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# CORPORATE INFORMATION

## PLACE OF INCORPORATION

Cayman Islands

## BOARD OF DIRECTORS

### *Executive Directors*

Deacon Te Ken CHIU, J.P. (*Chairman*)

David CHIU, Dato', B.Sc.  
(*Deputy Chairman and  
Chief Executive Officer*)

Craig Grenfell WILLIAMS

B. ENG. (CIVIL)

Dennis CHIU, B.A.

### *Non-executive Directors*

Ching Lan JU CHIU, J.P.

Dick Tat Sang CHIU, M.A.

Daniel Tat Jung CHIU

### *Independent Non-executive Directors*

Kee Leong CHEE, Datuk

David Kwok Kwei LO

Jian Yin JIANG

## QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Bill Kwai Pui MOK

CPA, AICPA, MBA

## CHIEF OPERATING OFFICER

Denny Chi Hing CHAN

## AUTHORIZED

### REPRESENTATIVES

Deacon Te Ken CHIU

David CHIU

## SOLICITORS

### Hong Kong

Woo, Kwan, Lee & Lo

David Lo & Partners

### Malaysia

Shearn Delamore & Co.

### Australia

Freehill, Hollingdale & Page

## AUDITORS

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

# CORPORATE INFORMATION

## PRINCIPAL BANKERS

### Hong Kong

Bank of China (Hong Kong) Limited  
Citic Ka Wah Bank Limited  
Hang Seng Bank Limited  
Liu Chong Hing Bank Limited  
Nanyang Commercial Bank Limited  
The Hongkong and Shanghai  
Banking Corporation Limited  
Wing Hang Bank Limited

### Malaysia

Alliance Bank Malaysia Berhad  
Southern Bank Berhad

### Singapore

The Hongkong and Shanghai  
Banking Corporation Limited

### Australia

Australia and New Zealand Banking  
Group Limited  
Commonwealth Bank of Australia

### China

Construction Bank of China

## REGISTERED OFFICE

P.O. Box 1043, Ground Floor,  
Caledonian House, Mary Street,  
George Town,  
Grand Cayman, Cayman Islands,  
British West Indies.

## PRINCIPAL OFFICE

16/F., Far East Consortium Building,  
121 Des Voeux Road Central,  
Hong Kong.

## SHARE REGISTRARS

Standard Registrars Limited  
G/F, BEA Harbour View Centre,  
56 Gloucester Road,  
Wanchai,  
Hong Kong.

## LISTING INFORMATION

Ordinary Shares (Code: 035)  
The Stock Exchange of Hong Kong  
Limited

## WEBSITE

<http://www.fareastconsortium.com.hk>

## HIGHLIGHTS

- Turnover was HK\$383,586,000, an increase of 6.7% over the corresponding period in 2003.
- Net profit for the period was HK\$268,288,000, an increase of 530% over the corresponding period in 2003.
- Basic earning per share increased by 400% to HK23 cents as at 30th September, 2004.
- Interim dividend of HK3 cents per share for the six months period ended 30th September, 2004 was declared by the Board of Directors.
- Net increase in cash for the six months period ended 30th September, 2004 was HK\$114,062,000.

## OUTLOOK

1. Five new hotels with over 1,200 rooms scheduled to commence operations in the next twelve months.
2. Target to sell 1,000 units of California Garden before the end of December 2005.
3. Expect to begin construction work of Macau project in May 2005 and target to complete and commence business of Phase I in mid-2007.

# DEPUTY CHAIRMAN'S AND CHIEF EXECUTIVE OFFICER'S STATEMENT

## INTERIM RESULTS

The Board of Directors of Far East Consortium International Limited (the “Company”) is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30th September, 2004. The unaudited interim financial results have been reviewed by the Company’s audit committee.

## INTERIM DIVIDEND

The Directors declare an interim dividend for the six months ended 30th September, 2004 of HK3 cents (six months ended 30th September, 2003: HK2 cents) per share to shareholders whose names appear on the Company’s Register of Members on 12th January, 2005 amounting to approximately HK\$35 million. The interim dividend will take the form of a scrip dividend with shareholders being given an option to elect to receive cash in lieu of all or part of their scrip dividend entitlements (“Scrip Dividend Scheme”).

The Scrip Dividend Scheme will be subject to The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) granting listing of and permission to deal in the new shares to be allotted thereunder. For the purpose of determining the number of new shares to be allotted, the market value of new shares will be calculated as the average of the closing prices of the existing shares of the Company on the Stock Exchange for the five trading days prior to and including 12th January 2005. Full details of the Scrip Dividend Scheme will be set out in a circular to shareholders together with a form of election on or about 17th January, 2005. The relevant dividend warrants or new share certificates will be posted on or about 21st February, 2005.

## BOOK CLOSE PERIOD

The register of members of the Company will be closed from Monday, 10th January, 2005 to Wednesday, 12th January, 2005, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company’s share registrars, Standard Registrars Limited of G/F, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration not later than 4:00 p.m. on Friday, 7th January, 2005.

## **CORPORATE OVERVIEW**

For the six months period ended 30th September 2004, the Group achieved a good start with a net profit of approximately HK\$268 million, an increase of 530% over the comparable period in the financial year of 2004. This successful achievement attributed from both increase of revenues via property sales during the period and strong demand of hotel accommodation in Hong Kong. In this regard, the Board of Directors (the “Board”) has declared an interim dividend of HK3 cents for the financial year 2005.

The Group remains well positioned in the hotel industry and property development market and pursues to accomplish three milestones over the next twelve-month period till the end of December 2005.

Firstly, the Group expects to add over 1,200 rooms to its hotel portfolio. According to present development plan, the Group will have the following hotels commenced operations:

- Cosmopolitan Hotel, soft opening by the end of December 2004;
- Dorsett Olympia Hotel, proposed to be opened in March 2005;
- Dorsett Hollywood Hotel, proposed to be opened in March 2005;
- Kau U Fong, a boutique hotel, proposed to be opened in November 2005; and
- Far East Plaza, a service apartment building to be converted as a hotel, proposed to be opened in December 2005.

Taking into account of its two existing hotels, Dorsett Seaview Hotel in Hong Kong and Dorsett Regency Hotel in Kuala Lumpur, Malaysia, the Group will establish itself as one of the leading 3-4 star hotel operators in Hong Kong with over 1,800 rooms to be in operations. With the introduction of Closer Economic Participation Arrangement (“CEPA”), the hotel industry in Hong Kong is greatly benefited from increase in demand of accommodation. The Board anticipates a significant increase in the profit contribution from our hotel division as all five new hotels commenced operations.

Secondly, with the anticipated inaugural opening of subway station at California Garden, Shanghai, by the end of 2006, the management decides to launch around 1,000 units, both commercial and residential, for sale of California Garden before the end of December 2005 as compare to annual sale of 300 to 400 units in previous years. This will be the largest launch of sales in the development history of California Garden. The management remains positive in the development of middle-class property in China. Given the set up of skilled and experienced property team in mainland, the management is confident in undertaking new property developments in mainland.

