



金朝陽集團有限公司 Soundwill Holdings Limited

(於百慕達註冊成立之有限公司)
(Incorporated in Bermuda with limited liability)
證券代號 Stock Code: 0878



2007

Interim Report
中期報告



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CORPORATE INFORMATION

DIRECTORS

Executive Directors:

FOO Kam Chu, Grace, *Chairman*

CHAN Wai Ling

TSE Chun Kong, Thomas

KWAN Chai Ming

Non-Executive Directors:

Liang Yanfeng, *Non-Executive Vice
Chairman*

MENG Qinghui

Independent Non-Executive Directors:

HENG Kwo Seng

KWAN Kai Cheong

HO Suk Yin

COMPANY SECRETARY

KWAN Chai Ming

QUALIFIED ACCOUNTANT

LAU Chan Wing, Raymond

AUDITORS

Grant Thornton

Certified Public Accountants

LEGAL ADVISORS

Lo, Wong & Tsui

Conyers Dill & Pearman

WEBSITE

www.soundwill.com.hk

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

21/F, Soundwill Plaza

38 Russell Street

Causeway Bay

Hong Kong

REGISTERED OFFICE

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

PRINCIPAL BANKS

The Hongkong and Shanghai Banking
Corporation Limited

Hang Seng Bank Limited

DBS Bank (Hong Kong) Limited

Industrial and Commercial Bank
of China (Asia) Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Bermuda)
Limited

Rosebank Centre

11 Bermudiana Road

Pembroke HM 08

Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Standard Limited

26/F Tesbury Centre

28 Queen's Road East

Wanchai

Hong Kong

The Board of directors (“Directors”) submit herewith the Interim Report and Condensed Financial Statements of Soundwill Holdings Limited (the “Company”) and its subsidiaries (the “Group”) for the six months ended 30 June 2007. The consolidated income statement and consolidated cash flow statement for the six months ended 30 June 2007 and the consolidated balance sheet as at 30 June 2007 of the Group, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 19 to 40 of this report.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

The Hong Kong economy maintained a steady growth for the first half of 2007. According to statistics released by the Hong Kong Government, the territory’s GDP rose by 6.3% when compared with that of the same period last year. Furthermore, the unemployment rate in the second quarter of the year lowered to 4.2%, being the lowest level since mid 1998. Benefited from encouraging economic environment and atmosphere, and growing female consuming power, Soundwill Plaza, the Group’s flagship property, continued to record significant growth in its occupancy rate and rental rate. The uncertainties derived from the sub-prime crisis in the US did not have any major impact on Hong Kong’s economy and the property market. The Group’s property leasing, urban redevelopment and property development businesses remained at a satisfactory level during the period under review.

Urban Redevelopment

During the period, the Group continued to expand its urban redevelopment business and actively seeking opportunities for redevelopment in vibrant urban districts during the first half of this year.

The Company reached agreements to dispose of two properties at Bowrington Road and Sharp Street East in Causeway Bay in April and August this year respectively. As the transaction has been/will be completed in August and November this year, the revenue from the disposal will be booked into the Group’s accounts for the second half of the year.

The shortage of land supply in the urban area, in particular, the densely-populated and established districts, has provided enormous opportunities for urban redevelopment. The Group's professional team comprising a range of relevant expertise is designated to identify acquisition opportunities, particularly prime sites on the Hong Kong Island. The Group intends to redevelop and retain certain future acquisition projects as investment properties. With the Group's extensive redevelopment experience, a professional team equipped with a proven and highly cost effective redevelopment business model, we believe the urban redevelopment operation will become a major driving force of the Group's profitability.

Property Leasing

With a prospering retail market and a growing demand for retail property, the rental of Hong Kong's major shopping areas, particular those on the Hong Kong Island experienced a dramatic upsurge.

Located in a prime location in Causeway Bay, Soundwill Plaza, the Group's flagship property, generated satisfactory return to the Group during the period under review. Soundwill Plaza enjoyed an occupancy rate of 100%. During the first six months of this year, approximately 20% of leases of Soundwill Plaza were renewed, while income from property leasing of Soundwill Plaza rose by 18%.

Property Development

The Group's project in Sai Kung is in its final stage of completion. The joint venture project is a low-rise semi-detached and stand alone luxurious residential blocks. The project, which features a relaxing living environment, is unique in its own right in the area. As the low-density residential property market in New Territories continued to prosper, the Group is looking for the right timing to dispose of the project and is expected to complete the disposal within this year.

The Yuen Long project is wholly-owned by the Group and is currently under architectural design and planning. It is intended to develop the project into a large scale, low density residential community, with comprehensive facilities and a luxurious clubhouse. The project will commence development by the end of 2007.

Business in the Mainland China

The Group's infrastructure development operation has expanded to 18 cities including Chongqing and Jinan in the PRC. Project in certain cities such as Xian also are underway and expected to be completed in the second half of this year. These projects are expected to gradually increase in its profit contribution to the Group.

