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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or otherwise transferred** all your shares in **Chinney Investments, Limited**, you should at once hand this circular to the purchaser(s) or transferee(s) or to the bank, the licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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**建業實業有限公司**  
**Chinney Investments, Limited**

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code 216)**

**MAJOR TRANSACTION**

**DISPOSAL OF 50% OF THE ISSUED SHARE CAPITAL OF  
FLORALMIST HOLDINGS LTD.  
(TOGETHER WITH ASSOCIATED SHAREHOLDER'S LOAN) AND  
ENTRY INTO SHAREHOLDERS' AGREEMENT**

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25th January, 2006

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## DEFINITIONS

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*In this circular, unless the context otherwise requires, the following expressions have the meanings as set out below:*

“Announcement”	the joint announcement of the Company and Hon Kwok dated 20th December, 2005 in relation to the disposal by High Able of 50% of the issued share capital of Floralmist (together with associated shareholder’s loan) and entry into the Shareholders’ Agreement
“Board”	the board of directors of the Company
“Company”	Chinney Investments, Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Stock Exchange and which is the holding company of Hon Kwok currently holding approximately 58.81% of the issued share capital of Hon Kwok
“Chinney Alliance”	Chinney Alliance Group Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange
“Chinney Holdings”	Chinney Holdings Limited, a company incorporated in Hong Kong with limited liability and which is the holding company of the Company currently holding approximately 55.67% of the issued share capital of the Company
“Directors”	the directors of the Company
“Floralmist”	Floralmist Holdings Ltd., a company incorporated in the British Virgin Islands with limited liability and which is, prior to completion of the S&P Agreement, a wholly-owned subsidiary of High Able
“Floralmist Group”	Floralmist, Orient States and Nanhai
“Group”	the Company and its subsidiaries
“High Able”	High Able Group Limited, a company incorporated in the British Virgin Islands with limited liability and which is an indirect wholly-owned subsidiary of Hon Kwok
“Hon Kwok”	Hon Kwok Land Investment Company, Limited, a company incorporated in Hong Kong with limited liability and the shares of which are listed on the Stock Exchange
“Hon Kwok China”	Hon Kwok Land Investment (China) Limited, a company incorporated in Hong Kong with limited liability and which is a direct wholly-owned subsidiary of Hon Kwok
“Hon Kwok Group”	Hon Kwok and its subsidiaries

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## DEFINITIONS

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“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Latest Practicable Date”	19th January, 2006, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan”	being 50% of the total shareholder’s loan owing by the Floralmist Group to High Able prior to completion of the S&P Agreement
“Long Stop Date”	30th September, 2006 or such later date as the parties may agree in writing
“Lucky Year”	Lucky Year Finance Limited, a company incorporated in the British Virgin Islands with limited liability
“MSR Asia Acquisitions VII, Inc.” or “Purchaser”	MSR Asia Acquisitions VII, Inc., a company incorporated in the Cayman Islands
“Nanhai”	Foshan Nanhai XinDa Land Development Ltd. (佛山市南海信達房地產有限公司), a company incorporated in the PRC and which is a 80% subsidiary of Orient States
“Orient States”	Orient States Limited, a company incorporated in Hong Kong with limited liability and which is a wholly-owned subsidiary of Floralmist and owns 80% equity interest in the registered capital of Nanhai
“PRC”	The People’s Republic of China
“Property”	a residential development site located at Dali Yayao Lijiao, Nanhai District, Foshan, PRC (中國佛山市南海大瀝雅瑤立交) with a total site area of approximately 247,987 square metres
“RMB”	the Renminbi, the lawful currency of the PRC
“S&P Agreement”	the sale and purchase agreement dated 17th December, 2005 entered into between High Able, the Purchaser and Hon Kwok China in relation to the sale of the Sale Shares and the assignment of the Loan to the Purchaser at an aggregate cash consideration of RMB133,920,000
“Sale Shares”	50 shares of US\$1 each in Floralmist, representing 50% of the issued share capital of Floralmist

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## DEFINITIONS

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“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholders’ Agreement”	the shareholders’ agreement dated 17th December, 2005 entered into between High Able, the Purchaser and Floralmist
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Transaction”	the sale of the Sale Shares by High Able to the Purchaser, the assignment of the Loan by High Able to the Purchaser and the entry into of the Shareholders’ Agreement
“US\$”	the United States dollar, the lawful currency of the United States of America