Thirdly, the Group further affirmed its interests in the Macau project with Venetian Group (“Venetian”) from Las Vegas, USA, by signing of a Memorandum of Agreement (“MOA”) dated 3rd December 2004. The Group plans to develop a site located at Cotai, Macau with a total gross floor area of three million square feet. The Macau project is divided into two phases. Subject to successful conclusion of definitive documents with Venetian and the Macau Government, the Group targets to begin construction work in May 2005. Upon the completion and commencement of business of Phase I in mid-2007, the Group will have a shopping and entertainment complex of approximately one million square feet, including hotels with no less than 2,000 rooms and a casino/showroom shell of approximately 140,000 square feet. The casino/showroom shell will be leased to Venetian which will operate a casino and related activities. Upon the completion of Phase II, the Group will have an additional 1,000 rooms. The Group will not involve in gaming operation in this complex. With significant economic growth in Macau, the management strongly believes that this project will enhance our future growth.

We will continue to cultivate our future growth based on two principal businesses and dispose of non-core investment assets in Hong Kong and overseas. The first one is to continue develop affordable quality housing in China aiming at middle class as our primary targeted customers. Our second principal business is to develop and operate 3-star to 4-star hotels in Hong Kong and Macau so as to capitalize the opportunity of increasing demand from mainland’s travelers in the region.

## BUSINESS REVIEW

### 1. Property Development Division

#### China

Despite the announcement of austerity measures by the central government in May 2004, the Group remains positive in China's middle-class property market and continuously exploring and assessing good return investment opportunities in property development in several major cities of mainland. California Garden, our property development project in Shanghai, will be one of the main revenue contributors for the Group over the next few years. In addition, our two property development projects in Guangzhou, New Time Plaza and Huadiwan, are scheduled to be completed in 2007 and 2008, respectively. Guangzhou will be one of our key focused cities for property development in China.

#### Hong Kong

The Group does not maintain a significant land reserve and will only acquire land to satisfy its specific project requirements. During the financial period, the Group had three property development projects, namely Bakerview, Clear Water Bay Knoll and Art Del Sol launched for sales. Within the next three months, Terra Nova in Sai Kung is expected to be launched for pre-sale.

#### Australia

The Group has two luxury residential development projects in Melbourne, namely Flinders Wharf and Royal Domain Tower. The Group has a 47.5% interest in Flinders Wharf, of which approximately 90% of the units have been sold. The construction of Royal Domain Tower is expected to be completed in early 2006. Up to the end of the first six-month period, approximately 45% of the units have been sold. The Group has a 90% interest in the Royal Domain Tower project.



## **2. Hotel Division**

With the relaxation of tourist visa approvals for the mainland's travelers under CEPA, our hotel operations in Hong Kong achieved an average occupancy rate of over 90% for the period under review. Furthermore, our hotels marked a double-digit increase in room rates for the period.

Given the fact that the Group will have five new hotels, with over 1,200 rooms, commencing operations within the next twelve months, the profit contribution from our hotel division is expected to have a significant increase.

## **SIGNIFICANT EVENTS**

- (a) On 13th April, 2004, the Company completed the US\$67 million convertible bond issue. The purpose of the issue was for the repayment of existing loans and the general working capital. Based on the adjusted conversion price of HK\$2.20, the convertible bonds are convertible into approximately 237,271,993 shares of HK\$0.1 each in the share capital of the Company.
- (b) The Company proposed to issue zero coupon convertible bonds due 2009 convertible into ordinary shares of the Company. Details of this transaction are set out in the Company's announcements on 10th November 2004 and 26th November 2004.
- (c) During the period, the Group sold Far East Bank Mongkok Building at a cash consideration of HK\$469 million; a gain of approximately HK\$268 million was recognised on such disposal.
- (d) On the other hand, the Group paid HK\$118 million to acquire an office building located at 263 Hollywood Road which is approved to be converted into a hotel with 141 rooms. The conversion work is expected to be completed by March 2005.

## FINANCIAL RESOURCES AND LIQUIDITY

### Borrowings and charge on Group assets

As at 30th September 2004, the Group had total borrowings of approximately HK\$2,126 million, which are shown in details as followings:

	<b>30.9.2004</b> <b>(Unaudited)</b> <b>HK\$'000</b>	<b>31.3.2004</b> <b>(Audited)</b> <b>HK\$'000</b>
Bank and other borrowings – current portion		
Secured	<b>291,318</b>	290,719
Unsecured	<b>175,705</b>	171,258
Total bank and other borrowings – current portion	<b><u>467,023</u></b>	<b><u>461,977</u></b>
Bank and other borrowings – non current portion		
Secured	<b>1,149,867</b>	1,144,691
Unsecured	–	60,000
Convertible bonds (after deducting the amortised issue costs and premium on redemption)	<b><u>509,016</u></b>	<u>–</u>
Total borrowings – non current portion	<b><u>1,658,883</u></b>	<b><u>1,204,691</u></b>

Except for the convertible bonds issued in US dollars in April 2004, the Group's borrowings are primarily denominated in Hong Kong dollars.

## Contingencies and Commitments

### Contingencies

At the reporting date, contingent liabilities of the Groups were as follows:

- (a) The Group has given guarantees to secure banking and other facilities granted to an investee company amounting to approximately HK\$64,185,000 (31.3.2004: HK\$64,185,000).
- (b) The Group has given guarantees in respect of mortgage loans provided to the home buyers of a property project in the PRC. The total amount of mortgages outstanding which were subject to these guarantees was approximately HK\$153,362,000 (31.3.2004: HK\$35,537,000).
- (c) In previous years, a subsidiary, Zhongshan Development Limited (“ZDL”), was sued by two consultants providing management, consulting and advisory service concerning business strategy and corporate finance activities of ZDL. The two consultants entered into a consulting contract with ZDL in 1999 in lieu of cash for service rendered. The two consultants alleged that ZDL fraudulently misrepresented and concealed material facts regarding the proposed investment from them and claimed for compensation of damages amounting to approximately HK\$5,843,000. Moreover, the two consultants also alleged that ZDL owed them salaries, payment in lieu of notice for early termination of the contract and reimbursement for expenses regarding the contract of employment as the board of directors of ZDL amounting to approximately HK\$5,865,000. Motion of dismiss was filed to the United States court and the claim is still in progress. While the outcome of these proceedings cannot be estimated with certainty at this stage, based on independent legal advice obtained, the directors are of the opinion that the outcome of this case would not have a material adverse impact on the financial position of the Group.

