



瑞安建業有限公司
SHUI ON CONSTRUCTION AND MATERIALS LIMITED
(Incorporated in Bermuda with limited liability)
(Stock Code: 983)



Interim Report 2006

FINANCIAL HIGHLIGHTS

	2006	2005
Turnover	HK\$843 million	HK\$668 million
Profit attributable to equity holders of the Company	HK\$491 million	HK\$101 million
Basic earnings per share	HK\$1.78	HK\$0.38
Interim dividend per share	HK\$0.18	HK\$0.12

BUSINESS REVIEW AND PROSPECTS

- Works on distressed property development projects in the Chinese Mainland progressed well and leasing and sales have commenced in Dalian and Qingdao. Two more projects were acquired in November.
- Acquisition of three major cement plants in Yunnan was completed in April. Cement operations in the Lafarge Shui On Cement joint venture returned to profit.
- Shui On Land's highly successful listing on Hong Kong's main board in early October marks a significant milestone in SOCAM's property development investments in the Chinese Mainland.
- Increased revenue in our construction operations in Hong Kong and Macau brought satisfactory results.

RESULTS

The Board of Directors ("the Board") of Shui On Construction and Materials Limited ("the Company" or "SOCAM") are pleased to announce the unaudited consolidated results of the Company and its subsidiaries ("the Group") for the six months ended 30 September 2006 as follows:–

CONDENSED CONSOLIDATED INCOME STATEMENT – UNAUDITED

	Notes	Six months ended 30 September 2006 HK\$ million	2005 HK\$ million
Continuing operations			
Turnover			
The Company and its subsidiaries		843	668
Share of jointly controlled entities		660	417
		1,503	1,085
Group turnover			
Other income	3	843	668
Changes in inventories of finished goods, work in progress, contract work in progress and properties held for sale		37	24
Raw materials and consumables used		(127)	(91)
Staff costs		(142)	(121)
Depreciation and amortisation expenses		(4)	(5)
Subcontracting, external labour costs and other expenses		(625)	(532)
Net decrease in fair value of financial assets at fair value through profit or loss		(16)	–
Net increase in fair value of derivative financial instruments	4	513	–
Finance costs		(104)	(29)
Impairment loss recognised in respect of interests in jointly controlled entities		(1)	–
Loss on disposal of interest in a subsidiary		(10)	–
Gain on deemed disposal of interest in an associate		79	–
Share of results of jointly controlled entities		40	(4)
Share of results of associates		(8)	108
Profit before taxation		503	106
Taxation	5	(6)	(5)
Profit for the period from continuing operations		497	101
Discontinued operations			
(Loss) profit for the period from discontinued operations		(5)	1
Profit for the period			
	6	492	102
Attributable to:			
Equity holders of the Company		491	101
Minority interests		1	1
		492	102
Dividends	7		
Paid		69	81
Proposed		50	33
Earnings per share	8		
<i>From continuing and discontinued operations</i>			
Basic		HK\$1.78	HK\$0.38
Diluted		HK\$1.51	HK\$0.21

CONDENSED CONSOLIDATED BALANCE SHEET – UNAUDITED

	Notes	As at 30 September 2006 HK\$ million	As at 31 March 2006 HK\$ million
Non-current Assets			
Investment properties		60	58
Property, plant and equipment		26	29
Prepaid lease payments		40	54
Interests in jointly controlled entities		2,453	2,272
Interests in associates		1,732	1,644
Convertible redeemable participating junior preference shares		304	300
Club memberships		1	1
Financial assets at fair value through profit or loss		229	223
Other assets		3	–
Deferred tax assets		–	1
Defined benefit assets		52	66
		4,900	4,648
Current Assets			
Inventories		21	17
Prepaid lease payments		1	1
Properties held for sale		55	55
Debtors, deposits and prepayments	9	458	474
Derivative financial instruments		635	90
Amounts due from customers for contract work		105	72
Amounts due from jointly controlled entities		839	507
Amounts due from related companies		4	3
Bank balances, deposits and cash		608	83
		2,726	1,302
Non-current assets held for sale	10	50	32
		2,776	1,334
Current Liabilities			
Creditors and accrued charges	11	580	539
Amounts due to customers for contract work		135	128
Amounts due to jointly controlled entities		59	75
Taxation payable		9	6
Derivative financial instruments	14	171	–
Bank borrowings due within one year		2,177	1,294
		3,131	2,042
Net Current Liabilities		(355)	(708)
Total Assets Less Current Liabilities		4,545	3,940

	Notes	As at 30 September 2006 HK\$ million	As at 31 March 2006 HK\$ million
Capital and Reserves			
Share capital	12	279	275
Reserves	13	2,536	2,048
Total equity attributable to equity holders of the Company		2,815	2,323
Minority interests	13	115	98
Total Equity		2,930	2,421
Non-current Liabilities			
Bank borrowings		821	1,519
Convertible bonds	14	793	–
Deferred tax liabilities		1	–
		1,615	1,519
		4,545	3,940

CONDENSED CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE – UNAUDITED

	Six months ended	
	30 September	
	2006	2005
	HK\$ million	HK\$ million (restated)
Exchange difference arising on translation of financial statements of operations outside Hong Kong	38	10
Recognition of actuarial (loss) gain	(18)	5
Share of reserves of an associate	20	–
Net income recognised directly in equity	40	15
Profit for the period	492	102
Total recognised income and expense for the period	532	117
Attributable to:		
Equity holders of the Company	531	116
Minority interests	1	1
	532	117

CONDENSED CONSOLIDATED CASH FLOW STATEMENT – UNAUDITED

	Six months ended	
	30 September	
	2006	2005
	HK\$ million	HK\$ million
Net cash (used in) from operating activities	(108)	39
Net cash used in investing activities (Note 1)	(337)	(497)
Net cash from financing activities (Note 2)	970	466
Net increase in cash and cash equivalents	525	8
Cash and cash equivalents at the beginning of the period	83	58
Cash and cash equivalents at the end of the period	608	66
Analysis of the balances of cash and cash equivalents		
Bank balances, deposits and cash	608	66

Note:

1. Included in the net cash used in investing activities is capital injection of HK\$124 million into Lafarge Shui On Cement Limited in relation to the acquisition of the cement plants in Yunnan, which was completed in April 2006.
2. Included in the net cash from financing activities are HK\$906 million net proceeds from the issue of convertible bonds. During the six months ended 30 September 2006, the Group made drawdowns on bank loans totaling HK\$836 million and loan repayments totaling HK\$651 million.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2006

1. Basis of Preparation

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

2. Principal Accounting Policies

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments which are measured at fair values.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 March 2006 except as described below.

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

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

HKAS 1 (Amendment)	Capital Disclosures ¹
HKFRS 7	Financial Instruments: Disclosures ¹
HK(IFRIC)-Int 8	Scope of HKFRS 2 ²
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives ³
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment ⁴

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

² Effective for annual periods beginning on or after 1 May 2006

³ Effective for annual periods beginning on or after 1 June 2006

⁴ Effective for annual periods beginning on or after 1 November 2006

3. Business and Geographical Segments

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

For the six months ended 30 September 2006

	Continuing operations					Discontinued operations			Consolidated HK\$ million
	Cement operations				Property investment and others HK\$ million	Sale of construction materials		Eliminations HK\$ million	
	Construction and building maintenance HK\$ million	Through LSOC# HK\$ million	Other cement operations HK\$ million	Property development HK\$ million		Total HK\$ million	HK\$ million		
TURNOVER									
External sales	817	-	-	-	26	843	-	-	843
Inter-segment sales	1	-	-	-	2	3	-	(3)	-
Group turnover	818	-	-	-	28	846	-	(3)	843
Share of jointly controlled entities	60	436	141	-	23	660	-	-	660
Total	878	436	141	-	51	1,506	-	(3)	1,503

Inter-segment sales are charged at mutually agreed prices.