Property Management, E & M and Building Maintenance

The Group has three property management and maintenance subsidiaries which are engaged in property management and facility maintenance service for large-scale commercial buildings, small and medium-sized residential properties, estates and shopping malls. Revenue from these three subsidiaries during the period amounted to approximately HK\$8,155,000.

Corporate Citizen

During the period, the Group actively involved in community activities and made donations to the charity organizations in need. We will continue to actively participate in charity and community events and to keep up our social responsibility as a corporate citizen.

Financial Review

For the six months ended 30 June 2007, the Group has recorded a turnover of HK\$97,901,000 (30 June 2006: HK\$93,504,000), representing an increase of 5% over the same period of last year. The increased turnover reflected the incremental growth of 18% in rental income of our property leasing business in Hong Kong whereas there was a decrease of 35% in the sales of urban infrastructure business in the PRC. It is mainly because some major urban infrastructure projects are still under construction and will be completed by the end of 2007.

The Group's net profit attributable to equity holders of the Company was HK\$174,153,000 (30 June 2006: HK\$206,904,000), representing a decrease of 16% over the corresponding period of last year. This decrease was mainly due to a decrease of HK\$26,109,000 on the gain on fair value adjustment on investment properties (net of deferred tax) as compared with last year.

If the gain on fair value adjustment on investment properties (net of deferred tax) were to be excluded, the Group's profit for the period would be approximately HK\$15,571,000 as compared with same period of last year of HK\$22,213,000, representing a decrease of 30%. This was mainly due to an increase in bank interest expenses which was incurred for additional bank loans of HK\$206 million raised for the acquisition of properties.

Basic earnings per share was HK\$0.78 as compared with same period of last year of HK\$0.93.

Prospects

The Hong Kong economy continues to grow and will maintain an upward momentum in spite of volatility of the stock market in the first half of 2007. Sound economic fundamentals, in turn will be beneficial to the Hong Kong retail and property market. The Group believes the local property market will remain stable with modest upsurge in 2007.

The Group expects to complete acquisition of a number of redevelopment projects, which are all in prime locations on the Hong Kong Island, in 2007. The Group intends to redevelop and retain certain of the projects as investment properties. In the long-run, this operation will provide the Group's property development with land resources at a relatively lower cost, as well as a prospect for capital appreciation.

In addition, the Group's disposal of the Bowrington Road property in Causeway Bay was completed in August 2007 and the agreement for the sale and purchase of the Sharp Street East property in Causeway Bay will be completed in November 2007. The disposal of these two properties is expected to generate a profit of HK\$136 million to the Group which will be reflected in the books for the second half of 2007. The aggregate site area of the Bowrington Road property is approximately 4,000 sq ft. It has been sold for a consideration of HK\$230 million and is expected to generate a net gain of approximately HK\$90.6 million to the Group. The Sharp Street East property is located at No. 21 Sharp Street East, and consists of 6 storeys, with a site area of approximately 690 sq ft. The Group has disposed of the property for a consideration of HK\$74 million and it is expected that the disposal will generate a net gain of approximately HK\$45.4 million to the Group.

There is a pressing market demand for commercial and office spaces in Causeway Bay. The Group's Soundwill Plaza will, therefore, continue to generate stable recurrent income for the Group. Approximately 15% of the leases of the building is up for renewal in the second half of 2007 and it is estimated there will be a 18% of increase in rental income for 2007. The Group will also carry on the fine-tuning of its retail tenant mix by introducing more renowned brands to the Soundwill Plaza. In addition, certain lease renewed in this April will help raise the total rental income for the full year.

For its business in the Mainland China, a number of infrastructure projects in mainland cities are underway and it is expected that revenue generated from these projects will be reflected in the second half of 2007. According to the relevant co-operation agreements with the local authorities, the Group can participate in the construction of the piping for the provision of water, power, and gas in accordance with the development plans set out by respective municipal governments. The Group will further study the feasibility of providing such services.

INTERIM DIVIDEND

The Directors do not recommend any interim dividend for the six months ended 30 June 2007 (30 June 2006: Nil).

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2007, the Group's cash and cash equivalents amounted to HK\$22,889,000 (31 December 2006: HK\$88,509,000). The Group's total borrowings (including the convertible bond due to the major shareholder) as at 30 June 2007 were HK\$1,587,505,000 (31 December 2006: HK\$1,381,601,000).

The Group's gearing ratio, expressed as a percentage of total borrowings over total equity, was 57% as at 30 June 2007 (31 December 2006: 53%). As at 30 June 2007, the Group's net assets amounted to HK\$2,783,286,000 (31 December 2006: HK\$2,602,542,000), representing an increase of HK\$180,744,000. With the total number of ordinary shares in issue of 223,827,816 as at 30 June 2007, the net asset value per share was HK\$12.43 (31 December 2006: HK\$11.69).

The Group's exposure to foreign currency risk mainly arises from the exchange rate movement between Hong Kong Dollar and Renminbi in relation to its PRC operations. The Group currently does not have a foreign currency hedging policy. In order to mitigate the foreign currency risk, the management closely monitors such risks and will consider hedging significant foreign currency exposure should the need arises.

