Share of tax of associates	–	5,354
and after crediting:		
Interest income	1,491	503
Dividend income	19	626
Discount on acquisition of subsidiaries	57,200	–
Gain on disposal of subsidiaries	–	732

7. TAXATION

	Six months ended	
	30 June 2005 *HK$'000*	30 June 2004 *HK$'000*
Current tax		
Hong Kong	–	–
Other jurisdictions	22,855	104
	22,855	104
Overprovision in prior years	–	(718)
Deferred tax	(9,204)	(1,453)
	13,651	(2,067)

No provision for Hong Kong Profits Tax has been made as the Group made no assessable profit in Hong Kong for the period.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

8. DIVIDEND

The Directors do not recommend the payment of an interim dividend for the period (2004: nil).

9. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the shareholders of the parent is based on the following data:

	Six months ended	
	30 June 2005 *HK$'000*	30 June 2004 *HK$'000*
Earnings for the purpose of basic and diluted earnings per share	130,501	16,781
Effect of dilutive potential ordinary shares:		
Interest on convertible notes	1,636	–
Earnings for the purposes of diluted earnings per share	132,137	16,781
	Number of shares	
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic earnings per share	4,626,074	4,520,343
Effect of dilutive potential ordinary shares:		
Convertible notes	333,333	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share	4,959,407	4,520,343

10. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK$724,000 on acquisition of property, plant and equipment.

11. TRADE AND OTHER RECEIVABLES

The Group grants a credit period ranging from 30 to 60 days on average to its customers.

Included in trade and other receivables of the Group are trade receivables of HK$6,227,000 (31.12.2004: HK$4,651,000). The ageing analysis at the balance sheet date is as follows:

	30 June 2005 *HK$'000*	31 December 2004 *HK$'000*
0-30 days	1,290	1,556
31-60 days	602	491
61-90 days	243	598
91-180 days	3,580	510
181-360 days	512	1,132
Over 360 days	–	364
	6,227	4,651

12. TRADE AND OTHER PAYABLES

Included in trade and other payables of the Group are trade payables of 146,727,000 (31.12.2004: HK$8,108,000). The ageing analysis at the balance sheet date is as follows:

	30 June 2005 *HK$'000*	31 December 2004 *HK$'000*
0-30 days	2,845	839
31-60 days	715	383
61-90 days	112,985	228
91-180 days	26,048	493
181-360 days	3,830	366
Over 360 days	304	5,799
	146,727	8,108

13. CONVERTIBLE NOTES

Pursuant to a subscription agreement dated 1 February 2005 made between Value Partners Limited and the Company, the convertible notes in the principal amount of HK$80,000,000 were issued by the Company.

The convertible notes are, at the option of the holder, convertible on or after 24 February 2005 up to and including 23 February 2008, into fully paid ordinary shares of the Company with a par value of HK$0.02, at an initial conversion price of HK$0.24 per share, subject to adjustment under certain events.

The convertible notes were separated into its liability and equity components on its initial recognition. At the balance sheet date, the liability component is carried at amortised cost using the effective interest method.

14. SHARE CAPITAL

During the period, 288,350,634 ordinary shares of the Company were issued at HK$0.1734 per share as partial consideration for the acquisition of Myway Developments Limited (Note 15).

15. ACQUISITION OF SUBSIDIARIES

On 30 June 2005, the Group acquired 100% of the issued share capital of Myway Developments Limited for a consideration of HK$100,000,000. This transaction has been accounted for using the purchase method of accounting.

Details of the net assets acquired by the Group were as follows:

	Carrying amount *HK$'000*	Fair value adjustments *HK$'000*	Fair value *HK$'000*
Property, plant and equipment	248	–	248
Properties for sale	134,350	63,763	198,113
Trade and other receivables	792	–	792
Deposits for property development	3,882	–	3,882
Amount due from a fellow subsidiary	12,264	–	12,264
Tax recoverable	159	–	159
Cash and cash equivalents	7,649	–	7,649
Trade and other payables	(3,608)	–	(3,608)
Receipts in advances	(13,580)	–	(13,580)
Amounts due to fellow subsidiaries	(32,832)	–	(32,832)
Amount due to an associate	(169)	–	(169)
Minority interests	(9,922)	(5,796)	(15,718)
Net assets	99,233	57,967	157,200
Discount on acquisition of subsidiaries			(57,200)
Total consideration			100,000
Satisfied by:			
Cash			50,000
Issue of shares			50,000
			100,000
Net cash inflow arising on acquisition:			
Cash consideration paid			50,000
Cash and cash equivalents			(7,649)
			42,351

The subsidiaries acquired did not have significant contribution to the Group's turnover, results and cash flows for the period.