*For illustration purpose, RMB has been translated into HK\$ at the exchange rate of HK\$1=RMB1.04. Such translation should not be construed as a representation that any amounts in RMB or HK\$ have been, could have been, or could be, converted at the above rate or any other rates or at all.*



建業實業有限公司  
Chinney Investments, Limited

(Incorporated in Hong Kong with limited liability)

(Stock Code 216)

*Directors:*

James Sai-Wing Wong (*Chairman*)  
Madeline May-Lung Wong  
William Chung-Yue Fan  
Herman Man-Hei Fung (*Managing Director*)  
Clement Kwok-Hung Young\*  
Johnny Chung-Ah Wong\*  
Peter Man-Kong Wong\*

*Registered office:*

18th Floor  
Hang Seng Building  
77 Des Voeux Road Central  
Hong Kong

\* *Independent Non-executive Directors*

25th January, 2006

*To the Shareholders*

Dear Sir or Madam,

**MAJOR TRANSACTION**

**DISPOSAL OF 50% OF THE ISSUED SHARE CAPITAL  
OF FLORALMIST HOLDINGS LTD.  
(TOGETHER WITH ASSOCIATED SHAREHOLDER'S LOAN) AND  
ENTRY INTO SHAREHOLDERS' AGREEMENT**

**1. INTRODUCTION**

Reference is made to the Announcement in which the Board announced that on 17th December, 2005, High Able as vendor and Hon Kwok China as vendor's guarantor have entered into the S&P Agreement with the Purchaser in relation to the sale of the Sale Shares, representing 50% of the issued share capital of Floralmist, and the assignment of the Loan to the Purchaser at an aggregate cash consideration of RMB133,920,000 (equivalent to HK\$128,769,000).

On 17th December, 2005, High Able, the Purchaser and Floralmist have also entered into the Shareholders' Agreement which sets out certain commitments of the parties and to regulate the exercise of their rights in relation to the Floralmist Group and the development of the Property.

The Transaction constitutes a major transaction for the Company under the Listing Rules. The purpose of this circular is to provide you with further information regarding the Transaction in compliance with the requirements of the Listing Rules.

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## LETTER FROM THE BOARD

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### 2. THE S&P AGREEMENT

On 17th December, 2005, High Able as vendor and Hon Kwok China as vendor's guarantor have entered into the S&P Agreement with MSR Asia Acquisitions VII, Inc. as purchaser whereby High Able had agreed to sell the Sale Shares and to assign the Loan to the Purchaser.

#### (a) Sale Shares and the Loan

The Sale Shares represent 50% of the issued share capital of Floralmist and the Loan represent 50% of the total shareholder's loan owing by the Floralmist Group to High Able prior to completion of the S&P Agreement.

As at the date of the S&P Agreement, the total amount of shareholder's loan owing by the Floralmist Group to High Able is approximately HK\$95 million which is subject to change prior to the completion of the S&P Agreement.

#### (b) Information on Floralmist and the Property

Floralmist is an indirect wholly-owned subsidiary of Hon Kwok. Floralmist is an investment holding company which through Orient States holds 80% of the equity interest in Nanhai. The sole asset of significance held by Nanhai is the Property.

The remaining 20% of the equity interest in Nanhai is owned by Shenzhen Yujianye Development Co., Ltd. (深圳市御建業實業發展有限公司).

The Property is a residential development site located at Dali Yayao Lijiao, Nanhai District, Foshan, PRC (中國佛山市南海大瀝雅瑤立交) with a total site area of approximately 247,987 square metres. It is a site for low density residential development presently zoned with a maximum permitted plot ratio of 1. At present, the Property is a bare land. A valuation report on the Property is set out in Appendix II to this circular.

Following completion of the S&P Agreement, Floralmist will cease to be a subsidiary of Hon Kwok and the Company and become a jointly-controlled entity of Hon Kwok and the Company. The Company and Hon Kwok through High Able will then indirectly hold approximately 29.40% and 50% respectively of the total issued share capital of Floralmist.

#### (c) Consideration

The consideration for the Sale Shares and the Loan is RMB133,920,000 (equivalent to HK\$128,769,000). The consideration for the Sale Shares and the Loan was agreed after arm's length negotiations between the parties, taking reference to the agreed land value of the Property having a site area of 372 mou (1 mou = 666.7 square meters approximately) at a land price of RMB720,000 per mou and the prevailing market price of the properties in the vicinity.