During the period, the Group did not engage in any derivative activities and did not commit to any financial instruments to hedge its balance sheet exposures.

The total interest expenses for the six months ended 30 June 2007 amounted to HK\$38,940,000 (30 June 2006: HK\$31,993,000), mainly due to an increase in bank borrowings of HK\$206 million raised for the acquisition of properties during the period under review. The average cost of borrowings over the period was 5.36% (30 June 2006: 5.51%) which was expressed as a percentage of total interest expenses over the average total borrowings.

DETAILS OF MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

There was no material acquisitions and disposals of subsidiaries and associated companies during the six months ended 30 June 2007.

DISPOSAL OF SIGNIFICANT INVESTMENT HELD

During the six months ended 30 June 2007, as announced on 20 April 2007, the Group disposed of its properties at Bowrington Road in Causeway Bay at a consideration of HK\$230 million. The transaction brings along a net gain of approximately HK\$90.6 million. Save as above, there is no other material change in the significant investments and properties held by the Group.

EMPLOYEES

There was no material change regarding the number and remuneration of the employees of the Group since the publication of the Company's 2006 annual report.

PLEDGE OF ASSETS

As at 30 June 2007, investment properties and properties held for sale of the Group with a carrying value of approximately HK\$4,504,317,000 in total (31 December 2006: approximately HK\$4,094,468,000) were pledged to secure banking facilities for the Group.

DIRECTORS' INTERESTS AND CHIEF EXECUTIVE'S INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

(a) Directors' interests in the Company

As at 30 June 2007, the interests of the Directors and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the "SFO") which are required to be (i) notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have taken under such provisions of the SFO); or (ii) entered in the register kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

(i) Long positions in shares:

Name of Director	Capacity	Number of Shares	Approximate Percentage of Shareholding
Foo Kam Chu, Grace	Interest of controlled corporation	156,783,709 (Note)	70.05
	Beneficial owner	96,000	0.04
Tse Chun Kong, Thomas	Interest of Spouse	6,000	0.00
	Beneficial owner	723	0.00
Kwan Chai Ming	Beneficial owner	80,000	0.04

Note: The 156,783,709 shares are held by Ko Bee Limited, the entire issued share capital of which is held by Madam Foo Kam Chu, Grace.

- (ii) Long positions in underlying shares of equity derivatives of the Company — interests in share options of the Company (being granted and remained outstanding):

Name	Capacity	Number of Shares in the Option	Exercisable Period	Price of Grant (HK\$)	Subscription Price per Share (HK\$)
Foo Kam Chu, Grace	Beneficial owner	200,000	6/1/2005 to 5/1/2010	1.00	1.47
		200,000	4/1/2006 to 3/1/2011	1.00	2.38
		200,000	20/5/2007 to 19/5/2012	1.00	2.52
Chan Wai Ling	Beneficial owner	60,000	8/1/2004 to 7/1/2009	1.00	1.50
		90,000	6/1/2005 to 5/1/2010	1.00	1.47
		90,000	4/1/2006 to 3/1/2011	1.00	2.38
		90,000	20/5/2007 to 19/5/2012	1.00	2.52
Tse Chun Kong, Thomas	Beneficial owner	60,000	8/1/2004 to 7/1/2009	1.00	1.50
		90,000	6/1/2005 to 5/1/2010	1.00	1.47
		90,000	4/1/2006 to 3/1/2011	1.00	2.38
		90,000	20/5/2007 to 19/5/2012	1.00	2.52
Meng Qinghui	Beneficial owner	60,000	8/1/2004 to 7/1/2009	1.00	1.50
		90,000	6/1/2005 to 5/1/2010	1.00	1.47
		90,000	4/1/2006 to 3/1/2011	1.00	2.38
		90,000	20/5/2007 to 19/5/2012	1.00	2.52
Liang Yanfeng	Beneficial owner	90,000	20/5/2007 to 19/5/2012	1.00	2.52

- (iii) Long positions in underlying shares of equity derivatives of the Company — interests in convertible bond each of which is convertible into one share at the conversion price of HK\$1.66 :

Name of Director	Capacity	Principal Amount of Convertible Bond	Number of Underlying Shares
Foo Kam Chu, Grace	Interest of Controlled Corporation	HK\$23,499,490	14,156,319 <i>(Note)</i>

Note: These underlying shares are held by Ko Bee Limited, a company wholly owned by Madam Foo Kam Chu, Grace who is deemed, by virtue of the SFO, to be interested in these underlying shares.