16. COMMITMENTS

On 30 June 2005, the Group entered into an agreement to acquire certain investment properties for a total consideration of RMB680,000,000 (equivalent to approximately HK$641,509,000) in cash. Capital expenditure in respect of the acquisition of investment properties contracted for but not provided for in the financial statements was HK$433,962,000 (31.12.2004: HK$Nil). The acquisition was subject to the independent shareholders' approval at a special general meeting. If the independent shareholders' approval could not be obtained, the agreement of such acquisition would be terminated. The results of the special general meeting is disclosed under note 17 "Post Balance Sheet Event".

At 30 June 2005, the Group had contracted commitments not provided for in the financial statements in respect of property development expenditure amounted to HK$295,609,000 (31.12.2004: HK$437,499,000).

17. POST BALANCE SHEET EVENT

On 30 June 2005, the Group entered into an agreement to acquire certain investment properties for a total consideration of RMB680,000,000 (equivalent to approximately HK$641,509,000) in cash. An ordinary resolution was passed at a special general meeting of the Company held for the purpose of approving the acquisition on 7 September 2005. Details of the acquisition are set out in the Company's circular dated 11 August 2005.

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INDEPENDENT REVIEW REPORT TO THE BOARD OF DIRECTORS OF SHANGHAI ZENDAI PROPERTY LIMITED

(incorporated in Bermuda with limited liability)

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 2 to 14.

Directors' responsibilities

The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") require the preparation of an interim financial report to be in compliance with Hong Kong Accounting Standard 34 (HKAS 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 (SAS 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 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 30 June 2005.

BDO McCabe Lo Limited
Certified Public Accountants
Lee Ka Leung, Daniel
Practising Certificate Number P01220

Hong Kong, 22 September 2005

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Prospect

Financial performance

For the six months ended 30 June 2005, the Group's turnover reached HK$750,401,000, a 26.92 times increase as compared with HK$26,880,000 in the corresponding period last year. Profit attributable to shareholders increased 6.78 times to HK$130,501,000, as compared with HK$16,781,000 in the corresponding period last year. Basic earnings per share were HK2.82 cents (30 June 2004: HK0.37 cent). The revenue for the reporting period was mainly contributed by delivery of flats in the Southern area, Phase III, Zendai Jia Yuan.

Business review

Subsequent to the series of economic austerity measures introduced in March 2004, the People's Republic of China (the "PRC") government further tightened its control on property industry in the second quarter of this year to suppress speculating activities and overheating of the market. These measures aimed at sustaining the long-term healthy development of the market and stable price growth of properties. Property sales in Shanghai dropped substantially in the second quarter with potential buyers taking the wait-and-see approach. Shanghai Zendai recorded satisfactory growth in sales for the first quarter. However, as affected by the tightened control on the market, sales slowed down in the second quarter.

During the adjustment period, all developers inevitably experienced fund pressure at various extents, and thus less competitive ones were ousted. Leveraging on its group of the market trend and its excellent capital management, the Company maintained steady growth to strengthen its foundation and defended its position in the industry.

Sales of residential projects

During the period under review, three projects of the Group went on for sale, including the remaining flats of Shui Qing Mu Hua apartments, individual villas of Mandarin Palace and Phase III, Zendai Jia Yuan, which were all well received by the market. Six of the ten reserved flats of Shui Qing Mu Hua apartments with a saleable floor area of 1,382.94 square metres were sold during the period, generating RMB21,508,200 (equivalent to approximately HK$20,290,755) in terms of contract value, which is expected to be booked in the fourth quarter of 2005.

Regarding the Mandarin Palace, a premium residential project with a site area of 105,000 square metres adjacent to the Century Park and Lujiazui Financial District, it contained 50 individual villas with a saleable floor area of 27,200 square metres. The first batch of 12 individual villas was opened for reservation last December and aroused very encouraging market response. During the period, 10 individual villas with a saleable floor area of 7,071 square metres (in which 4,575 square metres are above the ground while the remaining 2,496 square metres are underground area) were sold, generating RMB259,460,000 (equivalent to approximately HK$244,773,585) in terms of contract value.