The aggregate consideration of RMB133,920,000 (equivalent to HK\$128,769,000) will be payable in the following manner:

- i. the Hong Kong dollars equivalent of the deposit of RMB30,000,000 has been paid after the signing of the S&P Agreement; and
- ii. the Hong Kong dollars equivalent of the balance of the consideration of RMB103,920,000 will be paid upon completion of the S&P Agreement.

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## LETTER FROM THE BOARD

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### (d) Completion

The completion of the S&P Agreement is subject to and conditional on the following conditions being fulfilled or waived:

- i. acquisition by Floralmist/Orient States of the remaining 20% equity interest in Nanhai;
- ii. a new business licence, new certificate of approval and approval for transfer of equity interest from the local authority evidencing completion of (i) above have been obtained;
- iii. all other necessary approval, consent and authorisations regarding (i) have been obtained;
- iv. all necessary waiver and/or approval regarding the execution of and to give effect to the Transaction; and
- v. the representations, warranties and undertakings given by Floralmist remains true and correct in all material respect at all times from the date of the S&P Agreement and up to the date of completion of the S&P Agreement.

All of the above conditions can be waived by the Purchaser. Up to the date of this circular, the Purchaser has not notified High Able that the conditions will be waived.

Completion of the S&P Agreement shall take place within seven business days immediately after all of the conditions are fulfilled or waived.

In the event that completion does not take place before the Long Stop Date, the S&P Agreement will lapse. In such event, High Able will refund the deposit to the Purchaser without deduction or interest and neither party shall have any claim against the other in connection with the S&P Agreement.

The proposed acquisition by Floralmist/Orient States of the remaining 20% equity interest in Nanhai will constitute a discloseable and connected transaction for both Hon Kwok and the Company. Further announcement will be made when an agreement for the proposed acquisition is being signed. The consideration for the Sale Shares and the Loan has already taken into account of this proposed acquisition.

### 3. THE SHAREHOLDERS' AGREEMENT

On 17th December, 2005, High Able, the Purchaser and Floralmist have also entered into the Shareholders' Agreement which sets out certain commitments of the parties and to regulate the exercise of their rights in relation to the Floralmist Group and the development of the Property.

#### Principal Terms

Each party to the Shareholders' Agreement will have the right to appoint an equal number of directors in Floralmist. No director will have a casting vote at board meetings. The quorum for board meetings will be one director appointed by each shareholder of Floralmist. These arrangements for directors and board meetings will also apply to each of the other members of the Floralmist Group. High Able and the Purchaser as shareholders shall contribute funding required by the Floralmist Group for the development of the Property in equal portions.

### 4. USE OF PROCEEDS

The consideration for the S&P Agreement will be used as general working capital for the Hon Kwok Group. No new projects have been identified, which will command usage of the proceeds from the Transaction.



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## LETTER FROM THE BOARD

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### 5. FINANCIAL INFORMATION ON FLORALMIST AND FINANCIAL EFFECTS OF THE TRANSACTION

The unaudited consolidated net loss before and after taxation and extraordinary items of Floralmist (based on the audited accounts of Orient States) for the financial year ended 31st March, 2005 were both approximately HK\$20,000. The unaudited consolidated net loss before and after taxation and extraordinary items of Floralmist (based on the audited accounts of Orient States) for the financial year ended 31st March, 2004 were both approximately HK\$16,000. The unaudited consolidated net asset value of Floralmist Group in the books of Hon Kwok was approximately HK\$94 million as at 31st March, 2005. The carrying value of the Property in the books of Hon Kwok as at 31st March, 2005 was approximately HK\$94 million.

The financial effects of the Transaction on the Group are expected to be (a) a decrease in non-current assets of approximately HK\$49 million; (b) an increase in current assets of approximately HK\$76 million; (c) an increase in current liabilities of approximately HK\$1 million; (d) a decrease of non-current liabilities of approximately HK\$11 million; (e) an increase of minority interests of approximately HK\$14 million; and (f) a decrease in exchange reserve of approximately HK\$4 million. The preliminary capital gain on disposal of Floralmist before tax (if any) expected to accrue to the consolidated accounts of the Company upon completion of the Transaction is estimated to be approximately HK\$27 million.