(b) Director's interests in Associated Corporation

Name of Director	Name of Associated Corporation	Capacity	Number and Class of Shares	Percentage of Shareholding
Foo Kam Chu, Grace	Ko Bee Limited	Beneficial owner	1 ordinary share	100

Save as disclosed above, as at 30 June 2007, none of the Directors and chief executive of the Company had any interest or short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO which are required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have taken under such provisions of the SFO); or (ii) entered in the register kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEMES

The Company has two share option schemes adopted on 25 February 1997 (the “1997 Share Option Scheme”) and 22 July 2002 (the “2002 Share Option Scheme”) respectively, details of which are as follows:

1997 Share Option Scheme

Name of grantee	Date of grant	Exercise price (HK\$)	Exercisable period	Number of options			As at 30 June 2007
				As at 1 January 2007	Granted during the 6 months period ended 30 June 2007	Lapsed during the 6 months period ended 30 June 2007	
Directors							
Foo Kam Chu, Grace	2/1/2001	2.97	2/7/2001 to 24/2/2007	76,000	—	76,000	—
Chan Wai Ling	2/1/2001	2.97	2/7/2001 to 24/2/2007	60,000	—	60,000	—
Tse Chun Kong, Thomas	2/1/2001	2.97	2/7/2001 to 24/2/2007	50,000	—	50,000	—
Kwan Chai Ming	1/6/2000	12.40	1/6/2001 to 24/2/2007	20,000	—	20,000	—
	2/1/2001	2.97	2/1/2002 to 24/2/2007	10,000	—	10,000	—
Other Employees	2/1/2001	2.97	2/7/2001 to 24/2/2007	128,000	—	128,000	—
				344,000	—	344,000	—

The 1997 Share Option Scheme lapsed on 24 February 2007.

2002 SHARE OPTION SCHEME

Name of grantee	Date of grant	Closing price immediately preceding the date of grant (HK\$)	Exercise price (HK\$)	Weighted average closing price of shares immediately before exercise date (HK\$)	Exercisable period	Number of Options			As at 30 June 2007
						As at 1 January 2007	Granted during the 6 months period ended 30 June 2007	Exercised/ Lapsed* during the 6 months period ended 30 June 2007	
Directors									
Foo Kam Chu, Grace	6/7/2004	1.45	1.47	N/A	6/1/2005 to 5/1/2010	200,000	—	—	200,000
	4/7/2005	2.35	2.38	N/A	4/1/2006 to 3/1/2011	200,000	—	—	200,000
	21/11/2006	2.52	2.52	N/A	20/5/2007 to 19/5/2012	200,000	—	—	200,000
Chan Wai Ling	10/7/2003	1.50	1.50	N/A	8/1/2004 to 7/1/2009	60,000	—	—	60,000
	6/7/2004	1.45	1.47	N/A	6/1/2005 to 5/1/2010	90,000	—	—	90,000
	4/7/2005	2.35	2.38	N/A	4/1/2006 to 3/1/2011	90,000	—	—	90,000
	21/11/2006	2.52	2.52	N/A	20/5/2007 to 19/5/2012	90,000	—	—	90,000
Tse Chun Kong, Thomas	14/7/2003	1.50	1.50	N/A	8/1/2004 to 7/1/2009	60,000	—	—	60,000
	6/7/2004	1.45	1.47	N/A	6/1/2005 to 5/1/2010	90,000	—	—	90,000
	4/7/2005	2.35	2.38	N/A	4/1/2006 to 3/1/2011	90,000	—	—	90,000
	21/11/2006	2.52	2.52	N/A	20/5/2007 to 19/5/2012	90,000	—	—	90,000
Kwan Chai Ming	4/7/2005	2.35	2.38	3.59	4/1/2006 to 3/1/2011	80,000	—	80,000	—
	21/11/2006	2.52	2.52	4.40	20/5/2007 to 19/5/2012	80,000	—	80,000	—

Name of grantee	Date of grant	Closing price immediately preceding the date of grant (HK\$)	Exercise price (HK\$)	Weighted average closing price of shares immediately before exercise date (HK\$)	Exercisable period	Number of Options			As at 30 June 2007
						As at 1 January 2007	Granted during the 6 months period ended 30 June 2007	Exercised/ Lapsed* during the 6 months period ended 30 June 2007	
Meng Qinghui	16/7/2003	1.50	1.50	N/A	8/1/2004 to 7/1/2009	60,000	—	—	60,000
	6/7/2004	1.45	1.47	N/A	6/1/2005 to 5/1/2010	90,000	—	—	90,000
	4/7/2005	2.35	2.38	N/A	4/1/2006 to 3/1/2011	90,000	—	—	90,000
	19/12/2006	2.70	2.52	N/A	20/5/2007 to 19/5/2012	90,000	—	—	90,000
Liang Yanfeng	8/1/2007	2.60	2.52	N/A	20/5/2007 to 19/5/2012	—	90,000	—	90,000
Other employees	6/7/2004	1.45	1.47	N/A	6/1/2005 to 5/1/2010	90,000	—	—	90,000
	4/7/2005	2.35	2.38	3.44	4/1/2006 to 3/1/2011	620,000	—	480,000	90,000
	21/11/2006	2.52	2.52	4.40	20/5/2007 to 19/5/2012	670,000	—	530,000	90,000
						3,130,000	90,000	1,270,000	1,950,000

According to the transitional provisions of the new Hong Kong Financial Reporting Standard No. 2, this new recognition and measurement has been applied to share options granted after 7 November 2002 that had not yet vested at 1 January 2005. The fair value of the options determined at the dates of grant using the Black-Scholes option pricing model (the "Model") was HK\$0.86 per share.