Besides, 1,255 out of the 1,258 units in Southern area, Phase III, Zendai Jia Yuan were sold in aggregate up till 30 June 2005, among which 12 units were sold during the review period. The total accumulative saleable floor area involved was 135,612 square metres, generating approximately RMB780,546,000 (equivalent to approximately HK$736,364,151) in terms of contract value. These units were delivered on schedule in March 2005. 838 units out of the 1,020 units in Northern area, Phase III, Zendai Jia Yuan were sold in aggregate up till 30 June 2005 among which 200 units were sold during the review period. The total accumulative saleable floor area involved was 95,970 square metres, generating approximately RMB698,817,700 (equivalent to approximately HK$659,261,981) in terms of contract value. Northern area is scheduled to be delivered in March 2006.

Acquisition of assets

Zendai Garden-Riverside Town

In the first half of this year, Shanghai Zendai continued to enlarge its business coverage. Through acquisitions, it further expanded its assets base and diversified its income sources. In view of the immense development potentials of the property markets in Shanghai and its vicinity, the Group entered into a sale and purchase agreement with Zendai Investment Developments Limited on 29 April 2005 to acquire the entire issued share capital of Myway Developments Limited ("Myway") at an aggregate consideration of HK$100,000,000. The amount was satisfied half by cash and half by allotment and issue of 288,350,634 new shares. The new issue represented approximately 6.24% of the then issued share capital or approximately 5.87% of the enlarged issued share capital. Mayway is an investment holding company which owns approximately 90.91% interests in the registered capital of Haimen Zendai Riverside Real Estate Limited ("Haimen Zendai"). Currently, Haimen Zendai owns a parcel of land in Haimen, Jiangsu Province for the development of a residential and commercial property project named "Zendai Garden-Riverside Town" (濱江新城・証大花園) with a total site area of approximately 577,485 square metres. This acquisition not only presented the Group with a valuable opportunity to explore the enormous Haimen market, but also increased its land reserve for future development.

Zendai Garden-Riverside Town consists of two phases. Named Zendai-Dong Zhou Mansion, phase one comprises all detached houses to be built in three batches with an aggregate site area of 253,313 square metres. Pre-sale permits were already obtained for the first batch of 53 houses with a total saleable floor area of approximately 17,131 square metres. As at 31 August 2005, 20 flats with a saleable floor area of 6,450 square metres were sold, generating RMB26,543,784 (equivalent to approximately HK$25,041,305) in terms of contract value. Besides, construction of the second batch of 78 houses with a total saleable floor area of approximately 23,663 square metres is expected to be completed in August 2006, while the final batch is currently under planning. Meanwhile, occupying a total site area of approximately 324,172 square metres, phase two of the project will feature a combination of multi-storey apartments, high-rise apartments and town houses of which construction will begin later this year.

Zendai Thumb Plaza

In Shanghai, on 30 June 2005, Shanghai Zendai entered into an agreement to acquire commercial properties at the Zendai Thumb Plaza (証大大拇指商業廣場) at RMB680,000,000 (equivalent to approximately HK$641,509,000). Deposits of RMB220,000,000 (equivalent to approximately HK$207,547,000) was paid for such acquisition. The gross construction area of the acquired properties is 41,685.34 square metres. This acquisition has widened the Group's recurrent income to cover property rental. The anticipated rate of return before tax is above 7.3% per annum.

On a site of approximately 50,300 square metres and with a total construction area of approximately 112,200 square metres, Zendai Thumb Plaza is located in Lian Yang new district, Pudong, Shanghai, and close to the Century Park and Lujiazui Financial District. It is a modern commercial complex housing a commercial property with gross construction area approximately 56,200 square metres, a 31,000-square-metre five-star hotel named "Zendai Radisson Hotel" (証大麗笙大酒店) and a 25,000-square-metre underground car park. Construction of the plaza commenced in October 2003. The commercial property opened in July 2005, and the Zendai Radisson Hotel is expected to commence business by the end of 2005. About 90% of the construction area of Zendai Thumb Plaza has been leased out during the period. Its major tenants include Bank of China, Shanghai Pudong Development Bank, Bank of Shanghai, Agricultural Bank of China, McDonald's, KFC, Starbucks, Pizza Hut, Zendai Art Centre, and also the internationally by renowned supermarket Carrefour.

Issue of convertible notes

Boasting a healthy business structure and enormous development potential, the Group entered into an agreement with Value Partners Limited ("Value Partners") in February this year in relation to the issue and subscription of three-year convertible notes in an aggregate principal amount of HK$80,000,000. Holders of the convertible notes shall have the right to convert the convertible notes into shares of the Company at the initial conversion price of HK$0.24 each. A maximum of 333,333,333 new shares will be issued based on the initial conversion price, representing approximately 7.21% of the then issued share capital of the Company. Net proceeds of approximately HK$79,600,000 from the issue of the convertible notes will be used for investment in and development of appropriate property projects.