## Commitments

At the balance sheet date:

	<b>30.9.2004</b> <b>(unaudited)</b> <b>HK\$'000</b>	<b>31.3.2004</b> <b>(audited)</b> <b>HK\$'000</b>
Contracted but not provided for in respect of:		
Property development projects	<u>378,283</u>	<u>560,558</u>
Authorised but not contracted for in respect of:		
Property development projects	<b>202,445</b>	212,936
Hotel refurbishment and upgrade	<b>136,263</b>	133,415
Jointly controlled property development project	<u>25,200</u>	<u>—</u>
	<u><b>363,908</b></u>	<u>346,351</u>
	<u><b>742,191</b></u>	<u>906,909</u>

## **Gearing ratio**

The gearing ratio (total bank and other borrowings to shareholders' equity) for 30th September, 2004 increased to 73% compares to 61% for 31st March, 2004.

## **Current ratio**

The current ratio as at 30th September, 2004 was 1.98 (31.3.2004: 1.43). The Group has maintained sufficient liquid assets to finance its operation.

## **Exchange rate**

The Group was not exposed to material exchange rates fluctuations during the period.

### **Pledge of assets**

- (a) The Group's properties, bank deposits and investments in securities with an aggregate carrying amount of approximately HK\$2,763,234,000 (31.3.2004: HK\$2,603,798,000), HK\$3,948,000 (31.3.2004: HK\$5,539,000) and HK\$2,334,000 (31.3.2004: HK\$2,334,000), respectively, together with properties of associates and third parties were mortgaged or pledged to the Group's bankers and loan creditors to secure banking and loan facilities granted to the Group and its associates to the extent of approximately HK\$2,129,216,000 (31.3.2004: HK\$2,021,216,000) and HK\$5,000,000 (31.3.2004: HK\$5,000,000), respectively.

The Group's bank deposits of approximately HK\$2,800,000 (31.3.2004: HK\$2,945,000) were pledged to a Group's banker to secure a guarantee given by the banker in favour of certain subsidiaries of the Company.

- (b) The Group's listed investments in securities of approximately HK\$32,132,000 (31.3.2004: HK\$37,517,000) were pledged to the Group's financial institutions to secure the Group's margin trading facilities in respect of securities transactions to the extent of approximately HK\$7,800,000 (31.3.2004: HK\$7,800,000), of which HK\$2,520,000 (31.3.2004: HK\$2,411,000) were utilised.
- (c) The Group had entered into agreements with certain banks in respect of mortgage loans provided to house buyers of property projects in the PRC. In accordance with those agreements, the Company deposits either 10% of the consideration of the properties sold and financed under the mortgage loans or between 10% and 20% of the amount of financing provided as a guarantee for settlement of the mortgage installments. Should mortgagors fail to pay mortgage installments, the banks can draw down the deposits up to the amount of mortgage installments not paid during the period from the mortgage drawdown date to the date of release of such guarantees. The guarantees will be released when property title deeds are passed to the banks as security for the respective mortgage loans as at 30th September, 2004, the Group placed bank deposits of approximately HK\$7,330,000 (31.3.2004: Nil) under the above guarantees.

- (d) Interests in certain subsidiaries have been pledged as part of the security in respect of certain bank borrowings granted to the Group and its subsidiaries.
- (e) The Group has subordinated its amounts due from investee companies with carrying amount of approximately HK\$119,995,000 (31.3.2004: HK\$119,995,000) to a financial institution to secure general credit facility granted to the investee companies.

#### **POST BALANCE SHEET EVENTS**

- (a) On 2nd October, 2004, the Group entered into a sale and purchase agreement with an independent third party for the disposal of entire interest in Dorsett Garden Hotel at a consideration of approximately HK\$140.2 million. The transaction is scheduled to be completed on or before 28th December, 2004. Details of this transaction are set out in the Company's circular dated 2nd November, 2004.
- (b) On 9th November, 2004, the Company entered into a subscription agreement with Deutsche Bank for the issue of zero coupon convertible bonds ("New Convertible Bonds") with an initial aggregate principal amount of approximately HK\$656 million and with an option to require the Company to issue a further aggregate principal amount of approximately HK\$98.4 million, for the expansion of the Group's business in property development hotel operation and general working capital purposes. The New Convertible Bonds are convertible into approximately 184,000,000 shares of HK\$0.1 each in the Company at an initial conversion price of HK\$4.1 per share, subject to adjustment. The New Convertible Bonds will be applied for listing on The Stock Exchange of Hong Kong Limited. Details of this transaction are set out in the Company's announcement dated 10th November, 2004.

- (c) Subsequent to 30th September, 2004, approximately US\$52.4 million (equivalent to approximately HK\$408.2 million) aggregated principal amount of the Convertible Bonds, which was issued in April 2004, has been converted into ordinary shares of the Company. Accordingly, the share capital and reserves of the Company have been increased by approximately HK\$18.6 million and HK\$389.6 million, respectively.

### **EMPLOYEE AND REMUNERATION POLICIES**

The number of employees of the Group as at 30th September, 2004 was approximately 1,500. Employees were remunerated according to nature of the job and market conditions. The Group has not adopted any training scheme for the employees during the interim period.

The Company had adopted a new share option scheme on 28th August, 2002 in line with the amended Chapter 17 (Share Option Scheme) of 1st September, 2001 of the Listing Rules of The Stock Exchange of Hong Kong Limited.

# ADDITIONAL INFORMATION REQUIRED UNDER THE LISTING RULES

## DISCLOSURE OF INTERESTS

As at 30th September, 2004, the interests and short positions of the directors in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance (the “SFO”)) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

### (a) Directors’ Interests in Shares and Underlying Shares of the Company

Name of Director	Number of ordinary shares held			Percentage of issued share capital of the Company
	Personal interests	Corporate interests	Total	
Deacon Te Ken Chiu	10,164,123	111,999,864 ( <i>Note 1</i> )	122,163,987	10.34%
David Chiu	618,302	305,420,646 ( <i>Note 2</i> )	306,038,948	25.91%
Dennis Chiu	8,245	4,989,142 ( <i>Note 3</i> )	4,997,387	0.42%
Ching Lan Ju Chiu	1,162,351	–	1,162,351	0.10%
Dick Tat Sang Chiu	808,491	–	808,491	0.07%
Daniel Tat Jung Chiu	38,026	3,877,218 ( <i>Note 4</i> )	3,915,244	0.33%

*Notes:*

1. These shares are held by various companies controlled by Mr. Deacon Te Ken Chiu.
2. These shares are held by Sumptuous Assets Limited, a company controlled by Dato’ David Chiu and including the lending of 71,274,271 shares.
3. These shares are held by Chiu Capital N.V., a company controlled by Mr. Dennis Chiu and First Level Holdings Limited, a company controlled by Mr. Dennis Chiu and Mr. Daniel Tat Jung Chiu.



4. These shares are held by First Level Holdings Limited, a company controlled by Mr. Dennis Chiu and Mr. Daniel Tat Jung Chiu and are entirely duplicated and included in the corporate interests of Mr. Dennis Chiu.