The Company has used the Model to value the share option granted during the review period. The Model is one of the commonly used models to estimate the fair value of an option. The value of an option varies with different variables of certain subjective assumptions as shown below. Any change in the variables so adopted may materially affect the estimation of the fair value of an option.

Date of grant**8 January 2007**

Closing share price immediately preceding the date of grant	<u>HK\$2.59 per share</u>
Expected volatility (based on the annualised historical volatility of the closing price of the shares of the Company for the past five years to the date of grant)	<u>70%</u>
Expected life (in years)	<u>1.36 years</u>
Risk-free interest rate	<u>3.68%</u>
Expected dividend yield	<u>1.30%</u>

DIRECTORS' RIGHT TO ACQUIRE SHARES AND DEBENTURES

Save as disclosed above and note 14 to the interim financial statements, at no time during the six months ended 30 June 2007, were rights to subscribe for equity or debt securities of the Company granted to any Director or chief executive of the Company or to the spouse or children under 18 years of age of any such Director or chief executive as recorded in the register required to be kept under Part XV of the SFO, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries a party to any arrangement to enable any such persons to acquire any such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2007, the persons other than a Director or chief executive of the Company who has an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, were as follows:

(a) Long positions in shares

Name of Shareholder	Capacity	Number of Shares	Approximate Percentage of Shareholding
Ko Bee Limited	Beneficial owner	156,783,709	70.05

(b) Long positions in underlying shares of equity derivatives of the Company — interests in the convertible bond of the Company:

Name of Shareholder	Capacity	Principal Amount of Convertible Bond	Number of Underlying Shares
Ko Bee Limited	Beneficial owner	HK\$23,499,490	14,156,319

Save as disclosed above, as at 30 June 2007, the Company has not been notified of any interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

CONTINGENT LIABILITIES

During the course of business, certain bank accounts were opened and held in the name of certain subsidiaries on behalf of third parties to whom these subsidiaries provided building management services. As at period end date, those bank balances which were held on behalf of third parties and were not accounted for in the books of account and interim financial statements of the Group amounted to HK\$2,871,000 (31 December 2006: HK\$4,289,000).

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

During the six months ended 30 June 2007, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The Audit Committee comprising three independent non-executive directors has reviewed with management, the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including a review of the unaudited interim financial statements for the six months ended 30 June 2007.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules during the six months ended 30 June 2007 except that:

(1) Code Provision A.2.1

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.

The roles of the chairman and chief executive officer are not separated and performed by two different individuals. Madam Foo Kam Chu, Grace is the founder and Chairman of the Group. She is responsible for the Group's overall development direction and strategies. The Chairman ensures the Board functions effectively and discharges its responsibilities. There is no chief executive officer appointed and the daily operations of the Group are delegated to other executive directors, the management and various department heads.

(2) **Code Provision A.4.1**

Code Provision A.4.1 provides that non-executive directors should be appointed for a specific term.

The non-executive directors are not appointed for a specific term as they are subject to retirement by rotation and re-election at annual general meetings in accordance with the Company's Bye-Laws.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS (THE "MODEL CODE")

The Company has adopted a code of conduct regarding directors' securities dealing transactions on term no less than the required standard set out in the Model Code (Appendix 10 of the Listing Rules).

Having made specific enquiry, all Directors have complied with the required standard set out in the Model Code during the period under review.

APPRECIATION

As a final note, I wish to take this opportunity to thank the Directors and staff for their contributions and good performance during the period.

By order of the Board
Foo Kam Chu, Grace
Chairman

Hong Kong, 19 September 2007

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30 June	
		2007	2006
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
	<i>Notes</i>	2007	2006
Turnover	3	97,901	93,504
Cost of sales		(11,195)	(13,852)
Gross profit		86,706	79,652
Other income	4	1,275	1,727
Administrative expenses		(27,911)	(23,831)
Other operating expenses		(2,612)	(283)
Loss on disposal of a subsidiary		(72)	—
Gain on fair value adjustment on investment properties		192,220	223,868
Profit from operations	5	249,606	281,133
Finance costs	6	(38,940)	(31,993)
Share of profits less losses of associates		(15)	5
Share of profits less losses of a jointly-controlled entity		(8)	(14)
Profit before income tax		210,643	249,131
Income tax expense	7	(36,697)	(41,480)
Profit for the period		173,946	207,651
Attributable to:			
— Equity holders of the Company		174,153	206,904
— Minority interests		(207)	747
Profit for the period		173,946	207,651
Earnings per share for profit attributable to the equity holders of the Company			
— Basic	8	HK\$0.78	HK\$0.93
— Diluted	8	HK\$0.73	HK\$0.88