Award

Subsequent to the three-month assessment by the Shanghai Real Estate Trade Association (上海市房地產行業協會), Shanghai Zendai was again elected as one of the "Top 50 Property Development Enterprises in Shanghai (上海市房地產開發企業50強)" during the period. The Group has been accredited with this award for three consecutive years.

Change of auditor

The Group's auditor KLL Associates CPA Limited merged its practice with BDO McCabe Lo Limited in August 2005. The Group has appointed BDO McCabe Lo Limited as its auditor.

Prospects

Affected by the PRC government's economic austerity measures, the number of property transactions in Shanghai dropped substantially in the second quarter. However, stepping into the third quarter, the market appeared to be responding more rationally to the measures with the number of property transactions gradually picking up during July and August. The aim of the economic austerity measures is to maintain healthy development of the property market by keeping price rise under control. After a few months' efforts in ridding a number of unhealthy factors, the property market is expected to develop at a more rational and reasonable pace.

In the long run, prompted by the steady growth of the PRC economy, the impending 2008 Olympics and the 2010 World Expo, we see continuous healthy growth for the Shanghai property market. With a prominent brand reputation and sound business foundation, the Group will be able to fully capture market opportunities, respond effectively to market fluctuations and maintain stable and long-term growth momentum, hence bring satisfactory returns to its shareholders.

Liquidity, financial resources, capital structure and gearing

As at 30 June 2005, the Group had a healthy financial position with net assets amounted to approximately HK$702 million (31.12.2004: HK$429 million (restated)). Net current assets decreased from approximately HK$320 million in 31 December 2004 to approximately HK$101 million, with current ratio of approximately 1.08 times (31.12.2004: 1.23 times).

The Group adopts relatively prudent financial policy and closely monitors its cash flow. As at 30 June 2005, the Group had consolidated bank loans of approximately HK$241 million (denominated in Renminbi), which is repayable within one year, and convertible notes with principal amount of HK$80 million which will mature in February 2008. As at 30 June 2005, the Group's bank balances and cash were approximately HK$195 million, in which 83% was denominated in Renminbi, with the others denominated in Hong Kong dollars.

The gearing ratio of the Group was 0.57 times (31.12.2004: 1.31 times) (basis: total of amounts due to related companies, amount due to a director, convertible notes and bank loans divided by shareholders' funds).

Segmental information

Sales of properties

For the six months ended 30 June 2005, the turnover of this segment reached HK$735,900,000, representing an increase of 139 times compared to HK$5,281,000 for the six months ended 30 June 2004. The results of this segment also turned from a loss of HK$24,741,000 in the six months ended 30 June 2004 to a profit of HK$176,786,000 in the current period. The increase in turnover and result of this segment are attributable to the delivery of flats in the Southern area, Phase III, Zendai Jia Yuan to buyers during the period.

Travel and related business

For the six months ended 30 June 2005, the turnover of this segment decreased from HK$21,599,000 in the six months ended 30 June 2004 to HK$14,501,000 in the current period. The decrease in turnover of this segment is attributable to the keen competition in local tour market during the period.

Foreign currency exposure

As most of the Group's monetary assets and liabilities are denominated in Renminbi, the exchange rate risks of the Group is considered to be minimal.

Employees

At 30 June 2005, the Group employed approximately 228 (2004: 200) employees in Hong Kong and the PRC. They were remunerated according to the nature of the job and market conditions. Other staff benefits include a mandatory provident fund scheme, local municipal government retirement scheme, insurance and medical insurance.

Acquisition of subsidiaries

During the period, the Group acquired 100% of the issued share capital of Myway Developments Limited for a total consideration of HK$100,000,000 which was satisfied by HK$50,000,000 in cash and HK$50,000,000 by allotment and issue of 288,350,634 ordinary shares of the Company at HK$0.1734 each.

Charges on assets

As at 30 June 2005, the Group's properties for sale of approximately HK$519,097,000 have been pledged to banks to secure bank loans granted to the Group.

Contingent liabilities

As at 30 June 2005, the Group had no significant contingent liabilities or outstanding litigation.

INTERIM DIVIDEND

The Board do not recommend the payment of an interim dividend for the six months ended 30 June 2005 (2004: nil).