### 6. REASONS FOR AND BENEFITS OF ENTERING INTO THE TRANSACTION

The Hon Kwok Group's core business strategy is to develop and invest in properties, either by itself or with appropriate partners. The Transaction is consistent with this strategy and the Directors believe the Transaction will be beneficial to the Hon Kwok Group as, by introducing the Purchaser as a partner for the development of the Property, it will enable the Hon Kwok Group to diversify risk and enable the Floralmist Group to benefit from a pooling of the resources and talents of both joint venture partners. As a result of these benefits to the Hon Kwok Group, the Directors believe that the Transaction will also benefit the Group (as the holding company of the Hon Kwok Group).

The Directors believe that the terms of the Transaction are fair and reasonable and in the interests of the shareholders of the Company as a whole.

### 7. INFORMATION ON THE COMPANY

The Company is an investment holding company. Its subsidiaries (except the Hon Kwok Group) are mainly engaged in superstructure construction work, foundation piling, garment manufacturing and trading and general investment.

### 8. INFORMATION ON THE PURCHASER

The Purchaser is the Morgan Stanley Real Estate Fund for Asia acquisitions.

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, the Purchaser and its ultimate beneficial owners are independent third parties of the Company and are not connected persons (as defined in the Listing Rules) of the Company.

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## LETTER FROM THE BOARD

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### 9. GENERAL

The Transaction constitutes a major transaction for the Company under the Listing Rules and is subject to the approval of the shareholders of the Company. As the Purchaser is an independent third party, no shareholder of the Company is required to abstain from voting in the general meeting for approving the Transaction. The Company has obtained from Chinney Holdings, which holds 55.67% of the issued share capital of the Company, written approval of the Transaction. Pursuant to Rule 14.44 of the Listing Rules, the Transaction which constitutes a major transaction for the Company has been approved by way of written shareholders' approval in lieu of holding a general meeting of the Company.

### 10. ADDITIONAL INFORMATION

Your attention is also drawn to the general information set out in the appendix of this circular.

Yours faithfully,  
By Order of the Board  
**James Sai-Wing Wong**  
*Chairman*

## 1. THREE YEAR FINANCIAL RESULTS OF THE GROUP

The following is a summary of the results and financial position of the Group for the three years ended 31st March, 2005, as extracted from the annual reports of the Company for the years ended 31st March, 2004 and 2005.

**Results**

	Year ended 31st March,		
	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000
Turnover	1,417,927	1,685,089	1,447,896
Profit from operations	5,608	95,974	75,241
Finance costs	(32,258)	(34,168)	(12,899)
Gain on disposals of subsidiaries	233,662	1,394	–
Loss on deemed disposal of partial interests in a subsidiary	–	(56,242)	–
Write off of goodwill arising from acquisition of a subsidiary	(2,463)	–	–
Impairment loss on goodwill arising from an associate acquired in previous years	–	–	(10,394)
Release of negative goodwill of subsidiaries	59,507	58,511	–
Share of results of associates	4,872	(9,319)	(243,433)
Share of results of jointly-controlled entities	9,881	90,694	4,458
Write off of debts due from jointly-controlled entities	(3,873)	(84,488)	–
Profit/(loss) before taxation	274,936	62,356	(187,027)
Taxation credit/(charge)	7	(4,126)	(13,876)
Profit/(loss) before minority interests	274,943	58,230	(200,903)
Minority interests	(95,680)	(44,274)	(4,548)
Net profit/(loss) for the year	179,263	13,956	(205,451)
Dividend	16,541	11,027	11,027
Earnings/(loss) per share – Basic	32.5 cents	2.5 cents	(37.3 cents)

**Assets, liabilities and minority interests**

	As at 31st March,		
	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000
TOTAL ASSETS	4,452,814	3,934,594	1,572,189
TOTAL LIABILITIES	2,432,870	2,369,728	642,086
MINORITY INTERESTS	868,747	622,920	4,238
	1,151,197	941,946	925,865

## 2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEARS ENDED 31ST MARCH, 2005 AND 2004

Set out below are the audited consolidated income statement of the Group, the audited consolidated balance sheet of the Group, the audited balance sheet of the Company, the audited condensed consolidated statement of changes in equity of the Group and the audited consolidated cash flow statement of the Group together with the relevant notes to the financial statements, as extracted from the annual report of the Company for the year ended 31st March, 2005.