LSOC denotes Lafarge Shui On Cement Limited, a jointly controlled entity of the Group.

RESULTS								
Segment results	24	5	(11)	(13)	(38)	(33)	(5)	(38)
Interest income	1	1	3	-	8	13	-	13
Interest income from preference shares	-	-	-	14	-	14	-	14
Net increase in fair value of derivative financial instruments	-	-	-	534	(21)	513	-	513
Finance costs	-	-	(1)	-	(103)	(104)	-	(104)
Impairment loss recognised in respect of interests in jointly controlled entities	-	-	(1)	-	-	(1)	-	(1)
Loss on disposal of interest in a subsidiary	-	-	-	-	(10)	(10)	-	(10)
Gain on deemed disposal of interest in an associate (Note)	-	-	-	79	-	79	-	79
Share of results of jointly controlled entities								
Cement operations in								
- LSOC	-	2	-	-	-	2	-	2
- Guizhou	-	-	4	-	-	4	-	4
Venture capital investments	-	-	-	-	3	3	-	3
Distressed asset development	-	-	-	32	-	32	-	32
Others	-	-	(1)	-	-	(1)	-	(1)
						40	-	40
Share of results of associates								
- Property development in the People's Republic of China ("PRC")	-	-	-	(8)	-	(8)	-	(8)
Profit (loss) before taxation						503	(5)	498
Taxation						(6)	-	(6)
Profit (loss) for the period						497	(5)	492

Note: Gain on deemed disposal of interest in an associate arose from the issue of shares by the associate to an investor during the period.

For the six months ended 30 September 2005

	Continuing operations					Discontinued operations		Consolidated HK\$ million	
	Construction and building maintenance HK\$ million	Cement operations Through LSOC HK\$ million	Other cement operations HK\$ million	Property development HK\$ million	Property investment and others HK\$ million	Total HK\$ million	Sale of construction materials HK\$ million		Eliminations HK\$ million
TURNOVER									
External sales	664	-	3	-	1	668	-	-	668
Inter-segment sales	3	-	-	-	-	3	-	(3)	-
Group turnover	667	-	3	-	1	671	-	(3)	668
Share of jointly controlled entities	45	-	348	-	22	415	2	-	417
Total	712	-	351	-	23	1,086	2	(3)	1,085
Inter-segment sales are charged at mutually agreed prices.									
RESULTS									
Segment results	46	-	(19)	-	(18)	9	-	-	9
Interest income	2	-	11	-	-	13	-	-	13
Interest income from preference shares	-	-	-	10	-	10	-	-	10
Finance costs	(1)	-	-	-	(28)	(29)	-	-	(29)
Share of results of jointly controlled entities									
Cement operations in									
- Guizhou	-	-	11	-	-	11	-	-	11
- Nanjing	-	-	(8)	-	-	(8)	-	-	(8)
- Chongqing	-	-	(39)	-	-	(39)	-	-	(39)
Venture capital investments	-	-	-	-	32	32	-	-	32
Distressed asset development	-	-	-	(1)	-	(1)	-	-	(1)
Others	-	-	-	-	-	-	1	-	1
						(5)	1	-	(4)
Share of results of associates									
- Property development in the PRC	-	-	-	108	-	108	-	-	108
Profit before taxation						106	1	-	107
Taxation						(5)	-	-	(5)
Profit for the period						101	1	-	102

Geographical segments

The Group's operations are located in Hong Kong, Macau and other regions in the PRC.

Analysis of the Group's turnover by geographical markets, irrespective of the origin of the goods/services, is as follows:

	Six months ended	
	30 September	
	2006	2005
	HK\$ million	HK\$ million
Hong Kong	757	628
Macau	69	30
Other regions in the PRC	17	10
	843	668

4. Net Increase in Fair Value of Derivative Financial Instruments

	Six months ended	
	30 September	
	2006	2005
	HK\$ million	HK\$ million
Derivative financial instruments in relation to		
– Convertible redeemable participating junior preference shares issued by an associate	534	–
– Convertible bonds issued by the Company (Note 14)	(21)	–
	513	–

5. Taxation

	Six months ended	
	30 September	
	2006	2005
	HK\$ million	HK\$ million
The charge comprises:		
Current taxation		
Hong Kong Profits Tax	4	5
Deferred taxation	2	–
	6	5

Hong Kong Profits Tax is calculated at 17.5% (2005: 17.5%) on the estimated assessable profits for the period. Profits tax outside Hong Kong is calculated at the rates prevailing in the respective jurisdictions.

6. Profit for the Period

	Continuing operations		Discontinued operations		Consolidated	
	Six months ended		Six months ended		Six months ended	
	30 September		30 September		30 September	
	2006	2005	2006	2005	2006	2005
	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million
Profit for the period has been arrived at after crediting (charging):						
Depreciation and amortisation:						
Prepaid lease payments	(1)	(1)	-	-	(1)	(1)
Property, plant and equipment	(3)	(4)	-	-	(3)	(4)
	<u>(4)</u>	<u>(5)</u>	<u>-</u>	<u>-</u>	<u>(4)</u>	<u>(5)</u>
Impairment loss on prepaid lease payments (included in subcontracting, external labour costs and other expenses)	(4)	-	-	-	(4)	-
Impairment loss on other receivables (included in subcontracting, external labour costs and other expenses)	-	(2)	-	-	-	(2)
Share of tax of associates (included in share of results of associates)	(115)	(41)	-	-	(115)	(41)
Share of tax of jointly controlled entities (included in share of results of jointly controlled entities)	(2)	(1)	-	-	(2)	(1)
	<u>(2)</u>	<u>(1)</u>	<u>-</u>	<u>-</u>	<u>(2)</u>	<u>(1)</u>

7. Dividends

The Board recommended the payment of an interim dividend of HK\$0.18 (2005/2006: HK\$0.12) per share for the six months ended 30 September 2006.

	Six months ended	
	30 September	
	2006	2005
	HK\$ million	HK\$ million
Dividends paid	<u>69</u>	<u>81</u>
Proposed interim dividend in respect of 2006 at HK\$0.18 per share (2005/2006: HK\$0.12 per share)	<u>50</u>	<u>33</u>

On 31 August 2006, a dividend of HK\$0.25 per share (2004/2005: HK\$0.30 per share) was paid to shareholders as the final dividend in respect of 2005/2006.