DIRECTORS' INTERESTS IN SHARES OR DEBENTURES

As at 30 June 2005, the interests and short positions of the directors and chief executives of the Company 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 (the "SFO") as recorded in the register required to be kept 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 for Securities Transactions by Directors of Listed Issuers, were set out below:

Name of director	Capacity	Number of issued ordinary shares of the Company held	Approximate percentage of issued share capital
Mr. Dai Zhikang	Interest held by controlled corporation *(Note)*	2,803,425,634	57.08%

Note: All of these interests represent long positions. 2,515,075,000 and 288,350,634 shares were held by Giant Glory Assets Limited and Zendai Investment Developments Limited respectively. Giant Glory Assets Limited and Zendai Investment Developments Limited are wholly-owned by Mr. Dai Zhikang. Mr. Dai Zhikang is therefore deemed to be interested in the 2,803,425,634 shares held by these companies pursuant to the SFO.

All interests stated above represent long position held in the shares of the Company.

Save as disclosed above, none of the directors or chief executives of the Company had any interest or short position 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 required to be kept by the Company pursuant to section 352 of the SFO on or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as at 30 June 2005.

SHARE OPTIONS

The Company adopted a share option scheme on 18 July 2002 (the "Scheme"), with expiry date on 17 July 2012, for the primary purpose of providing incentives to directors and eligible employees. Under the Scheme, the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

No share options have been granted under the Scheme since its adoption.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed under the section of "Share Options" above, at no time during the period was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the directors or chief executives of the Company to acquire benefits by means of the acquisition of shares in, or underlying shares in, or debentures of, the Company or any other body corporate and neither the directors nor the chief executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2005, the interests or short positions of the persons, other than a director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO were as follows:

Name	Capacity	Number of issued ordinary shares of the Company held	Number of underlying shares held under equity derivatives	Approximate percentage of the issued share capital
Giant Glory Assets Limited	Beneficial owner	2,515,075,000 *(Note 1)*	–	51.21%
Zendai Investment Developments Limited	Beneficial owner	288,350,634 *(Note 1)*	–	5.87%
Honour Great Holdings Limited *(Note 2)*	Beneficial owner	496,900,000	–	10.12%
Ms. Liu Lijuan (劉麗娟) *(Note 2)*	Interest held by controlled corporation	496,900,000	–	10.12%
Value Partners Limited *(Note 3)*	Investment manager	4,730,000	333,333,333	6.88%
Mr. Cheah Cheng Hye (謝清海) *(Note 3)*	Interest held by controlled corporation	4,730,000	333,333,333	6.88%

Note 1. These shares are the same as the deemed interest of Mr. Dai Zhikang as referred to in the note under the section headed "Directors' interests in shares or debentures" above.

Note 2. Ms. Liu Lijuan is the beneficial owner of the entire issued share capital of Honour Great Holdings Limited and therefore is deemed to be interested in the 496,900,000 shares held by Honour Great Holdings Limited pursuant to the SFO.

Note 3. Mr. Cheah Cheng Hye is the beneficial owner of 32% issued share capital of Value Partners Limited and therefore is deemed to be interested in the 4,730,000 shares and 333,333,333 underlying shares held by Value Partners Limited pursuant to the SFO.

All interests stated above represent long position held in the shares of the Company. Save as disclosed above, as at 30 June 2005, no persons, other than a director or chief executive of the Company, had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

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

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

CORPORATE GOVERNANCE

The Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Listing Rules except for the following deviations:

Code Provision A.2.1 provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Dai Zhikang is the chairman of the Company but there is no chief executive officer appointed to the Board. The Company might consider appointing a chief executive officer in the event it could locate appropriate personnel.

Code Provision A.4.2 provides that non-executive directors should be appointed for a specific term and subject to re-election. Save for Mr. Ma Chi Kui, Sandroff, the independent non-executive Directors were not appointed for a specific term. However, subsequent to the six months ended 30 June 2005, the Company and the independent non-executive Directors entered into contract for a term of office of two years.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Mode Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Listing Rules. Based on specific enquiry of the Directors, the Directors have confirmed they have complied with the Model Code.

REVIEW OF INTERIM FINANCIAL STATEMENTS

The audit committee has reviewed with the management and external auditors, BDO McCable Lo Limited the accounting principles and policies adopted by the Group and discussed internal controls and financial reporting matters including the review of the unaudited interim financial statements for the six months ended 30 June 2005.

By Order of the Board
Dai Zhikang
Chairman

Hong Kong, 22 September 2005