

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For six months ended 30 June 2006

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

The accounting policies and methods of computation used in the preparation of these interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2005.

In the current interim period, the Group has applied, for the first time, a number of new standards, amendments and interpretations (new "HKFRSs") issued by the HKICPA, which are either effective for accounting periods commencing on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs had no material effect on the results for current and/or prior accounting periods. Accordingly, no prior period adjustment is required.

HKAS 39 & HKFRS 4 Amendments — "Financial Guarantee Contracts"

In prior years, financial guarantee contracts are accounted for under HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and disclosed as contingent liabilities. In accordance with above amendments, financial guarantee contracts issued are recognized as financial liabilities in the balance sheet. Financial guarantee contracts are initially recognized at fair value and subsequently measured at the higher of (i) the amount as provisions determined in accordance with HKAS 37 and (ii) the amount initially recognized, less, when appropriate, cumulative amortisation recognized in accordance with HKAS 18 "Revenue". This change in accounting policy has no material impact on the results of the Group for the current and prior periods. Accordingly, no prior period adjustment has been made.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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

HKAS 1 (Amendment)	Capital disclosures ¹
HKFRS 7	Financial Instruments: Disclosures ¹
HK(IFRIC)-Int 7	Applying the restatement approach under HKAS 29 — Financial Reporting in Hyperinflationary Economies ²
HK(IFRIC)-Int 8	Scope of HKFRS 2 ³
HK(IFRIC)-Int 9	Reassessment of embedded derivatives ⁴

¹ *Effective for annual periods beginning on or after 1 January 2007*

² *Effective for annual periods beginning on or after 1 March 2006*

³ *Effective for annual periods beginning on or after 1 May 2006*

⁴ *Effective for annual periods beginning on or after 1 June 2006*

3. SEGMENTAL INFORMATION

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

Business segments

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

3. SEGMENTAL INFORMATION (CONTINUED)

The following table represents revenue and results information for the six months ended 30 June 2006 for the Group's business segments:

	Six months ended 30 June 2006 (Unaudited)						
	Property development	Property leasing	Building management and other services	Urban infrastructure	Others	Elimination	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue							
External customers	—	63,711	7,249	22,516	28	—	93,504
Inter-segments	—	2,176	—	—	—	(2,176)	—
	—	65,887	7,249	22,516	28	(2,176)	93,504
Segment results	(423)	58,723	4,027	3,094	656	—	66,077
Inter-segments	—	1,092	201	—	(1,293)	—	—
Contribution from operations	(423)	59,815	4,228	3,094	(637)	—	66,077
Net gain on fair value adjustment of investment properties	—	223,868	—	—	—	—	223,868
	(423)	283,683	4,228	3,094	(637)	—	289,945
Unallocated income and expenses							(8,812)
Profit from operations							281,133
Finance costs							(31,993)
Operating profits							249,140
Share of profits less losses of associates							5
Share of profits less losses of a jointly-controlled entity							(14)
Profit before income tax							249,131
Income tax expense							(41,480)
Profit for the period							207,651

3. SEGMENTAL INFORMATION (CONTINUED)

	Six months ended 30 June 2005 (Unaudited)						
	Property development	Property leasing	Building management and other services	Urban infrastructure	Others	Elimination	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue							
External customers	—	52,022	6,274	15,706	423	—	74,425
Inter-segments	—	1,889	—	—	—	(1,889)	—
	—	53,911	6,274	15,706	423	(1,889)	74,425
Segment results							
External customers	(302)	48,296	3,873	(4,326)	2,059	—	49,600
Inter-segments	—	3,863	—	—	(1,617)	(2,246)	—
Contribution from operations	(302)	52,159	3,873	(4,326)	442	(2,246)	49,600
Net gain on fair value adjustment of investment properties	—	200,360	—	—	—	—	200,360
	(302)	252,519	3,873	(4,326)	442	(2,246)	249,960
Unallocated income and expenses							(8,820)
Profit from operations							241,140
Finance costs							(17,966)
Operating profits							223,174
Share of profits less losses of associates							(61)
Profit before income tax							223,113
Income tax expense							(40,256)
Profit for the period							182,857

3. SEGMENTAL INFORMATION (CONTINUED)

Geographical segments

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

	Six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Hong Kong	70,988	58,719
Other parts of the People's Republic of China ("PRC")	22,516	15,706
	93,504	74,425

4. OTHER INCOME

	Six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Interest income	751	60
Miscellaneous income	976	1,675
	1,727	1,735

5. PROFIT FROM OPERATIONS

Profit from operations is arrived at after charging:

	Six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Depreciation	651	685
Staff cost (including directors' remuneration)	10,159	8,614
Amortisation of operating lease prepayment	7	7
Amortisation of intangible assets	276	171
Amortisation of properties held for development	376	—
Loss on disposal of property, plant and equipment	—	196
Cost of inventories recognised as expenses	12,450	9,085
Provision for impairment of receivables	7	2,141
Operating lease charges	1,040	1,052

6. FINANCE COSTS

	Six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Interest charges on:		
Bank loans	28,542	14,855
Other borrowings		
— wholly repayable within five years	2,891	577
— not wholly repayable within five years	—	1,168
Convertible bonds (note 15)	560	1,363
Finance charges on finance leases	—	3
	31,993	17,966

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
The charge comprises:		
Hong Kong profits tax	2,303	1,208
Deferred tax	39,177	39,048
	41,480	40,256

Hong Kong profits tax is provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profit arising or derived from Hong Kong.

The Group's subsidiaries established and operating in the PRC are exempted from PRC enterprise income tax for the first two profitable years of operations, and thereafter, are eligible for a 50% relief from PRC enterprise income tax for the following three years under the Income Tax Law of the PRC. For the six months ended 30 June 2006, no provision for PRC enterprise income tax has been made as the Group's PRC subsidiaries were still within the tax exemption period.

8. INTERIM DIVIDEND

The Directors do not recommend any interim dividend for the six months ended 30 June 2006 (30 June 2005: Nil).

9. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the unaudited consolidated profit attributable to equity holders of the Company of approximately HK\$206,904,000 (30 June 2005: approximately HK\$183,065,000) and the weighted average of 222,410,803 shares (30 June 2005: 151,479,017 shares) in issue during the six months ended 30 June 2006.

The calculation of diluted earnings per share is based on the adjusted net profit attributable to equity holders of the Company of HK\$207,464,000 (30 June 2005: HK\$184,094,000) and the weighted average of 236,868,978 shares (30 June 2005: 186,867,570 shares) in issue during the period adjusted for the effect of all dilutive shares.

9. EARNINGS PER SHARE (CONTINUED)

The adjusted net profit attributable to equity holders of the Company is calculated on the net profit for the period of HK\$206,904,000 plus the reduction in interest payable of HK\$560,000 as a result of the deemed conversion of convertible bonds.

The weighted average number of shares used in calculation of diluted earnings per share is calculated based on the weighted average of 222,410,803 shares in issue during the period plus the weighted average of 14,458,175 shares deemed to be issued at no consideration as if all the dilutive potential shares been issued.

10. INVESTMENT PROPERTIES

Changes to the carrying amounts presented in the consolidated balance sheet can be summarised as follow:

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
At 1 January 2006	3,654,270	3,011,636
Additions	87,633	78,911
Disposals	—	(1,198)
Net gain on fair value adjustment	223,868	564,921
At 30 June 2006	3,965,771	3,654,270

The investment properties of the Group were revalued at 30 June 2006 by an independent professional valuer, B.I. Appraisals Limited, on an open market value basis. The net gain on fair value adjustment has been credited to consolidated income statement for the period.

10. INVESTMENT PROPERTIES (CONTINUED)

The Group's interest in investment properties are situated in Hong Kong and their carrying amount are analysed as follows:

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Held on lease over 50 years	3,936,281	3,641,930
Held on lease from 10 to 50 years	29,490	12,340
	3,965,771	3,654,270

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

11. TRADE AND OTHER RECEIVABLES

As at balance sheet date, trade receivables included in trade and other receivables were approximately HK\$44,606,000 (31 December 2005: approximately HK\$33,585,000). The aging of these receivables was set out below:

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
0-30 days	18,700	16,448
31-90 days	4,801	4,329
Over 90 days	21,105	12,808
Total trade receivables	44,606	33,585

12. CASH AND CASH EQUIVALENTS

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Bank and cash balances	21,293	12,687
Short-term bank deposits	53,071	59,509
	74,364	72,196

The effective interest rate of short-term bank deposits for the period ranged from 3.85% to 3.90% (31 December 2005: 3.5% to 4.1%). These deposits have maturity period for 14 days and are eligible for early uplift without receiving any interest for the last deposit period.

Included in bank and cash balances of the Group is HK\$13,330,362 (31 December 2005: HK\$7,498,987) of bank balances denominated in Renminbi placed with banks in the PRC.