8. Earnings per Share

From continuing and discontinued operations

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	Six months ended	
	30 September	
	2006	2005
	HK\$ million	HK\$ million
Earnings:		
Earnings for the purposes of basic earnings per share	491	101
Effect of dilutive potential ordinary shares:		
Finance costs on convertible bonds	16	–
Fair value changes on derivative financial instruments	21	–
Effect of dilutive potential ordinary shares of an associate:		
Interest income on convertible redeemable participating junior preference shares	(14)	(10)
Adjustment to the share of results of an associate based on dilution of its earnings per share	(4)	(34)
Earnings for the purposes of diluted earnings per share	510	57
	Million	Million
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share	276	270
Effect of dilutive potential ordinary shares:		
Convertible bonds	54	–
Share options	8	7
Weighted average number of ordinary shares for the purposes of diluted earnings per share	338	277

9. Debtors, Deposits and Prepayments

The Group maintains a defined credit policy. The general credit term ranges from 30 to 90 days.

Included in debtors, deposits and prepayments are debtors with an aged analysis at the balance sheet date as follows:

	As at 30 September 2006 HK\$ million	As at 31 March 2006 HK\$ million
Debtors aged analysis:		
Within 90 days	194	143
91 days to 180 days	6	2
181 days to 360 days	1	1
Over 360 days	5	10
	206	156
Retentions receivable	100	102
Prepayments, deposits and other receivables	152	216
	458	474

10. Non-current Assets held for Sale

	As at 30 September 2006 HK\$ million	As at 31 March 2006 HK\$ million
Property, plant and equipment	35	32
Prepaid lease payments	15	–
	50	32

Impairment loss has been recognised for any excess of the carrying amount of the above assets over their estimated proceeds on disposal.

11. Creditors and Accrued Charges

The aged analysis of creditors of HK\$43 million (31 March 2006: HK\$71 million) which are included in the Group's creditors and accrued charges is as follows:

	As at 30 September 2006 HK\$ million	As at 31 March 2006 HK\$ million
Creditors aged analysis:		
Within 30 days	26	55
31 days to 90 days	5	6
91 days to 180 days	1	2
Over 180 days	11	8
	43	71
Retentions payable	96	94
Accruals and other payables	441	374
	580	539

12. Share Capital

	Number of shares		As at 30 September 2006 HK\$ million	
	As at 30 September 2006	As at 31 March 2006	As at 30 September 2006 HK\$ million	As at 31 March 2006 HK\$ million
Authorised				
Ordinary shares of HK\$1 each				
At the beginning of the period/year	1,000,000,000	400,000,000	1,000	400
Increase during the period/year	-	600,000,000	-	600
At the end of the period/year	1,000,000,000	1,000,000,000	1,000	1,000
Issued and fully paid				
At the beginning of the period/year	274,632,000	269,380,000	275	269
Exercise of share options	3,980,000	5,252,000	4	6
At the end of the period/year	278,612,000	274,632,000	279	275

13. Reserves

	Attributable to equity holders of the Company													
	Properties revaluation reserve	Share premium account	Translation reserve	Contributed surplus	Goodwill	Negative goodwill	Retained profits	Reserve funds	Share option reserve	Actuarial gain and loss	Other reserve	Total	Minority interests	Total
	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million
At 1 April 2005	-	566	-	197	(3)	-	783	1	1	29	231	1,805	29	1,834
Exchange differences arising on translation of financial statements of operations outside Hong Kong	-	-	10	-	-	-	-	-	-	-	-	10	-	10
Recognition of actuarial gain	-	-	-	-	-	-	-	-	-	5	-	5	-	5
Net income recognised directly in equity	-	-	10	-	-	-	-	-	-	5	-	15	-	15
Profit for the period	-	-	-	-	-	-	101	-	-	-	-	101	1	102
Total recognised income and expense for the period	-	-	10	-	-	-	101	-	-	5	-	116	1	117
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	13	13
Premium on issue of shares	-	4	-	-	-	-	-	-	-	-	-	4	-	4
Recognition of share-based payment expense	-	-	-	-	-	-	-	-	1	-	-	1	-	1
Dividends paid	-	-	-	-	-	-	(81)	-	-	-	-	(81)	-	(81)
At 30 September 2005	-	570	10	197	(3)	-	803	1	2	34	231	1,845	43	1,888
At 1 April 2006	-	597	46	197	(3)	-	979	1	2	64	165	2,048	98	2,146
Exchange differences arising on translation of financial statements of operations outside Hong Kong	-	-	38	-	-	-	-	-	-	-	-	38	-	38
Recognition of actuarial loss	-	-	-	-	-	-	-	-	-	(18)	-	(18)	-	(18)
Share of reserves of an associate	-	-	20	-	-	-	-	-	-	-	-	20	-	20
Net income recognised directly in equity	-	-	58	-	-	-	-	-	-	(18)	-	40	-	40
Profit for the period	-	-	-	-	-	-	491	-	-	-	-	491	1	492
Total recognised income and expense for the period	-	-	58	-	-	-	491	-	-	(18)	-	531	1	532
Disposal of interest in a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	18	18
Premium on issue of shares	-	24	-	-	-	-	-	-	-	-	-	24	-	24
Recognition of share-based payment expense	-	-	-	-	-	-	-	-	3	-	-	3	-	3
Transfer upon exercise of share options	-	1	-	-	-	-	-	-	(1)	-	-	-	-	-
Dividends paid	-	-	-	-	-	-	(69)	-	-	-	-	(69)	(1)	(70)
Capital contribution from minority shareholders	-	-	-	-	-	-	-	-	-	-	-	-	(1)	(1)
Share of reserves of an associate	-	-	-	-	-	-	-	-	-	-	(1)	(1)	-	(1)
At 30 September 2006	-	622	104	197	(3)	-	1,401	1	4	46	164	2,536	115	2,651

14. Convertible Bonds

On 31 July 2006, the Company issued HK\$930 million zero coupon convertible bonds due 2009. The convertible bonds are listed on the Stock Exchange. The effective interest rate of the straight debt component is 12.5% per annum. Details of the transaction are set out in an announcement of the Company dated 20 July 2006.

The net proceeds received from the issue of the convertible bonds have been split between a straight debt component and a number of derivative financial instruments. The movement of the convertible bonds for the period is as follows:

	Derivative financial instruments			Total HK\$ million
	Straight debt HK\$ million	Early redemption option HK\$ million	Conversion option HK\$ million	
Convertible bonds issued on 31 July 2006	777	(10)	149	916
Amortised interest charged during the period	16	–	–	16
Changes in fair value (Note 4)	–	(1)	22	21
At 30 September 2006	793	(11)	171	953

15. Capital Commitments

The Group's share of the capital commitments of its jointly controlled entities and an associate are as follows:

	As at 30 September 2006 HK\$ million	As at 31 March 2006 HK\$ million
Contracted but not provided for	1,558	1,609

16. Share-based Payments

The Company has a share option scheme for eligible employees of the Group. Details of the share options outstanding during the current period are as follows:

	Number of Share options
Outstanding at the beginning of the period	15,107,000
Granted during the period	4,106,000
Exercised during the period	(3,980,000)
Lapsed during the period	(12,000)
Outstanding at the end of the period	15,221,000

The closing price of the Company's shares immediately before 1 August 2006, the date of grant of the 2006 options, was HK\$13.60.

The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised was HK\$15.83.

In the current period, share options were granted on 1 August 2006. The fair value of the options determined at that date of grant using the binominal model was HK\$3.8344.

17. Contingent Liabilities

As at 30 September 2006, performance bonds established amounting to approximately HK\$200 million (31 March 2006: HK\$176 million) have not been provided for in the financial statements.