**(b) Directors' Interests in Shares and Underlying Shares of Associated Corporations**

<b>Name of Director</b>	<b>Name of associated corporation</b>	<b>Number of ordinary shares held</b>
David Chiu	Oi Tak Enterprises Limited	250,000

All the interests disclosed in sections (a) & (b) above represent long position in the share or underlying shares of the Company or associated corporations.

Save as disclosed above, none of the directors had any interests or short positions in any shares, underlying shares and debentures of the company or associated corporations.

**(c) Shares Options of the Company**

The Company adopted a new share option scheme on 28th August, 2002 (the "New Share Option Scheme") and terminated the old share option scheme adopted on 28th September, 2000 (the "Old Scheme") in line with the amended Chapter 17 of the Listing Rules of 1st September 2001. No options were granted, exercised or lapsed under the Old Scheme.

Pursuant to the New Share Option Scheme, the Company may grant options to any employees, executive or directors (including executive and non-executive) of the Company or any of its subsidiaries and any business consultants, agents, financial or legal advisers or other suppliers of goods or services of the Company or any of its subsidiaries (collectively referred to as "Eligible Participants") subject to a maximum of 10% of the issued share capital of the Company from time to time.

The purpose of these share option schemes is to enable the Company to grant option to Eligible Participants as incentives and rewards for their contribution or future contribution to the success and/or growth of the Company or any of its subsidiaries.

Summary of the New Share Option Scheme is set out below.

#### The New Share Option Scheme

Details of the grant of share options and a summary of the movements of the outstanding share options during the period were as follows:–

Name of Employee	Date of grant (dd/mm/yyyy)	Exercise Price (HK\$)	Number of Options Granted	Exercise Period (dd/mm/yyyy)
Denny Chi Hing Chan	21/10/2004	2.075	1,200,000	01/11/2004 – 31/12/2010
			1,400,000	01/01/2006 – 31/12/2010
			1,600,000	01/01/2007 – 31/12/2010
			1,800,000	01/01/2008 – 31/12/2010
			2,000,000	01/01/2009 – 31/12/2010
			<b>Total</b>	<b>8,000,000</b>
Bil Kwai Pui Mok	21/10/2004	2.075	1,200,000	01/04/2005 – 31/12/2010
			1,400,000	01/01/2006 – 31/12/2010
			1,600,000	01/01/2007 – 31/12/2010
			1,800,000	01/01/2008 – 31/12/2010
			2,000,000	01/01/2009 – 31/12/2010
			<b>Total</b>	<b>8,000,000</b>
Other employees	21/10/2004	2.075	1,650,000	01/11/2004 – 31/12/2010
			100,000	01/01/2005 – 31/12/2010
			2,325,000	01/01/2006 – 31/12/2010
			2,975,000	01/01/2007 – 31/12/2010
			3,475,000	01/01/2008 – 31/12/2010
			3,975,000	01/01/2009 – 31/12/2010
			<b>Total</b>	<b>14,500,000</b>

*Notes:*

1. The closing price of the Company immediately before the options granted on 21st October 2004 was HK\$2.075.
2. No share options were exercised and cancelled under the New Share Option Scheme during the period 31st March 2004 to 30th September 2004.

**(d) Substantial shareholders**

As at 30th September 2004, the register of interests in shares or short positions kept under Section 336 of the SFO showed that, other than the interests of directors as set out above, the following shareholders were interested in 5% or more of the issued share capital of the Company:

	Nature of interests	No. of ordinary shares held		% of issued share capital
J.P. Morgan Chase & Co. ("JPMC")	Long Position	92,441,347	(i)	7.83%
Deutsche Bank	Long Position	72,363,979	(ii)	6.13%
Aktiengesellschaft ("DBA")	Short Position	51,705,000		4.38%

*Notes:*

- (i) According to the notice to the Company from JPMC, as at 30th September 2004, JPMC held 3,569,347 shares in the Company as a beneficial owner through its 100% controlled corporations, namely J.P. Morgan Whitefriars Inc, J.P. Morgan Overseas Capital Corporation, J.P. Morgan International Finance Limited, J.P. Morgan International Inc. and JP Morgan Chase Bank. 66,872,000 shares were held as an investment manager through JPMC's 100% controlled corporation, namely, J.P. Morgan Fleming Asset Management (Asia) Inc. and JF Asset Management Limited, its 99.99% controlled corporation.

22,000,000 shares were held in the lending pool by JPMC's 100% controlled corporation, JP Morgan Chase Bank in the capacity of an approved lending agent.

- (ii) 68,585,979 shares were held in the capacity of beneficial owner and 3,778,000 shares were held as a security interest in shares.

Save as disclosed herein, the Company has not been notified of any other person (other than a director or chief executive of the Company) who had an interest or a short position 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 as at 30th September 2004.

### **PURCHASE, SALE OR REDEMPTION OF LISTING SECURITIES**

During the period under review, the Company and its subsidiaries have not purchased, sold or redeemed any of the Company's listed securities.

### **AUDIT COMMITTEE**

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters, including a review of the unaudited condensed accounts for the six months ended 30th September 2004 approved by the Directors.

### **CODE OF BEST PRACTICE**

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months period ended 30th September, 2004, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

By order of the Board

**DAVID CHIU**

*Deputy Chairman and Chief Executive Officer*

9th December, 2004

*As at the date of this report, the executive directors of the Company are Mr. Deacon Te Ken Chiu, Dato' David Chiu, Mr. Craig Grenfell Williams, Mr. Dennis Chiu; the non-executive directors are Ms. Ching Lan Ju Chiu, Mr. Dick Tat Sang Chiu, Mr. Daniel Tat Jung Chiu; the independent non-executive directors are Datuk Kee Leong Chee, Mr. David Kwok Kwei Lo and Mr. Jian Yin Jiang.*

# CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th September, 2004

		<b>Six months ended</b>	
		<b>30.9.2004</b>	<b>30.9.2003</b>
		<b>(unaudited)</b>	<b>(unaudited)</b>
	<b>NOTE</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Turnover	3	<b>383,586</b>	359,421
Cost of sales		<b>(291,850)</b>	(243,986)
Gross profit		<b>91,736</b>	115,435
Other operating income		<b>5,643</b>	8,044
Selling and distribution costs		<b>(3,176)</b>	(7,944)
Administrative expenses		<b>(64,678)</b>	(59,164)
Other operating expenses		–	(2,087)
Unrealised holding gain on investments in securities		<b>504</b>	3,027
Profit on disposal of an investment property	8	<b>267,721</b>	–
Revaluation decrease of investment properties		<b>(8,673)</b>	–
Amortisation of goodwill arising on acquisition of associates		<b>(291)</b>	–
Amortisation of negative goodwill		<b>3,847</b>	3,847
Profit on disposal of subsidiaries		–	5,676
Share of results of associates		<b>2,709</b>	2,992
Share of results of a jointly controlled entity		<b>56</b>	381
Finance costs		<b>(17,784)</b>	(15,698)
Profit before taxation	4	<b>277,614</b>	54,509
Taxation	5	<b>(8,015)</b>	(11,298)
Profit before minority interests		<b>269,599</b>	43,211
Minority interests		<b>(1,311)</b>	(648)
Profit for the period		<b>268,288</b>	42,563
Dividends	6	<b>35,440</b>	23,212
Earnings per share	7		
– Basic		<b>23.0 cents</b>	4.6 cents
– Diluted		<b>19.4 cents</b>	N/A