CONDENSED CONSOLIDATED BALANCE SHEET

		30 June 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
	<i>Notes</i>		
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties	9	4,629,091	4,249,670
Operating lease prepayment		11,545	11,551
Property, plant and equipment		31,519	31,011
Properties held for development		34,478	34,241
Interests in associates		2,837	2,831
Interests in a jointly-controlled entity		23,705	18,309
Available-for-sale financial assets		11	11
Intangible assets		13,947	13,920
		4,747,133	4,361,544
Current assets			
Inventories		28,215	25,895
Properties held for sale		137,118	42,705
Trade and other receivables	10	52,799	64,634
Deposits paid for acquisition of properties		67,036	32,678
Cash and cash equivalents	11	22,889	88,509
		308,057	254,421
Current liabilities			
Trade and other payables	12	102,628	85,161
Current portion of borrowings	13	256,912	952,588
Provision for income tax		7,088	5,824
		366,628	1,043,573
Net current liabilities		(58,571)	(789,152)
Total assets less current liabilities		4,688,562	3,572,392

CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

		30 June 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
	<i>Notes</i>		
Non-current liabilities			
Borrowings	13	1,307,238	405,658
Convertible bond	14	23,355	23,355
Deferred tax liabilities		574,683	540,837
		1,905,276	969,850
Net assets		2,783,286	2,602,542
EQUITY			
Equity attributable to the equity holders of the Company			
Share capital	15	22,383	22,266
Reserves		2,738,861	2,558,027
		2,761,244	2,580,293
Minority interests		22,042	22,249
Total equity		2,783,286	2,602,542

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 June 2007 (Unaudited)
Equity attributable to the equity holders of the Company

	Share capital HK\$'000	Share premium HK\$'000	Asset revaluation reserve HK\$'000	Other equity reserve HK\$'000	Employee share-based equity reserve HK\$'000	Retained earnings HK\$'000	Exchange reserve HK\$'000	Special reserve HK\$'000	Proposed final dividend HK\$'000	Minority interests HK\$'000	Total equity HK\$'000
At 1 January 2007	22,266	256,548	19,101	94	1,705	2,264,521	3,071	1,848	11,139	22,249	2,602,542
—Surplus on revaluation of leasehold building	—	—	1,164	—	—	—	—	—	—	—	1,164
—Deferred tax liabilities arising from asset revaluation reserve of leasehold building	—	—	(204)	—	—	—	—	—	—	—	(204)
—Equity-settled share-based payment	—	—	—	—	914	—	—	—	—	—	914
—Exercise of share options	117	3,861	—	—	(1,107)	—	—	—	—	—	2,871
—Under-provision of final dividend for 2006	—	—	—	—	—	(52)	—	—	52	—	—
—Currency translation difference	—	—	—	—	—	—	2,053	—	—	—	2,053
—Share of loss by minority interests	—	—	—	—	—	—	—	—	—	(207)	(207)
—Profit for the period	—	—	—	—	—	174,153	—	—	—	—	174,153
At 30 June 2007	22,383	260,409	20,061	94	1,512	2,438,622	5,124	1,848	11,191	22,042	2,783,286

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

	For the period ended 30 June 2006 (Unaudited)										
	Equity attributable to the equity holders of the Company										
	Share capital	Share premium	Asset revaluation reserve	Other equity reserve	Employee share-based equity reserve	Retained earnings	Exchange reserve	Special reserve	Proposed final dividend	Minority interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2006	22,222	255,763	17,210	94	1,589	1,853,094	673	1,848	7,788	17,609	2,177,890
— Surplus on revaluation of leasehold building	—	—	1,592	—	—	—	—	—	—	—	1,592
— Deferred tax liabilities arising from asset revaluation reserve of leasehold building	—	—	(278)	—	—	—	—	—	—	—	(278)
— Equity-settled share-based payment	—	—	—	—	21	—	—	—	—	—	21
— Exercise of warrants	29	534	—	—	—	—	—	—	—	—	563
— Capital injection from minority shareholders	—	—	—	—	—	—	—	—	—	4,001	4,001
— Currency translation difference	—	—	—	—	—	—	547	—	—	—	547
— Share of profit by minority interests	—	—	—	—	—	—	—	—	—	747	747
— Profit for the period	—	—	—	—	—	206,904	—	—	—	—	206,904
At 30 June 2006	22,251	256,297	18,524	94	1,610	2,059,998	1,220	1,848	7,788	22,357	2,391,987

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

		Six months ended 30 June	
		2007	2006
		(Unaudited)	(Unaudited)
<i>Note</i>		HK\$'000	HK\$'000
	Net cash inflow from operating activities	11,664	8,328
	Net cash outflow from investing activities	(287,656)	(159,262)
	Net cash inflow from financing activities	208,774	152,674
	(Decrease)/Increase in cash and cash equivalents	(67,218)	1,740
	Cash and cash equivalents at beginning of period	88,509	72,196
	Translation difference	1,598	428
	Cash and cash equivalents at end of period	22,889	74,364

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2007

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 adopted in the preparation of these unaudited condensed financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2006, except for the adoption of certain new and revised Hong Kong Financial Reporting Standards (“HKFRSs”, which also include HKASs and Interpretations) noted below. Adoption of these new and revised HKFRSs did not have any effect on the financial position or performance of the Group.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) — Int 10	Interim Financial Reporting and Impairment

Impact of issued but not yet effective HKFRSs

The Group has not applied the following new and revised HKFRSs relevant to the Group’s interim financial statements, that have been issued but not yet effective in these financial statements which are effective for periods beginning on or after 1 January 2008.