18. Related Party Transactions

(a) During the period, the Group had the following transactions with jointly controlled entities.

Nature of transactions	Six months ended 30 September	
	2006 HK\$ million	2005 HK\$ million
Income received:		
Interest income	3	4
Rental income	1	–
Sales of construction materials	3	–
Construction/subcontracting work	7	–
Cost and expenses paid:		
Construction/subcontracting work	6	4
Supply of construction materials	1	2

- (b) The Group is licensed by Shui On Holdings Limited, a wholly-owned subsidiary of Shui On Company Limited ("SOCL"), the Company's ultimate holding company, to use the trademark, trade name "Shui On", "瑞安" and/or the Seagull devices on a non-exclusive, royalty-free basis for an unlimited period of time.
- (c) During the period, the Group received dividend income amounting to HK\$16 million (2005: HK\$111 million) from certain jointly controlled entities.
- (d) During the period, the Group received interest in respect of convertible redeemable participating junior preference shares from an associate amounting to HK\$14 million (2005: HK\$10 million).
- (e) The remuneration of Directors and five (2005: six) other members of key management during the period was as follows:

	Six months ended 30 September	
	2006 HK\$ million	2005 HK\$ million
Salaries and other benefits	11	12
Performance related incentive payments	7	5
Retirement benefit scheme contributions	1	1
	19	18

- (f) The emoluments paid or payable to each of the eleven (2005: twelve) Directors which were included in note (e) above were set out as follows:

Name of Director	Notes	Fees HK\$'000	Salaries and other benefits HK\$'000	Performance related incentive payments HK\$'000	Retirement benefit scheme contributions HK\$'000	Six months ended 30 September	
						2006 Total HK\$'000	2005 Total HK\$'000
Lo Hong Sui, Vincent		5	-	-	-	5	5
Wong Ying Wai, Wilfred	(i)	2	-	-	-	2	5
Choi Yuk Keung, Lawrence		5	1,621	1,500	115	3,241	3,064
Wong Yuet Leung, Frankie		5	2,518	3,000	170	5,693	3,562
Wong Fook Lam, Raymond		5	1,360	650	84	2,099	1,556
Lowe Hoh Wai Wan, Vivien		5	1,009	500	61	1,575	1,309
Wong Hak Wood, Louis	(ii) & (iii)	33	-	-	-	33	5
Enright, Michael John	(iii)	138	-	-	-	138	100
Griffiths, Anthony	(iv)	175	-	-	-	175	100
Cheung Kin Tung, Marvin	(iv) & (v)	-	-	-	-	-	52
Cheng Mo Chi, Moses	(iv)	138	-	-	-	138	100
Chan, K. C.	(iv) & (vi)	138	-	-	-	138	50
Total		649	6,508	5,650	430	13,237	9,908

Notes:

- (i) Mr. Wong Ying Wai, Wilfred resigned as Executive Director on 1 June 2006.
- (ii) Mr. Wong Hak Wood, Louis resigned as Non-executive Director on 1 June 2006.
- (iii) Non-executive Directors.
- (iv) Independent Non-executive Directors.
- (v) Mr. Cheung Kin Tung, Marvin resigned as Independent Non-executive Director on 4 July 2005.
- (vi) Professor Chan, K. C. was appointed as Independent Non-executive Director on 4 July 2005.

19. Post Balance Sheet Events

- (a) On 4 October 2006, Shui On Land Limited ("SOL"), in which 28.7% issued ordinary share capital and 50 million convertible redeemable participating junior preference shares were indirectly held by the Company, was listed on the Stock Exchange. These 50 million convertible redeemable participating junior preference shares, together with 170 million convertible redeemable participating junior preference shares and 170 million convertible redeemable participating senior preference shares held by certain financial investors, were converted into ordinary shares of SOL on the date of listing. Following the listing on 4 October 2006, the Company's indirect ordinary shareholding in SOL has been diluted from 28.7% to 17.8% and SOL is no longer considered to be an associate of the Group.

The dilution of the Company's interest in SOL from 28.7% to 17.8% will be accounted for as a deemed disposal of part of the Company's interest in the associate. The Company will recognize a gain on this deemed disposal, being primarily the difference between the share of net assets of SOL attributable to the Company immediately before and after SOL's listing date, in the financial statements for the period ending 31 December 2006. Since the relevant financial information about SOL is not yet available at the date of approval of this interim report, an estimate of the gain on the deemed disposal cannot be made.

The value of the Company's ordinary shareholding in SOL immediately upon listing on 4 October 2006, based on the offer price of HK\$5.35 per share of SOL, was approximately HK\$3,995 million.

- (b) On 16 November 2006, Prosper Idea Limited, a jointly controlled entity held as to 50% indirectly by the Company and as to 50% by other investors, successfully acquired in an auction Hui Tong Building, an unfinished property in Chengdu, PRC for a consideration of RMB401.5 million (approximately HK\$394 million).
- (c) Subsequent to the end of the reporting period, Caperidge Group Limited, a jointly controlled entity held as to 37.5% indirectly by the Company and as to 62.5% by other investors, entered into an agreement with the vendor to acquire all the issued share capital of Mass Relief International Limited, which should own Sheng Yuan Centre, an unfinished property in Beijing, PRC upon closing of the said agreement for a consideration of up to about HK\$120 million, subject to certain adjustments. In addition, as part of the closing conditions, both Caperidge Group Limited and the vendor shall arrange for funding up to approximately HK\$180 million to enable certain pre-closing restructuring to take place.

REWARD OF EMPLOYEES

At 30 September 2006, the number of employees of the Group was approximately 820 (2005: 780) in Hong Kong and 15,500 (2005: 10,540) in subsidiaries and jointly controlled entities in the Chinese Mainland. Employees are rewarded on a performance-related basis.

DISCLOSURE UNDER RULES 13.21 AND 13.22 OF THE LISTING RULES

(i) Financial assistance and guarantees to affiliated companies

Financial assistance and guarantees provided by the Group to its affiliated companies amounted to HK\$1,767 million as at 30 September 2006, details of which are as follows:

Affiliated companies	Effective percentage of interest	Balance as at 30 September 2006				Total HK\$ million
		Unsecured loans		Convertible redeemable participating junior preference shares	Total	
		Interest free with no fixed repayment terms	Interest bearing with no fixed repayment terms			
		HK\$ million	HK\$ million	HK\$ million	HK\$ million	
Brisfull Limited	50%	2	42	–	44	
Coral Waters (Barbados) SRL	50%	2	–	–	2	
Guangzhou On Track Construction Precast Products Company Ltd.	40%	2	–	–	2	
Guizhou Bijie Shui On Cement Co. Ltd.	80%	16	37	–	53	
Guizhou Kaili Ken On Concrete Co. Ltd.	75%	3	2	–	5	
Guizhou Kaili Shui On Cement Co. Ltd.	90%	24	20	–	44	
Guizhou Xinpu Shui On Cement Co. Ltd.	36%	1	–	–	1	
Guizhou Xishui Shui On Cement Co. Ltd.	90%	29	–	–	29	
Guizhou Zunyi Ken On Concrete Co. Ltd.	75%	3	3	–	6	
Guizhou Zunyi Shui On Cement Co. Ltd.	80%	67	10	–	77	
Lafarge Shui On Cement Limited	45%	210	–	–	210	
Lamma Yue Jie Co. Ltd.	60%	17	–	–	17	
Mountain Breeze (Barbados) SRL	50%	107	–	–	107	
Mountain Mist (Barbados) SRL	45%	3	–	–	3	
Nanjing Jiangnan Cement Company Limited	60%	130	–	–	130	
Qingdao Zhongcheng Yinchu Development Co., Ltd.	50%	5	–	–	5	
Shanghai Shui On Construction Co. Ltd.	50%	6	–	–	6	
Shui On Land Limited	28.7%	–	–	928	928	
Sichuan Hejiang Shui On Cement Co. Ltd.	90%	2	20	–	22	
Sommerset Investments Limited	45%	1	–	–	1	
The Yangtze Ventures II Limited	75.4%	75	–	–	75	
		<u>705</u>	<u>134</u>	<u>928</u>	<u>1,767</u>	