# CONDENSED CONSOLIDATED BALANCE SHEET

At 30th September, 2004

		30.9.2004 (unaudited) <i>HK\$'000</i>	31.3.2004 (audited) <i>HK\$'000</i>
	<i>NOTE</i>		
<b>Non-current assets</b>			
Investment properties	8	944,599	1,064,481
Property, plant and equipment	8	1,207,299	1,207,384
Properties under development	8	735,793	539,936
Negative goodwill		(26,927)	(30,774)
Interests in associates		156,468	154,502
Interest in a jointly controlled entity		72,586	72,530
Investments in securities	9	110,622	108,321
Amounts due from associates		141,503	126,779
Amounts due from investee companies		119,995	119,995
Amount due from a minority shareholder		563	563
Loans receivable		312,060	304,969
Pledged bank deposits		2,800	2,945
		<u>3,777,361</u>	<u>3,671,631</u>
<b>Current assets</b>			
Inventories		5,031	2,024
Completed properties for sale – at cost		168,511	188,414
Properties under development for sale	8	654,678	485,277
Investments in securities	9	147,572	7,511
Loans receivable		651	651
Debtors, deposits and prepayments	10	613,503	409,123
Amounts due from associates		1,014	20,827
Taxation recoverable		8,361	8,292
Pledged bank deposits		11,278	5,539
Bank balances and cash		232,311	138,998
		<u>1,842,910</u>	<u>1,266,656</u>

# CONDENSED CONSOLIDATED BALANCE SHEET

At 30th September, 2004

		30.9.2004 (unaudited) <i>HK\$'000</i>	31.3.2004 (audited) <i>HK\$'000</i>
	<i>NOTE</i>		
<b>Current liabilities</b>			
Creditors and accruals	11	323,050	265,732
Customers' deposits received		17,285	16,169
Amounts due to directors		11,390	11,600
Amounts due to related companies		18,165	29,947
Amounts due to associates		25,485	24,793
Taxation payable		69,527	74,831
Obligations under finance leases		550	200
Bank and other borrowings	12	467,023	461,977
		<u>932,475</u>	<u>885,249</u>
<b>Net current assets</b>		<u>910,435</u>	<u>381,407</u>
		<u>4,687,796</u>	<u>4,053,038</u>
<b>Capital and reserves</b>			
Share capital	13	118,133	116,846
Reserves		2,777,870	2,606,168
		<u>2,896,003</u>	<u>2,723,014</u>
<b>Minority interests</b>		<u>9,922</u>	<u>8,839</u>
<b>Non-current liabilities</b>			
Obligations under finance leases		339	18
Bank and other borrowings	12	1,149,867	1,204,691
Convertible bonds	14	509,016	—
Amounts due to minority shareholders		47,193	41,020
Amount due to a jointly controlled entity		7,734	7,734
Deferred taxation		67,722	67,722
		<u>1,781,871</u>	<u>1,321,185</u>
		<u>4,687,796</u>	<u>4,053,038</u>

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th September, 2004

	Share capital HK\$ '000	Share premium HK\$ '000	Capital redemption reserve HK\$ '000	Other reserve HK\$ '000	Special reserve HK\$ '000	Exchange reserve HK\$ '000	Assets revaluation reserve HK\$ '000	Investment properties revaluation reserve HK\$ '000	Investment revaluation reserve HK\$ '000	Retained profits HK\$ '000	Total HK\$ '000
At 1st April, 2003	98,513	663,711	253	169,352	869,357	(126,399)	297,139	55,975	(64,535)	334,586	2,297,952
Revaluation increase	-	-	-	-	-	-	-	-	13,479	-	13,479
Share of movement in associate's reserve during the period	-	-	-	-	-	(89)	-	-	-	-	(89)
Exchange difference on translation of overseas operations	-	-	-	-	-	17,097	-	-	-	-	17,097
Net gains not recognised in the income statement	-	-	-	-	-	17,008	-	-	13,479	-	30,487
Shares issued at premium	16,500	181,500	-	-	-	-	-	-	-	-	198,000
Shares issued pursuant to scrip dividend scheme	1,048	-	-	-	-	-	-	-	-	-	1,048
Shares issue expenses	-	(4,581)	-	-	-	-	-	-	-	-	(4,581)
Credit arising on scrip dividend	-	10,184	-	-	-	-	-	-	-	-	10,184
Profit for the period	-	-	-	-	-	-	-	-	-	42,563	42,563
Dividends paid	-	-	-	-	-	-	-	-	-	(19,703)	(19,703)
At 30th September, 2003	116,061	850,814	253	169,352	869,357	(109,391)	297,139	55,975	(51,056)	357,446	2,555,950
Revaluation increase (decrease)	-	-	-	-	-	-	13,445	(2,229)	11,093	-	22,309
Deferred tax liabilities arising on revaluation of properties	-	-	-	-	-	-	30,138	-	-	-	30,138
Share of movement in associate's reserves during the period	-	-	-	-	-	(9,678)	-	10,750	-	-	1,072
Exchange difference on translation of overseas operations	-	-	-	-	-	16,556	-	-	-	-	16,556
Net gains not recognised in the income statement	-	-	-	-	-	6,878	43,583	8,521	11,093	-	70,075
Shares issued pursuant to scrip dividend scheme	785	-	-	-	-	-	-	-	-	-	785
Credit arising on scrip dividend	-	12,969	-	-	-	-	-	-	-	-	12,969
Profit for the period	-	-	-	-	-	-	-	-	-	106,447	106,447
Dividends paid	-	-	-	-	-	-	-	-	-	(23,212)	(23,212)
At 31st March, 2004	116,846	863,783	253	169,352	869,357	(102,513)	340,722	64,496	(39,963)	440,681	2,723,014
Revaluation increase (decrease)	-	-	-	-	-	-	-	2,327	(5,433)	-	(3,106)
Exchange difference on translation of overseas operations	-	-	-	-	-	(11,520)	-	-	-	-	(11,520)
Net gains (losses) not recognised in the income statement	-	-	-	-	-	(11,520)	-	2,327	(5,433)	-	(14,626)
Realised on disposal of an investment property	-	-	-	-	-	-	-	(75,496)	-	-	(75,496)
Reversal of revaluation deficit previously charged to investment properties revaluation reserve	-	-	-	-	-	-	-	8,673	-	-	8,673
Shares issued pursuant to scrip dividend scheme	1,287	-	-	-	-	-	-	-	-	-	1,287
Credit arising on scrip dividend	-	19,917	-	-	-	-	-	-	-	-	19,917
Profit for the period	-	-	-	-	-	-	-	-	-	268,288	268,288
Dividends paid	-	-	-	-	-	-	-	-	-	(35,054)	(35,054)
At 30th September, 2004	118,133	883,700	253	169,352	869,357	(114,033)	340,722	-	(45,396)	673,915	2,896,003



# CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th September, 2004

		Six months ended 30.9.2004 (unaudited) HK\$'000	30.9.2003 (unaudited) HK\$'000
	NOTE		
<b>Net cash from (used in) operating activities</b>		<b>139,166</b>	<b>(107,641)</b>
<b>Investing activities</b>			
Purchase of properties under development		(207,576)	(63,121)
Purchase of investments in securities		(147,337)	–
Purchase of subsidiaries, net of cash and cash equivalents acquired	15	(118,000)	–
Purchase of property, plant and equipment		(32,991)	(17,270)
Purchase of investment properties		(2,185)	(18,414)
Purchase of additional interests in subsidiaries		–	(5,257)
Proceeds from disposal of an investment property		46,880	–
Proceeds from disposal of subsidiaries, net of cash and cash equivalents disposed of		–	22,430
Proceeds from disposal of investments in securities		–	5,015
Advance of loans receivable		(11,091)	(14,277)
Increase in pledged bank deposits		(5,739)	(2,416)
Advance to associates		–	(9,095)
Dividends received from associates		–	1,810
Repayment from investee companies		–	82
Interest received		765	515
<b>Net cash used in investing activities</b>		<b>(477,274)</b>	<b>(99,998)</b>
<b>Financing activities</b>			
Proceeds from issue of convertible bonds, net of issue expenses		506,848	–
Proceeds from issue of shares, net of issue expenses		–	193,419
New bank and other borrowings raised		154,773	125,404
Repayment of bank and other borrowings		(186,550)	(13,400)
Repayment of obligations under finance leases		(328)	(219)
Advance from (repayment to) a director		6,565	(7,871)
Dividends paid		(13,850)	(8,471)
Interest paid		(15,288)	(10,946)

# CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th September, 2004

	Six months ended	
	30.9.2004	30.9.2003
	(unaudited)	(unaudited)
NOTE	HK\$'000	HK\$'000
Net cash from financing activities	<u>452,170</u>	<u>277,916</u>
Net increase in cash and cash equivalents	114,062	70,277
Cash and cash equivalents at beginning of the period	119,426	55,166
Effect of foreign exchange rate changes	<u>(2,748)</u>	<u>992</u>
Cash and cash equivalents at end of the period	<u><u>230,740</u></u>	<u><u>126,435</u></u>
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	232,311	137,593
Bank overdrafts	<u>(1,571)</u>	<u>(11,158)</u>
	<u><u>230,740</u></u>	<u><u>126,435</u></u>

# NOTES TO THE CONDENSED FINANCIAL STATEMENTS

*For the six months ended 30th September, 2004*

## **1. BASIS OF PREPARATION**

The condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice No. 25 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and with applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Comparative figures of other operating income, other operating expenses, amortisation of negative goodwill and share of results of a jointly controlled entity shown in the condensed consolidated income statement have been reclassified so as to conform with the presentation of the current period.

## **2. PRINCIPAL ACCOUNTING POLICIES**

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties and investments in securities.

The accounting policies adopted are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31st March, 2004.

## **3. TURNOVER AND SEGMENT INFORMATION**

### **Business segments**

For management purposes, the Group is currently organised into five operating divisions – property development and investment, hotel operations, securities investment, industrial, and treasury. These divisions are the basis on which the Group reports its primary segment information.

# NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30th September, 2004

Segment information about these businesses is presented below:

	Turnover		Segment results	
	Six months ended		Six months ended	
	30.9.2004	30.9.2003	30.9.2004	30.9.2003
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By principal activity:				
Property development and investment	189,660	321,589	275,409	55,471
Hotel operations	24,450	17,481	7,526	2,605
Securities investment	145,247	5,045	6,290	3,984
Industrial	15,703	13,350	(2,012)	(859)
Treasury	8,526	1,956	3,143	(528)
Others	—	—	(1,278)	570
	<u>383,586</u>	<u>359,421</u>	<u>289,078</u>	<u>61,243</u>
Unallocated corporate expenses			—	(3,932)
Amortisation of goodwill arising on acquisition of associates			(291)	—
Amortisation of negative goodwill			3,847	3,847
Profit on disposal of subsidiaries			—	5,676
Share of results of associates			2,708	2,992
Share of results of a jointly controlled entity			56	381
Finance costs			(17,784)	(15,698)
Profit before taxation			<u>277,614</u>	<u>54,509</u>

# NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30th September, 2004

## 4. PROFIT BEFORE TAXATION

	Six months ended	
	30.9.2004	30.9.2003
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Profit before taxation has been arrived at after charging:		
Depreciation on property, plant and equipment	3,310	4,490
Amortisation of investment in a jointly controlled entity (included in share of results of a jointly controlled entity)	1,452	1,452
and after crediting:		
Interest income	765	515
Dividend income from listed investments	570	301
Profit on disposal of property, plant and equipment	—	633
	<u>          </u>	<u>          </u>

## 5. TAXATION

	Six months ended	
	30.9.2004	30.9.2003
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
The charge comprises:		
Current tax:		
Hong Kong	1,029	1,269
Other regions in the People's Republic of China ("PRC")	6,261	9,132
Other jurisdictions	273	296
	<u>          </u>	<u>          </u>
Taxation attributable to the Company and its subsidiaries	7,563	10,697
Share of taxation attributable to associates	452	601
	<u>          </u>	<u>          </u>
	<u>8,015</u>	<u>11,298</u>

# NOTES TO THE CONDENSED FINANCIAL STATEMENTS

*For the six months ended 30th September, 2004*

## 6. DIVIDENDS

	<b>Six months ended</b>	
	<b>30.9.2004</b>	30.9.2003
	<b>(unaudited)</b>	(unaudited)
	<b>HK\$'000</b>	HK\$'000
Final dividend paid in respect of 2004 – HK3 cents (2003: HK2 cents) per share:		
Cash	<b>13,850</b>	8,471
Share alternative under scrip dividend scheme	<b>21,204</b>	11,232
	<b><u>35,054</u></b>	<u>19,703</u>

The directors declare the payment of interim dividend of HK3 cents per share for the six months ended 30th September, 2004 (six months ended 30.9.2003: HK2 cents per share), amounting to approximately HK\$35,440,000 (six months ended 30.9.2003: HK\$23,212,000).

# NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30th September, 2004

## 7. EARNINGS PER SHARE

The calculation of the basis and diluted earnings per share is based on the following data:

	<b>Six months ended</b>	
	<b>30.9.2004</b>	<b>30.9.2003</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Earnings:		
Earnings for the purpose of basic earnings per shares	<b>268,288</b>	42,563
Effect of dilutive potential ordinary shares		
– premium on redemption of convertible bonds	<b>1,789</b>	N/A
Earnings for the purpose of diluted earnings per share	<b>270,077</b>	N/A
	<b>Number</b>	<b>Number</b>
	<b>of shares</b>	<b>of shares</b>
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>1,168,527,899</b>	935,071,986
Effect of dilutive potential ordinary shares		
– convertible bonds	<b>220,416,606</b>	N/A
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b>1,388,944,505</b>	N/A

# NOTES TO THE CONDENSED FINANCIAL STATEMENTS

*For the six months ended 30th September, 2004*

## **8. INVESTMENT PROPERTIES, PROPERTY, PLANT AND EQUIPMENT AND PROPERTIES UNDER DEVELOPMENT**

During the period, the Group disposed of an investment property with a carrying amount of approximately HK\$272 million, resulting in a profit on disposal of approximately HK\$268 million which has been recognised in the income statement.

The Group purchased investment properties with an aggregate carrying amount of approximately HK\$118 million through acquisition of two subsidiaries (note 15). The Group also transferred certain properties with carrying amount of approximately HK\$31 million from property, plant and equipment to investment properties. Such investment properties were revalued by an independent professional valuer on the date of transfer, resulting in a revaluation increase of approximately HK\$2 million which has been credited to the investment property revaluation reserve.

In addition, the Group spent approximately HK\$32 million and HK\$221 million on renovation of a hotel property and on the construction works of properties under development, respectively.

Other than as disclosed above, the directors are of the opinion that the carrying amounts of the Group's investment properties at 30th September, 2004 do not differ significantly from their open market value at 31st March, 2004.



# NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30th September, 2004

## 9. INVESTMENTS IN SECURITIES

	Trading securities		Other securities		Total	
	30.9.2004 (unaudited) HK\$'000	31.3.2004 (audited) HK\$'000	30.9.2004 (unaudited) HK\$'000	31.3.2004 (audited) HK\$'000	30.9.2004 (unaudited) HK\$'000	31.3.2004 (audited) HK\$'000
Equity securities:						
Listed – Hong Kong	13,229	7,511	33,218	38,694	46,447	46,205
Listed – Overseas	11,587	–	78	78	11,665	78
Unlisted	–	–	69,549	69,549	69,549	69,549
	<u>24,816</u>	<u>7,511</u>	<u>102,845</u>	<u>108,321</u>	<u>127,661</u>	<u>115,832</u>
Debt securities:						
Listed – Overseas	–	–	7,767	–	7,767	–
Unlisted	–	–	83,717	–	83,717	–
	<u>–</u>	<u>–</u>	<u>91,484</u>	<u>–</u>	<u>91,484</u>	<u>–</u>
Equity-linked notes:						
Unlisted	<u>23,489</u>	<u>–</u>	<u>15,560</u>	<u>–</u>	<u>39,049</u>	<u>–</u>
Total:						
Listed – Hong Kong	13,229	7,511	33,218	38,694	46,447	46,205
Listed – Overseas	11,587	–	7,845	78	19,432	78
Unlisted	23,489	–	168,826	69,549	192,315	69,549
	<u>48,305</u>	<u>7,511</u>	<u>209,889</u>	<u>108,321</u>	<u>258,194</u>	<u>115,832</u>
Market value of listed securities	<u>24,816</u>	<u>7,511</u>	<u>41,063</u>	<u>38,772</u>	<u>65,879</u>	<u>46,283</u>
Carrying amount analysed for reporting purposes as:						
Non-current	–	–	110,622	108,321	110,622	108,321
Current	<u>48,305</u>	<u>7,511</u>	<u>99,267</u>	<u>–</u>	<u>147,572</u>	<u>7,511</u>
	<u>48,305</u>	<u>7,511</u>	<u>209,889</u>	<u>108,321</u>	<u>258,194</u>	<u>115,832</u>

# NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30th September, 2004

## 10. DEBTORS, DEPOSITS AND PREPAYMENTS

The debtors, deposits and prepayments include trade debtors of approximately HK\$88,300,000 (31.3.2004: HK\$270,534,000). The Group allows an average credit period of 60 days to its trade customers.

The following is an aged analysis of trade debtors at the reporting date:

	<b>30.9.2004</b> <b>(unaudited)</b> <i>HK\$'000</i>	<b>31.3.2004</b> <b>(audited)</b> <i>HK\$'000</i>
0 – 60 days	<b>48,482</b>	262,189
61 – 90 days	<b>16,134</b>	2,694
Over 90 days	<b>23,684</b>	5,651
	<hr/>	<hr/>
	<b>88,300</b>	270,534
	<hr/>	<hr/>

During the period, the Group disposed of an investment property at a consideration of approximately HK\$469 million, of which approximately HK\$47 million was received by the Group. The remaining balance of approximately HK\$422 million was included in debtors, deposits and prepayments at 30th September, 2004.

## 11. CREDITORS AND ACCRUALS

The creditors and accruals included trade creditors of approximately HK\$136,697,000 (31.3.2004: HK\$76,157,000).

	<b>30.9.2004</b> <b>(unaudited)</b> <i>HK\$'000</i>	<b>31.3.2004</b> <b>(audited)</b> <i>HK\$'000</i>
0 – 60 days	<b>129,638</b>	43,222
61 – 90 days	<b>1,547</b>	10,034
Over 90 days	<b>5,512</b>	22,901
	<hr/>	<hr/>
	<b>136,697</b>	76,157
	<hr/>	<hr/>

# NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30th September, 2004

## 12. BANK AND OTHER BORROWINGS

During the period, the Group obtained new bank loans of approximately HK\$155 million, of which approximately HK\$83 million was used to finance the acquisition of two subsidiaries. The loans bear interest at market rates. The Group also repaid bank loans of approximately HK\$187 million during the period.

## 13. SHARE CAPITAL

During the period, the Company issued and allotted a total of 12,864,461 new ordinary shares of HK\$0.1 each in the Company at HK\$1.648 per share to shareholders pursuant to the scrip dividend scheme for payment of final dividend in respect of 2004.

## 14. CONVERTIBLE BONDS

During the period, the Company issued zero coupon convertible bonds ("Convertible Bonds") with an aggregate principal amount of US\$66,989,000. The Convertible Bonds entitle the holders to exchange the bonds for ordinary shares of HK\$0.1 each in the Company at an initial conversion price of HK\$2.25 (adjusted to HK\$2.20 with effective from 30th September, 2004) per share during the period from 13th May, 2004 to 14th March, 2009. Unless previously redeemed, converted or purchased and cancelled, the Convertible Bonds will be redeemed at 105.1% of their principal amount on 13th April, 2009. The carrying amount of the Convertible Bonds was stated after deducting the issue costs of approximately HK\$14,996,000 and including the premium on redemption of the Convertible Bonds of approximately HK\$2,168,000. The Convertible Bonds are listed on The Stock Exchange of Hong Kong Limited. Details of the issue of the Convertible Bonds were disclosed in the Company's circular dated 6th April, 2004.