HKAS 23 (Revised)	Borrowing Costs ¹
HKFRS 8	Operating Segments ¹
HK(IFRIC) — Int 11	HKFRS 2: Group and Treasury Share Transactions ²
HK(IFRIC) — Int 12	Service Concession Arrangements ³

1. Effective for annual periods beginning on or after 1 January 2009

2. Effective for annual periods beginning on or after 1 March 2007

3. Effective for annual periods beginning on or after 1 January 2008

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

The directors of the Company is currently assessing the impact of these standards and interpretations but are not yet in a position to state whether they would have material financial impact on the Group's financial statements.

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.

(i) Primary reporting format-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, repairs and maintenance services
Urban infrastructure	:	Urban infrastructure development

3. SEGMENTAL INFORMATION (CONTINUED)

(ii) Secondary reporting format-geographical segments

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

	Six months ended 30 June	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Hong Kong	83,343	70,988
Mainland China ("PRC")	14,558	22,516
	97,901	93,504

4. OTHER INCOME

	Six months ended 30 June	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Interest income	521	751
Miscellaneous income	754	976
	1,275	1,727

5. PROFIT FROM OPERATIONS

Profit from operations is arrived at after charging:

	Six months ended 30 June	
	2007 (Unaudited) <i>HK\$'000</i>	2006 (Unaudited) <i>HK\$'000</i>
Depreciation	1,185	651
Staff cost (including directors' remuneration)	13,859	10,159
Amortisation of operating lease prepayment	7	7
Amortisation of intangible assets	395	276
Amortisation of properties held for development	404	376
Cost of inventories recognised as expenses	7,822	12,450
Provision for obsolete inventories	2,189	—
Provision for impairment of receivables	18	7
Operating lease charges	1,234	1,040

6. FINANCE COSTS

	Six months ended 30 June	
	2007 (Unaudited) <i>HK\$'000</i>	2006 (Unaudited) <i>HK\$'000</i>
Interest charges on:		
Bank loans		
— wholly repayable within five years	21,085	19,222
— not wholly repayable within five years	15,844	9,320
Other borrowings wholly repayable within five years	1,458	2,891
Convertible bond	553	560
	38,940	31,993

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
The charge comprises:		
Hong Kong profits tax	3,056	2,303
Deferred tax	33,641	39,177
	36,697	41,480

Hong Kong profits tax is provided at the rate of 17.5% (2006: 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 2007, no provision for PRC enterprise income tax has been made as the Group's PRC subsidiaries were still within the tax exemption period.

8. 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\$174,153,000 (30 June 2006: approximately HK\$206,904,000) and the weighted average of 223,018,480 shares (30 June 2006: 222,410,803 shares) in issue during the six months ended 30 June 2007.

The calculation of diluted earnings per share is based on the adjusted net profit attributable to equity holders of the Company of HK\$174,706,000 (30 June 2006: HK\$207,464,000) and the weighted average of 237,830,550 shares (30 June 2006: 236,868,978 shares) in issue during the period adjusted for the effect of all dilutive shares.

8. 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\$174,153,000 plus the reduction in interest payable of HK\$553,000 as a result of the deemed conversion of convertible bond.

The weighted average number of shares used in calculation of diluted earnings per share is calculated based on the weighted average of 223,018,480 shares in issue during the period plus the weighted average of 14,812,070 shares deemed to be issued at no consideration as if all the dilutive potential shares been issued.

9. INVESTMENT PROPERTIES

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

	30 June 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
At 1 January	4,249,670	3,654,270
Additions	187,201	375,775
Disposals	—	(142,003)
Gain on fair value adjustment	192,220	361,628
At 30 June / 31 December	4,629,091	4,249,670

The investment properties of the Group were revalued at 30 June 2007 by an independent professional valuer, B.I. Appraisals Limited, on an open market value basis. The gain on fair value adjustment has been credited to consolidated income statement for the period.

9. 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 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
Held on lease over 50 years	4,623,491	4,214,570
Held on lease from 10 to 50 years	5,600	35,100
	4,629,091	4,249,670

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.

10. TRADE AND OTHER RECEIVABLES

As at balance sheet date, trade receivables included in trade and other receivables were approximately HK\$44,068,000 (31 December 2006: approximately HK\$59,766,000). The aging of these receivables was set out below:

	30 June 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
0—30 days	19,057	32,846
31—90 days	4,418	6,684
Over 90 days	20,593	20,236
Total trade receivables	44,068	59,766

11. CASH AND CASH EQUIVALENTS

	30 June 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
Bank and cash balances	22,889	28,509
Short-term bank deposits	—	60,000
	22,889	88,509

The effective interest rate of short-term bank deposits for the period ranged from 3.6% to 3.85% (31 December 2006: 3.0% to 4.8%) per annum. These deposits have maturity period for 7 days (31 December 2006: ranging from 4 to 14 days) and are eligible for immediate cancellation without receiving any interest for the last deposit period.