The proforma combined balance sheet of the above affiliated companies as at 30 September 2006 is as follows:

	HK\$ million
Non-current assets	21,107
Current assets	17,038
Current liabilities	(11,335)
Net current assets	5,703
Non-current liabilities	(12,792)
Minority interest	(1,617)
Net assets	12,401

- a. Loans made by the Group to the following affiliated companies are charged at various interest rates.

Affiliated companies

Brisfull Limited

Guizhou Bijie Shui On Cement Co. Ltd.

Guizhou Kaili Ken On Concrete Co. Ltd.

Guizhou Kaili Shui On Cement Co. Ltd.

Guizhou Zunyi Ken On Concrete Co. Ltd.

Guizhou Zunyi Shui On Cement Co. Ltd.

Sichuan Hejiang Shui On Cement Co. Ltd.

Interest rate per annum

Fixed at 2.5%

HIBOR + 2%

HIBOR + 2%

HIBOR + 2%

HIBOR + 2%

HIBOR + 2%

HIBOR + 2%

- b. All affiliated companies are accounted for as jointly controlled entities or associates of the Group.

(ii) Banking facilities with covenants relating to specific performance of the controlling shareholder

The company was granted the following banking facilities:

- a. a 3-year revolving loan of HK\$150 million in April 2004;
- b. two 3-year revolving loans, each amounting to HK\$200 million and totalling HK\$400 million, in October 2004;
- c. a 2-year revolving loan of HK\$200 million in January 2005; and
- d. a 3-year term loan of HK\$200 million in February 2005.

These loans require SOCL and/or Mr. Lo Hong Sui, Vincent, who is a discretionary beneficiary of a discretionary trust which holds SOCL, to retain an equity interest of not less than 50% in the Company throughout the tenure of the related loan agreements. Breach of such obligation will cause a default in respect of these loans.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 16 January 2007 to Monday, 22 January 2007, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all completed share transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrars in Hong Kong, Standard Registrars Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on Monday, 15 January 2007.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group's turnover for the six months ended 30 September 2006 was HK\$843 million, an increase of 26% compared with the same period in 2005. Unaudited consolidated profit after taxation and minority interests was HK\$491 million, compared with a profit of HK\$101 million in the same period last year.

During this period, the Group continued to invest in its core businesses in the Chinese Mainland within its wider strategy of securing a broad base of recurrent income from this market and from Hong Kong.

Distressed Property Development in the Chinese Mainland

The Group's new core business – distressed property development – progressed well as it continued to develop three distressed property assets in major cities during the period.

In Dalian, SOCAM and JP Morgan lead a consortium that holds 100% of Xiwang Building, a Grade A office tower which will be retained for investment upon completion. The property with 91,519 square metres gross floor area is strategically located in a prime city centre location and the Group believes that the building's high-quality image will command rents above the market average. All works went smoothly with completion expected at the end of 2006. Pre-leasing promotional programmes have commenced and the sales team is in active leasing negotiations with a number of potential tenants in order to tap the surging demand for up-market commercial properties.

In Qingdao, SOCAM leads an investor consortium owning 100% of Blocks A and C at Phase III of Zhongcheng Plaza (now renamed Central International Plaza), a mixed office, retail and residential development located at the heart of the Central Business District. The development consists of two towers – one for offices and the other for residential units – built on a three-storey retail podium with two basement levels, offering a gross floor area of more than 62,000 square metres. Construction has commenced in October on receipt of the necessary permit for a modified plan, and completion is expected by mid 2007. Detailed marketing strategies were formulated and sales of the offices have started in November, while sales of residential and retail units will begin in 2007. The sales launch was well received and so far 30% of the office space available was sold.

In Beijing, construction of the Beijing Huapu Center resumed in June. Completion of this building, in which SOCAM and JP Morgan together hold a 100% interest through a 50-50 joint venture, is expected by September 2007. Beijing Huapu Center consists of two office towers, each 24 storeys high on a nine-storey podium, and will provide a gross floor area of approximately 124,500 square metres of mixed office and retail space. While the area has traditionally attracted local companies, a growing number of multinational corporations have moved into the area. Substantial growth in Beijing's office supply has led to a declining rental trend in this sector, although retail rentals are on the increase. In view of this, marketing strategies are being formulated to enhance the value of the project.

During the period, a number of prospective projects for acquisition were carefully evaluated. In November 2006, SOCAM entered the Chengdu market in a joint venture that acquired Hui Tong Building, which will offer a total gross floor area of about 104,650 square metres for retail, office and hotel usages when completed. SOCAM has also teamed up with other investors and entered into an agreement for the acquisition of Sheng Yuan Centre, located in the Third Ring Road of Beijing and comprising two office towers offering a gross floor area of about 42,400 square metres.

Cement Operations in the Chinese Mainland

Lafarge Shui On Cement ("LSOC")

During the period under review, initial integration was completed for the LSOC joint venture formed in November 2005 with SOCAM holding a 45% interest. In April 2006, SOCAM completed its acquisition of an 80% interest in the Yunnan Cement Group, which includes three major cement plants, and injected the assets into LSOC in July 2006.

LSOC's operations returned to profitability and finished the half year ahead of plan.

In Chongqing, a distinct recovery in the market has brought sustained demand for cement with improved selling prices, sales volumes and collection of receivables. The joint venture maintained market leadership in Chengdu with sales volumes above budget and higher selling prices.

Large infrastructural works in Guizhou under the Central Government's "Go West" policy supported demand for high-grade cement, especially in the western part of the province.

Demand in the Beijing market was also noticeably higher, aided by Olympics-related infrastructure and real-estate projects, and with tight supply leading to improved cement prices.

The capacity expansion projects progressed well during the period. A steel slag plant in Chongqing has commenced production since November. Commissioning of the 1.4 million tonnes per annum ("tpa") second line at Dujiangyuan in Sichuan has begun since October.

LSOC's acquisition of the Shuangma plants in Sichuan was delayed pending final approval by Central Government authorities which is expected in early 2007. Capacity in Sichuan is expected to reach 7 million tpa after the Shuangma acquisition is approved.

Guizhou Cement

Cement production and sales of the six cement plants in Guizhou retained by SOCAM in the first six months of 2006 were ahead of the same period in 2005 and ahead of budget. Cement prices increased substantially, at a rate faster than costs. SOCAM continued to implement cost saving initiatives, e.g. dewatering systems, and undertake technical improvement works to enhance productivity and cope with the rising coal and electricity costs.