13. TRADE AND OTHER PAYABLES

As at balance sheet date, trade payables included in trade and other payables were approximately HK\$30,488,000 (31 December 2005: approximately HK\$29,755,000). The aging of these payables was set out below:

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
0-30 days	16,936	14,048
31-90 days	1,446	1,926
Over 90 days	12,106	13,781
Total trade payables	30,488	29,755

14. BORROWINGS

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Loans		
— Bank loans — secured	1,187,270	1,052,348
— Other loans	85,450	68,261
	1,272,720	1,120,609
Less: Current portion due within one year included under current liabilities	(252,304)	(157,626)
Non-current portion	1,020,416	962,983

As at 30 June 2006, borrowings are repayable as follows:

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Within 1 year or on demand	252,304	157,626
After 1 year but within 2 years	644,887	566,459
After 2 years but within 5 years	155,304	167,602
After 5 years	220,225	228,922
	1,020,416	962,983
Grand total	1,272,720	1,120,609

15. CONVERTIBLE BONDS

In accordance with HKAS 32, the fair value of the liability component of the convertible bonds (the "Bonds") was calculated using a market interest rate ("MIR") for an equivalent non-convertible bond. The residual amount, representing the value of equity conversion component, is included in shareholders' equity in other equity reserve. The fair value of the liability component of the Bonds at 30 June 2006 amounted to approximately HK\$23,501,000 (31 December 2005: approximately HK\$23,355,000), which is calculated using cash flows discounted at MIR, which the Directors of the Company have estimated to be 4.75% per annum or HIBOR plus 1.75%. Interest expenses on the Bonds are calculated using the effective interest method by applying the effective interest rate of 4.78% (31 December 2005: 4.56%) per annum to the liability component.

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Face value of convertible bonds	23,499	23,499
Equity component	(94)	(94)
	23,405	23,405
Interest charged to finance costs (note 6)	560	3,051
Interest paid/accrued	(464)	(3,101)
Liability component	23,501	23,355

16. SHARE CAPITAL

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
<i>Authorized:</i>		
5,000,000,000 ordinary shares of HK\$0.10 each	500,000	500,000

16. SHARE CAPITAL (CONTINUED)

	Number of Shares	Nominal value HK\$'000
<i>Issued and fully paid:</i>		
As at 1 January 2006	222,222,113	22,222
Exercise of warrants	285,703	29
As at 30 June 2006	222,507,816	22,251

17. RELATED PARTY TRANSACTIONS

- (a) A subsidiary of the Company entered into a tenancy agreement with a related company which is in association with the Chairman and an executive director of the Company for leasing a residential property situated in Hong Kong for a period of three years commencing from 1 May 2004 and expiring on 30 April 2007 at the monthly rental of HK\$80,000. Total rental paid for the six months ended 30 June 2006 amounted to HK\$480,000 (30 June 2005: HK\$480,000).
- (b) On 18 November 2005, a wholly owned subsidiary of the Company entered into a tenancy agreement with a related company, in which the Chairman and an executive director of the Company have interests, for leasing a property situated at Guangzhou, PRC for office purpose at monthly rental and management charge at HK\$41,837 for a period of 12 months from 1 December 2005 to 30 November 2006. Total rental and management charges paid for the six months ended 30 June 2006 amounted to HK\$251,022 (30 June 2005: HK\$333,654)
- (c) On 30 April 2005, a related company in which the Chairman and an executive director of the Company have interests, provided to a wholly owned subsidiary of the Company an unsecured revolving credit facility up to a maximum total principal amount of HK\$100,000,000 with interest rate at prime lending rate for Hong Kong dollars plus 1% per annum. The purpose of granting this unsecured revolving credit facility is to replace a previous unsecured revolving credit facility with a maximum total principal amount of HK\$50,000,000. The final maturity date is on 30 April 2008. As at the balance sheet date, approximately HK\$85,450,000 was utilised.
- (d) Interest on convertible bonds paid/payable to Ko Bee for the six months ended 30 June 2006 amounted to HK\$560,000 (30 June 2005: HK\$1,363,000).

18. FUTURE OPERATING LEASE ARRANGEMENTS

The Group leases its investment properties under operating leases with average lease terms of 1 to 3 years. The future aggregate minimum lease receipt under non-cancellable operating leases in respect of land and buildings are as follows:

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Within one year	113,100	112,702
In the second to fifth years inclusive	104,923	118,477
	218,023	231,179

19. COMMITMENTS

(a) Operating lease commitments

As at 30 June 2006, the Group had total future aggregate minimum lease payments under non-cancellable operating leases, details as follows:

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Within one year	800	1,420
In the second to fifth year inclusive	—	320
	800	1,740

19. COMMITMENTS (CONTINUED)

(b) Capital commitments

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Contracted but not provided for		
— Property development	14,845	6,800
— Investment properties	157,644	3,998
— Capital contribution to subsidiaries in the PRC	129,800	175,900
	302,289	186,698

Of the total capital commitments, approximately HK\$51,200,000 (31 December 2005: approximately HK\$66,000,000) has been due for contribution to the subsidiaries in the PRC by the Group in the coming twelve months.

20. POST BALANCE SHEET EVENT

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