Included in bank and cash balances of the Group is HK\$8,038,000 (31 December 2006: HK\$21,645,000) of bank balances denominated in Renminbi placed with banks in the PRC.

12. TRADE AND OTHER PAYABLES

As at balance sheet date, trade payables included in trade and other payables were approximately HK\$23,029,000 (31 December 2006: approximately HK\$27,183,000). The aging of these payables was set out below:

	30 June 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
0—30 days	10,129	12,970
31—90 days	1,773	1,764
Over 90 days	11,127	12,449
Total trade payables	23,029	27,183

13. BORROWINGS

	30 June 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
Non-current		
Bank loans — secured	1,307,238	405,658
Current		
Bank loans — secured	250,680	891,680
Other loans	6,232	60,908
	256,912	952,588
Total borrowings	1,564,150	1,358,246

As at 30 June 2007, borrowings are repayable as follows:

	30 June 2007 (Unaudited)		31 December 2006 (Audited)	
	Bank loans- secured HK\$'000	Other loans HK\$'000	Bank loans- secured HK\$'000	Other loans HK\$'000
Within 1 year or on demand	250,680	6,232	891,680	60,908
After 1 year but within 2 years	273,036	—	87,936	—
After 2 years but within 5 years	596,219	—	110,319	—
After 5 years	437,983	—	207,403	—
Total	1,557,918	6,232	1,297,338	60,908

14. CONVERTIBLE BOND

In accordance with HKAS 32, the fair value of the liability component of the convertible bond (the "Bond") 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 Bond at 30 June 2007 amounted to approximately HK\$23,355,000 (31 December 2006: approximately HK\$23,355,000), which is calculated using cash flows discounted at MIR, which the Directors of the Company have estimated to be 5.75% per annum or HIBOR plus 1.75%. Interest expenses on the Bond are calculated using the effective interest method by applying the effective interest rate of 4.93% (31 December 2006: 4.93%) per annum to the liability component.

	30 June 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
Face value of convertible bond	23,449	23,449
Equity component	(94)	(94)
	23,355	23,355
Interest charged to finance costs (note 6)	553	1,152
Interest paid/accrued	(553)	(1,152)
Liability component	23,355	23,355

15. SHARE CAPITAL

	30 June 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
Authorized:		
5,000,000,000 ordinary shares of HK\$0.10 each	500,000	500,000
	Number of Shares	Nominal value HK\$'000
Issued and fully paid:		
As at 1 January 2007	222,657,816	22,266
Exercise of share options	1,170,000	117
As at 30 June 2007	223,827,816	22,383

16. 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 2007 and expiring on 30 April 2010 at the monthly rental of HK\$80,000. Total rental paid for the six months ended 30 June 2007 amounted to HK\$480,000 (30 June 2006: HK\$480,000).

16. RELATED PARTY TRANSACTIONS (CONTINUED)

- (b) On 27 December 2006, 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\$57,953 for a period of 24 months from 1 January 2007 to 31 December 2008. Total rental and management charges paid for the six months ended 30 June 2007 amounted to HK\$347,718 (30 June 2006: HK\$251,022).
- (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\$6,232,000 was utilized.
- (d) Interest on convertible bond paid/payable to Ko Bee Limited for the six months ended 30 June 2007 amounted to HK\$553,000 (30 June 2006: HK\$560,000).

17. 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 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
Within one year	110,204	98,965
In the second to fifth years inclusive	69,721	71,557
	179,925	170,522

18. COMMITMENTS

(a) Operating lease commitments

As at 30 June 2007, the Group had total future aggregate minimum lease payments under non-cancellable operating leases, details as follows:

	30 June 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
Within one year	1,655	998
In the second to fifth years inclusive	2,108	678
	3,763	1,676

18. COMMITMENTS (CONTINUED)**(b) Capital commitments**

	30 June 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
Contracted but not provided for		
— Property development	2,040	7,155
— Acquisition of properties	261,126	68,913
— Capital contribution to subsidiaries in the PRC	49,400	67,400
	312,566	143,468

Of the total capital commitments, approximately HK\$49,400,000 (31 December 2006: approximately HK\$67,400,000) are due for contribution to the subsidiaries in the PRC by the Group in the coming twelve months.

19. POST BALANCE SHEET EVENT

As announced on 14 August 2007, the Group disposed of its investment property at No. 21 Sharp Street East, Hong Kong at a consideration of HK\$74 million. The transaction shall complete on or before 26 November 2007. The expected net gain accrued to the Group upon completion will be approximately HK\$45.4 million.



金朝陽集團有限公司
Soundwill Holdings Limited