Venture Capital

The Group saw steady progress in its portfolio of investments in the two Yangtze Ventures Funds, in which it is a 65.5% and 75.4% shareholder respectively, and the On Capital China Tech Fund, in which it is a 66.8% shareholder.

Yangtze Ventures Funds ("YVF")

The two Yangtze Ventures Funds were fully invested during the period. Walcom Group, which manufactures animal feedstuff, commenced preparation for a listing on London's Alternative Investment Market ("AIM"). The Group is planning to exit the investment in Beijing Hi Sunray Information Technology for a substantial gain. It is also working closely with Advantek Biologics to help counter operational and financial difficulties through a possible recapitalization.

In April, YVF sold down about 20% of its interest in Carling Technology ("Gushan"), which manufactures and sells biodiesel and related products, to a US-based private equity fund at a substantial premium to its entry price. Gushan has also rescheduled its intended listing in Hong Kong to the second quarter of 2007, while Rongxing Industrial Development, a telecom specialist, is aiming for a listing in Singapore in the second half of 2007.

YVF made a US\$2.5 million investment in Cosmedia, a provider of TV entertainment programmes in China, taking an effective 3.3% interest in June. Cosmedia is seeking a listing on London's AIM at end of this year.

On Capital China Tech Fund

On Capital China Tech Fund continues to seek investments in wireless technology, computer security, online games, software developed using Linux, software outsourcing and telecom infrastructure technologies. The performance of the portfolio of investments is currently on track. Arasor, the optoelectronics and wireless solutions provider, was successfully listed on the Australian Stock Exchange in October 2006.

Property Development Investment – Shui On Land ("SOL")

The successful initial public offering ("IPO") of SOL in early October on the Main Board of the Stock Exchange underlined the strength of SOL's unique and sustainable business model. The shares were priced at the top end of the offer price range and traded at more than 10% above this level on the first day of trading.

SOL's listing in Hong Kong also marks a major milestone for this business with the prospect of excellent growth. SOL will continue to leverage its master planning capability and established brand to access more land for development in strategic locations, as it pursues its objective to become the premier innovative property developer in the Chinese Mainland.

As a result of SOL's IPO, preference shares held by SOCAM valued at US\$50 million were converted into a 4.6% ordinary shareholding in SOL on the listing date. The fair value of these preference shares as at 30 September 2006 produced a profit of HK\$534 million for the period under review.

Shanghai Rui Hong Xin Cheng

SOL achieved good sales following the launch of blocks 15 and 16 at Phase 2 of this residential development, also known as Rainbow City, in June and September respectively with nearly all of the units sold by the end of the period, while at blocks 9 and 12, originally launched in June 2005, 90% of a total of 395 units had been sold. The development's shopping mall was 91% leased while 56% of rentable areas in blocks 15 and 16 were also occupied.

Shanghai Taipingqiao

The historic restoration zone, Shanghai Xintiandi, was nominated as one of "China's Top 10 New Landmarks". It recorded 94% occupancy for the North Block and 98% for the South Block, while the boutique hotel known as 88 Xintiandi reported 82.5% occupancy. The Corporate Avenue office towers were 99% occupied while the up-market The Lakeville Regency reported strong sales.

Shanghai Knowledge and Innovation Community

Also known as the Shanghai Chuangzhi Tiandi project, this city-core development project with a total gross floor area of some 537,000 square metres is set for completion in 2010. Construction at KIC Plaza Phase 1 (the Hub Area) and KIC Village Phase 1 (the Live and Work Area) progressed satisfactorily. Sales commenced in September with encouraging results.

Hangzhou Xihu Tiandi

Construction of Phase II has been delayed owing to slow progress in relocating the site's residents. Completion of the overall development is now scheduled for late 2008.

Chongqing Tiandi

Main structural works on residential blocks in an initial lot with a gross floor area of some 112,000 square metres made steady progress. This city-core development is expected to have a total gross floor area of 2.6 million square metres on completion.

Wuhan Tiandi

Construction at this city-core development with a projected gross floor area of approximately 1.4 million square metres progressed smoothly.

Construction in Hong Kong, Macau and the Chinese Mainland

Tight control of costs and increased revenue contributed to an encouraging mid-year result that was ahead of budget.

The division's total turnover for the first half was HK\$817 million, while contracts totaling about HK\$1.8 billion were won.

As at 30 September 2006, the gross and outstanding values of contracts on hand were approximately HK\$4.7 billion and HK\$3.2 billion respectively (30 September 2005: HK\$3.4 billion and HK\$2.4 billion).

Shui On Building Contractors ("SOBC")

In the public housing sector, SOBC secured two Hong Kong Housing Authority contracts: a HK\$433 million public housing estate at the Eastern Harbour Crossing Site Phase 4; and a HK\$608 million project for the redevelopment of Lam Tin Phases 7 and 8, and associated development of Choi Wan Road Site 1 Phase 3. SOBC continued to undertake maintenance works from existing customers and secured new maintenance works valued at HK\$209 million.

Shui On Construction ("SOC")

During the period, SOC won a HK\$226 million contract for the Victoria Shanghai Academy, a new private school on Hong Kong Island.

In October and November, the company submitted tenders for a number of design-and-build contracts issued by the Architectural Services Department ("ASD"), including Sheung Wan Police Station, the Customs Headquarters Building at North Point and the Lo Wu Correctional Institution. It was also preparing tender submission for the Prince of Wales Hospital Extension Block, and in joint venture with Paul Y Construction Co. Ltd. for the tender on the Tamar Development which has an estimated contract value of more than HK\$4 billion.

Pat Davie

The fit-out and refurbishment markets improved steadily in the first half in the retail, commercial and educational sectors. Pat Davie completed a number of major projects, including fit-outs for the Macau Wynn Casino, Deloitte Touche Tohmatsu offices, the Ladies Recreation Club and the Disneyland Stitch Theatre. The total value of contracts secured in Hong Kong and Macau at the end of September was HK\$324 million, and new contracts include Airport Authority offices and further work in Macau for the Wynn Resort and the Venetian Cotai.

Pat Davie is also handling construction and project management work for the Group's distressed property development projects in Dalian and Qingdao.

Prospects

Building on the Group's solid foundation, we will capitalise on our strengths and expertise as we continue working with reputable international partners to expand our distressed property development activities in the Chinese Mainland. We are confident that the Central Government's regulatory measures, and its macro-economic policy that was implemented to stabilize the soaring property market, will create a healthy market environment and provide a stable foundation for our growing property related activities in the Chinese Mainland.

The Group will continue its strategy of building a strong position as one of the leading corporations in the Chinese Mainland's high-quality cement market through the LSOC joint venture. LSOC is already the leading cement producer in southwest China. Projected production capacity in early 2007 is estimated at 23.3 million tpa. This figure includes all operations in Chongqing, Sichuan, Guizhou, Beijing and Yunnan, as well as the Shuangma plants, once approval for the acquisition has been received. The Group anticipates significant improvement in performance from its cement operations.

Listings and other fund-raising initiatives of the investee companies are expected to bring highly satisfactory returns to our venture capital investments.