## 15. PURCHASE OF SUBSIDIARIES

On 27th September, 2004, the Group purchased an investment property through the acquisition of 100% of the issued share capital of Caragis Limited and Vicsley Limited for an aggregate cash consideration of HK\$118 million. This transaction has been accounted for using the purchase method of accounting.

The effect of the acquisition is summarised as follows:

	HK\$ '000
Net assets acquired	<u>118,000</u>
Net cash outflow arising on acquisition	
– Cash consideration	<u>118,000</u>

# NOTES TO THE CONDENSED FINANCIAL STATEMENTS

*For the six months ended 30th September, 2004*

Caragis Limited and Vicsley Limited did not make any significant contribution to the results of the Group during the period.

## 16. PLEDGE OF ASSETS

- (a) The Group's properties, bank deposits and investments in securities with an aggregate carrying amount of approximately HK\$2,763,234,000 (31.3.2004: HK\$2,603,798,000), HK\$3,948,000 (31.3.2004: HK\$5,539,000) and HK\$2,334,000 (31.3.2004: HK\$2,334,000), respectively, together with properties of associates and third parties were mortgaged or pledged to the Group's bankers and loan creditors to secure banking and loan facilities granted to the Group and its associates to the extent of approximately HK\$2,129,216,000 (31.3.2004: HK\$2,021,216,000) and HK\$5,000,000 (31.3.2004: HK\$5,000,000), respectively.

The Group's bank deposits of approximately HK\$2,800,000 (31.3.2004: HK\$2,945,000) were pledged to a Group's banker to secure a guarantee given by the banker in favour of certain subsidiaries of the Company.

- (b) The Group's listed investments in securities of approximately HK\$32,132,000 (31.3.2004: HK\$37,517,000) were pledged to the Group's financial institutions to secure the Group's margin trading facilities in respect of securities transactions to the extent of approximately HK\$7,800,000 (31.3.2004: HK\$7,800,000), of which HK\$2,520,000 (31.3.2004: HK\$2,411,000) were utilised.
- (c) The Group had entered into agreements with certain banks in respect of mortgage loans provided to house buyers of property projects in the PRC. In accordance with those agreements, the Company deposits either 10% of the consideration of the properties sold and financed under the mortgage loans or between 10% and 20% of the amount of financing provided as a guarantee for settlement of the mortgage installments. Should mortgagors fail to pay mortgage installments, the banks can draw down the deposits up to the amount of mortgage installments not paid during the period from the mortgage drawdown date to the date of release of such guarantees. The guarantees will be released when property title deeds are passed to the banks as security for the respective mortgage loans. At 30th September, 2004, the Group placed bank deposits of approximately HK\$7,330,000 (31.3.2004: Nil) under the above guarantees.
- (d) Interests in certain subsidiaries have been pledged as part of the security in respect of certain bank borrowings granted to the Group and its subsidiaries.

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*For the six months ended 30th September, 2004*

- (e) The Group has subordinated its amounts due from investee companies with carrying amount of approximately HK\$119,995,000 (31.3.2004: HK\$119,995,000) to a financial institution to secure general credit facility granted to the investee companies.

## **17. CONTINGENT LIABILITIES**

- (a) The Group has given guarantees to secure banking and other facilities granted to an investee company amounting to approximately HK\$64,185,000 (31.3.2004: HK\$64,185,000).
- (b) The Group has given guarantees in respect of mortgage loans provided to the home buyers of a property project in the PRC. The total amount of mortgages outstanding which were subject to these guarantees was approximately HK\$153,362,000 (31.3.2004: HK\$35,537,000).
- (c) In previous years, a subsidiary, Zhongshan Development Limited (“ZDL”), was sued by two consultants providing management, consulting and advisory service concerning business strategy and corporate finance activities of ZDL. The two consultants entered into a consulting contract with ZDL in 1999 in lieu of cash for service rendered. The two consultants alleged that ZDL fraudulently misrepresented and concealed material facts regarding the proposed investment from them and claimed for compensation of damages amounting to approximately HK\$5,843,000. Moreover, the two consultants also alleged that ZDL owed them salaries, payment in lieu of notice for early termination of the contract and reimbursement for expenses regarding the contract of employment as the board of directors of ZDL amounting to approximately HK\$5,865,000. Motion of dismiss was filed to the United States court and the claim is still in progress. While the outcome of these proceedings cannot be estimated with certainty at this stage, based on independent legal advice obtained, the directors are of the opinion that the outcome of this case would not have a material adverse impact on the financial position of the Group.

# NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30th September, 2004

## 18. CAPITAL COMMITMENTS

	30.9.2004 (unaudited) HK\$'000	31.3.2004 (audited) HK\$'000
Contracted but not provided for in respect of:		
Property development projects	378,283	560,558
Authorised but not contracted for in respect of:		
Property development projects	202,445	212,936
Hotel refurbishment and upgrade	136,263	133,415
Jointly controlled property development project	25,200	—
	363,908	346,351
	742,191	906,909

## 19. POST BALANCE SHEET EVENTS

- (a) On 2nd October, 2004, the Group entered into a sale and purchase agreement with an independent third party for the disposal of entire interest in Dorsett Garden Hotel at a consideration of approximately HK\$140.2 million. The transaction is scheduled to be completed on or before 28th December, 2004. Details of this transaction are set out in the Company's circular dated 2nd November, 2004.
- (b) On 9th November, 2004, the Company entered into a subscription agreement with Deutsche Bank for the issue of zero coupon convertible bonds ("New Convertible Bonds") with an initial aggregate principal amount of HK\$656 million and with an option to require the Company to issue a further aggregate principal amount of HK\$98.4 million, for the expansion of the Group's business in property development hotel operation and general working capital purposes. The New Convertible Bonds are convertible into approximately 184,000,000 shares of HK\$0.1 each in the Company at an initial conversion price of HK\$4.1 per share, subject to adjustment. The New Convertible Bonds will be applied for listing on The Stock Exchange of Hong Kong Limited. Details of this transaction are set out in the Company's announcement dated 10th November, 2004.
- (c) Subsequent to 30th September, 2004, approximately US\$52.4 million (equivalent to approximately HK\$408.2 million) aggregated principal amount of the Convertible Bonds as referred to in note 14 has been converted into ordinary shares of the Company. Accordingly, the share capital and reserves of the Company have been increased by approximately HK\$18.6 million and HK\$389.6 million respectively.