Following the listing of SOL, the Group's ordinary shareholding in SOL has been reduced from 28.7% to 17.8%. SOL will therefore no longer be considered an associate of the Group for accounting purposes. The SOL shares held by the Group will be treated as a strategic investment, measured at fair value. This will lead to an increase in the net asset value of the Group and reduce the Group's gearing ratio.

The increased volume of design-and-build tenders from the ASD has injected fresh momentum into the construction market in Hong Kong. In December, SOC was awarded a HK\$424 million contract for an indoor recreational centre in Tung Chung. In Macau, the growing hospitality sector will continue to deliver attractive opportunities, with Pat Davie well positioned to compete strongly aided by its excellent track record to date.

Liquidity and Financing

On 31 July 2006, SOCAM issued HK\$930 million zero coupon convertible bonds due 2009, raising net proceeds of approximately HK\$906 million. The Group intends to use the funding for general working capital in its cement business, for the development of the distressed assets business, and for other general corporate purposes. The convertible bond issue will improve the Group's liquidity position and potentially enhance its equity base.

On 30 September 2006, the Group's net borrowings, including bank borrowings and outstanding convertible bonds but net of bank balances, deposits and cash, amounted to HK\$3,183 million (31 March 2006: HK\$2,730 million).

The Group's gearing ratio, calculated on the basis of net borrowings over shareholders' equity, decreased from 118% on 31 March 2006 to 113% on 30 September 2006. The Group will continue to take appropriate measures to reduce the gearing ratio.

Treasury Policies

Bank borrowings are mainly denominated in Hong Kong dollars and have been arranged on a floating rate basis. The convertible bonds are denominated in Hong Kong dollars and are zero coupon. Investments on the Chinese Mainland are partly financed by borrowings in Hong Kong dollars. Given that income from operations on the Chinese Mainland is denominated in Renminbi, the Group expects that fluctuation in the Renminbi exchange rate will have very little negative effect on the business performance and the financial status of the Group. Therefore no hedging against Renminbi exchange risk has been made.

Change of Financial Year End Date

Since most of the Group's business activities and investments are now in the Chinese Mainland, which adopts 31 December as the year end date, the Company has resolved to change the date of its financial year end from 31 March to 31 December commencing from the financial period beginning on 1 April 2006 in order to align financial reporting dates within the Group.

DIRECTORS' INTERESTS IN SHARES

At 30 September 2006, the interests and short positions of the Directors and the Chief Executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of the SFO (including interests and short positions which are taken or deemed to have taken under such provisions of the SFO) and the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") or which were required to be entered in the register required to be kept under section 352 of the SFO were as follows:

(a) Long position in the shares of the Company

Name of Director	Number of ordinary shares in the Company		Percentage to the issued share capital
	Personal interests	Other interests	
Lo Hong Sui, Vincent	–	189,269,000 (Note)	67.93%
Choi Yuk Keung, Lawrence	740,000	–	0.27%
Wong Yuet Leung, Frankie	128,000	–	0.05%
Wong Fook Lam, Raymond	1,410,000	–	0.51%
Lowe Hoh Wai Wan, Vivien	316,000	–	0.11%

Note:

These shares comprised 182,183,000 shares beneficially owned by SOCL and 7,086,000 shares and share options deemed to be interested by SOCL under section 317 of the SFO.

Among 182,183,000 shares beneficially owned by SOCL, 166,148,000 shares and 16,035,000 shares were held respectively by SOCL and Shui On Finance Company Limited, which is an indirect, wholly-owned subsidiary of SOCL. SOCL is owned by the Bosrich Unit Trust, the trustee of which is Bosrich Holdings Inc. The units of the Bosrich Unit Trust are the property of a discretionary trust, of which Mr. Lo Hong Sui, Vincent is a discretionary beneficiary and HSBC International Trustee Limited is the trustee. Accordingly, Mr. Lo Hong Sui, Vincent, HSBC International Trustee Limited and Bosrich Holdings Inc. are deemed to be interested in such shares under the SFO.

On 27 August 2002, SOCL granted call options over certain existing shares of the Company beneficially owned by SOCL to each of Mr. Wong Ying Wai, Wilfred ("Mr. Wilfred Wong"), Mr. Wong Hak Wood, Louis ("Mr. Louis Wong") and Mr. Wong Yuet Leung, Frankie as part of the incentive reward for the services to the Company. 50% of the shares transferred or to be transferred upon exercise of call options shall be subject to a restriction of disposal within 12 months from the date such shares were transferred. Mr. Wilfred Wong and Mr. Louis Wong have exercised part or all their call options and accordingly are deemed to be parties to an agreement to acquire shares under section 317 of the SFO. As such, SOCL are deemed to be interested in the 620,000 shares and 3,580,000 share options owned by Mr. Wilfred Wong and 1,886,000 shares and 1,000,000 share options owned by Mr. Louis Wong.

(b) Short position in the shares of the Company

Name of Director	Number of ordinary shares in the Company		Percentage of shareholding in the Company
	Personal interests	Other interests	
Lo Hong Sui, Vincent	–	4,100,000 (Note)	1.47%

Note:

These shares represent the outstanding balance of the call options granted by SOCL under the call option arrangement mentioned in the note to item (a) above.

(c) Share Options of the Company

Pursuant to the share option schemes of the Company, certain Directors were granted share options to subscribe for the shares of the Company and details of the Directors' interests in share options were set out under "SHARE OPTIONS" below.

(d) Call Option

At 30 September 2006, the following Director had call option granted by SOCL over the shares of the Company pursuant to the arrangement mentioned in the note to item (a) above:

Name of Director	Exercise price	Exercise period	Number of shares subject to the call option
Wong Yuet Leung, Frankie	HK\$6.00	27.8.2005 to 26.8.2010	1,600,000

Except as disclosed above, as recorded in the register kept by the Company under section 352 of the SFO in respect of information required to be notified to the Company and the Stock Exchange pursuant to the SFO or to the Model Code:

- (i) there were no interests, both long and short positions, held at 30 September 2006 by any of the Directors or Chief Executive of the Company in shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO); and
- (ii) there existed during the financial period no rights to subscribe for shares, underlying shares and debentures of the Company which were held by any of the Directors or Chief Executive of the Company or any of their spouses or children under 18 years of age nor had there been any exercises during the financial period of any such rights by any of them.

SHARE OPTIONS

The grants of options on or after 27 August 2002 were made pursuant to the share option scheme of the Company adopted on 27 August 2002. The grant of options prior to 27 August 2002 were made under the share option scheme of the Company ("Old Scheme") adopted on 20 January 1997 and terminated on 27 August 2002. All options granted previously under the Old Scheme continue to be valid.

At 30 September 2006, options to subscribe for 15,221,000 shares within the following exercisable periods were outstanding:

Name or category of eligible participants	Date of grant	Subscription price per share HK\$	Number of options					At 30.9.2006	Period during which options outstanding at 30.9.2006 are exercisable	Price of Company's share at exercise date of options HK\$ (Note ii)
			At 1.4.2006	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period			
(Note i)										
Directors										
Mr. Choi Yuk Keung, Lawrence	17.7.2001	9.30	140,000	-	(140,000)	-	-	-	17.1.2002 to 16.7.2006	16.00
	27.8.2002	6.00	168,000	-	-	-	-	168,000	27.2.2003 to 26.8.2007	-
	27.8.2002	6.00	2,175,000	-	-	-	-	2,175,000	27.8.2005 to 26.8.2010	-
Mr. Wong Yuet Leung, Frankie	17.7.2001	9.30	200,000	-	(200,000)	-	-	-	17.1.2002 to 16.7.2006	16.00
	27.8.2002	6.00	160,000	-	(128,000)	-	-	32,000	27.2.2003 to 26.8.2007	14.00
	27.8.2002	6.00	1,600,000	-	-	-	-	1,600,000	27.8.2005 to 26.8.2010	-
	1.8.2006	14.00	-	2,000,000	-	-	-	2,000,000	1.2.2007 to 31.7.2011	-
Mr. Wong Fook Lam, Raymond	17.7.2001	9.30	160,000	-	(160,000)	-	-	-	17.1.2002 to 16.7.2006	16.00
	27.8.2002	6.00	110,000	-	(110,000)	-	-	-	27.2.2003 to 26.8.2007	13.68
	27.8.2002	6.00	1,300,000	-	(1,300,000)	-	-	-	27.8.2005 to 26.8.2010	14.84
	1.8.2006	14.00	-	176,000	-	-	-	176,000	1.2.2007 to 31.7.2011	-
Mrs. Lowe Hoh Wai Wan, Vivien	17.7.2001	9.30	160,000	-	(160,000)	-	-	-	17.1.2002 to 16.7.2006	18.00
	27.8.2002	6.00	66,000	-	(66,000)	-	-	-	27.2.2003 to 26.8.2007	15.18
	27.8.2002	6.00	900,000	-	-	-	-	900,000	27.8.2005 to 26.8.2010	-
	1.8.2006	14.00	-	150,000	-	-	-	150,000	1.2.2007 to 31.7.2011	-
Sub-total			7,139,000	2,326,000	(2,264,000)	-	-	7,201,000		
Employees (in aggregate)										
	17.7.2001	9.30	96,000	-	(96,000)	-	-	-	17.1.2002 to 16.7.2006	18.38
	27.8.2002	6.00	382,000	-	(148,000)	(12,000)	-	222,000	27.2.2003 to 26.8.2007	14.54
	27.8.2002	6.00	610,000	-	(610,000)	-	-	-	27.8.2005 to 26.8.2010	17.96
	4.8.2003	5.80	314,000	-	(118,000)	-	-	196,000	4.2.2004 to 3.8.2008	14.98
	26.7.2004	7.25	632,000	-	(174,000)	-	-	458,000	26.1.2005 to 25.7.2009	14.47
	29.7.2005	9.30	986,000	-	(202,000)	-	-	784,000	29.1.2006 to 28.7.2010	15.46
	1.8.2006	14.00	-	1,780,000	-	-	-	1,780,000	1.2.2007 to 31.7.2011	-
	Sub-total			3,020,000	1,780,000	(1,348,000)	(12,000)	-	3,440,000	
Others (Note iii)										
	17.7.2001	9.30	280,000	-	(280,000)	-	-	-	17.1.2002 to 16.7.2006	18.00
	27.8.2002	6.00	168,000	-	(88,000)	-	-	80,000	27.2.2003 to 26.8.2007	13.70
	27.8.2002	6.00	4,500,000	-	-	-	-	4,500,000	27.8.2005 to 26.8.2010	-
Sub-total			4,948,000	-	(368,000)	-	-	4,580,000		
			15,107,000	4,106,000	(3,980,000)	(12,000)	-	15,221,000		

Notes:

- (i) The closing price of the Company's shares preceding the date on which the options were granted was HK\$13.60.
- (ii) The price of the Company's shares as disclosed was the weighted average closing price of the Company's shares immediately before the dates on which the options were exercised during the period for each category of eligible participants.
- (iii) The share options held by Mr. Wilfred Wong and Mr. Louis Wong, former Directors of the Company, had been re-classified under the category "Others" after their resignation as Directors of the Company on 1 June 2006.

Fair value of the share options granted during the period determined using the Binomial Model was HK3.8344. Share options granted were recognised in the financial statements in accordance with HKFRS 2 Share-based Payment.

SUBSTANTIAL SHAREHOLDERS

Save as disclosed below and under the section "DIRECTORS' INTERESTS IN SHARES" above, the Directors are not aware of any other person (other than a Director or Chief Executive of the Company or his/her respective associate(s)) who, at 30 September 2006, had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name	Aggregate interests	
	Number of ordinary shares in the Company	Percentage of shareholding in the Company
Louis Wong	189,269,000 (Note i)	67.93%
Wilfred Wong	189,269,000 (Note ii)	67.93%
John Zwaanstra	27,648,886 (Note iii)	9.92%

Notes:

- (i) Mr. Louis Wong was interested in 1,886,000 ordinary shares of the Company. He was also interested in 1,000,000 underlying shares of the Company pursuant to share options held by him. The aggregate interests as set out in the table above also include the interests of SOCL deemed under section 317 of the SFO as mentioned in the note to item (a) under "DIRECTORS' INTERESTS IN SHARES" above.
- (ii) Mr. Wilfred Wong was interested in 620,000 ordinary shares of the Company. He was also interested in 6,080,000 underlying shares of the Company pursuant to share options and call option held by him. The aggregate interests as set out in the table above also include the interests of SOCL deemed under section 317 of the SFO as mentioned in the note to item (a) under "DIRECTORS' INTERESTS IN SHARES" above.
- (iii) These aggregate interests were held by Penta Investment Advisers Limited which is wholly owned by Mr. John Zwaanstra, including derivative interests in 9,775,886 shares of the Company.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the six months ended 30 September 2006.

CODE ON CORPORATE GOVERNANCE PRACTICES

Save as disclosed below, the Company has complied with the Code on Corporate Governance Practices ("CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") throughout the period.

Code provision A.4.1 of the CG Code stipulates that Non-executive Directors should be appointed for a specific term, subject to re-election. The Non-executive Directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election at annual general meeting in accordance with the Bye-laws of the Company. Under code provision A.4.2, every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. Directors of the Company retire not strictly under code provision A.4.2, but in accordance with the Bye-laws of the Company which stipulates that one-third of the Directors of the Company, except the Chairman and the Chief Executive Officer, shall retire from office by rotation at each annual general meeting.

AUDIT COMMITTEE

The Audit Committee comprises three Independent Non-executive Directors and one Non-executive Director. One of the Independent Non-executive Directors, Mr. Anthony Griffiths, chairs the Committee. The Audit Committee has reviewed the Group's unaudited consolidated interim financial statements for the six months ended 30 September 2006, including the accounting principles and practices adopted by the Group, and has also considered selected auditing, internal control, and financial reporting matters of the Group, in conjunction with the Company's external auditors.

REMUNERATION COMMITTEE

The Remuneration Committee comprises the Chairman of the Board, three Independent Non-executive Directors and one Non-executive Director. One of the Independent Non-executive Directors, Mr. Anthony Griffiths, chairs the Committee. The Remuneration Committee has reviewed the annual bonus and share option grant recommendations for executives and management staff and evaluated the remuneration packages of Executive Directors. It has also proposed a share award scheme which has been approved by the shareholders on 23 August 2006 as additional performance-based incentives to selected employees, but is still subject to the approval from the Stock Exchange for the listing of new shares to be awarded under the scheme.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct regarding Directors' securities transactions. The Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code during the period under review.