### Consolidated Income Statement

For the year ended 31st March, 2005

	<i>Notes</i>	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
Turnover	4	1,417,927	1,685,089
Cost of sales		<u>(1,160,422)</u>	<u>(1,551,886)</u>
Gross profit		257,505	133,203
Other operating income		23,439	24,813
Selling and distribution costs		(72,639)	(70,286)
Administrative expenses		(202,697)	(185,456)
Surplus arising from revaluation of investment properties		–	184,355
Write back of allowance for properties under development		<u>–</u>	<u>9,345</u>
Profit from operations	6	5,608	95,974
Finance costs	7	(32,258)	(34,168)
Gain on disposals of subsidiaries	36	233,662	1,394
Loss on deemed disposal of partial interests in a subsidiary	10	–	(56,242)
Write off of goodwill arising from acquisition of a subsidiary		(2,463)	–
Release of negative goodwill of subsidiaries	22	59,507	58,511
Share of results of associates		4,872	(9,319)
Share of results of jointly-controlled entities	11	9,881	90,694
Write off of debts due from jointly-controlled entities	11	<u>(3,873)</u>	<u>(84,488)</u>
Profit before taxation		274,936	62,356
Taxation credit/(charge)	12	<u>7</u>	<u>(4,126)</u>
Profit before minority interests		274,943	58,230
Minority interests		<u>(95,680)</u>	<u>(44,274)</u>
Net profit for the year		<u>179,263</u>	<u>13,956</u>
Dividend	13	<u>16,541</u>	<u>11,027</u>
Earnings per share – Basic	14	<u>32.5 cents</u>	<u>2.5 cents</u>

**Balance Sheets***At 31st March, 2005*

	<i>Notes</i>	<b>THE GROUP</b>		<b>THE COMPANY</b>	
		<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>					
Property, plant and equipment	15	278,185	296,774	1	2
Properties under development	16	582,586	488,773	–	–
Investment properties	17	1,329,400	1,267,575	–	–
Interests in subsidiaries	18	–	–	1,026,084	1,026,079
Interests in associates	19	59,824	55,682	–	–
Interests in jointly-controlled entities	20	52,325	6,376	–	–
Negative goodwill	22	(69,426)	(128,933)	–	–
Deferred taxation assets	23	5,275	2,900	–	–
Investments in securities	24	53,015	1,510	–	–
Retention monies receivable after one year		14,174	6,676	–	–
		<u>2,305,358</u>	<u>1,997,333</u>	<u>1,026,085</u>	<u>1,026,081</u>
<b>CURRENT ASSETS</b>					
Inventories	25	83,691	86,741	–	–
Properties held for sale	26	1,209,402	960,378	–	–
Amounts due from customers for contract work	27	48,048	43,407	–	–
Retention monies receivable within one year		30,736	42,394	–	–
Debtors and prepayments	28	259,701	315,873	519	513
Amounts due from associates	41	12,601	16,347	–	2,000
Amounts due from jointly-controlled entities	41	1,133	668	–	–
Amounts due from subsidiaries	41	–	–	44,948	10,021
Loans to minority shareholders of subsidiaries	32	39,747	–	–	–
Dividends receivable		–	–	15,000	14,023
Taxation recoverable		6,565	4,309	–	–
Investments in securities	24	635	762	–	–
Pledged bank balances		78,600	137,874	–	–
Bank balances and cash		376,597	328,508	2,032	25,213
		<u>2,147,456</u>	<u>1,937,261</u>	<u>62,499</u>	<u>51,770</u>

**Balance Sheets (Continued)**

At 31st March, 2005

	Notes	THE GROUP		THE COMPANY	
		2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
<b>CURRENT LIABILITIES</b>					
Creditors and accrued charges	29	246,748	216,650	4,055	3,084
Customers' deposits		11,850	12,219	–	–
Sales deposits received		295,787	53,819	–	–
Amounts due to customers for contract work	27	32,076	85,934	–	–
Amounts due to jointly-controlled entities	41	–	487	–	–
Amounts due to subsidiaries	41	–	–	57,800	171,649
Taxation payable		5,858	1,891	–	–
Obligations under finance leases – due within one year	30	3,095	1,457	–	–
Bank borrowings – due within one year	31	400,364	535,476	64,500	12,500
		<u>995,778</u>	<u>907,933</u>	<u>126,355</u>	<u>187,233</u>
<b>NET CURRENT ASSETS/(LIABILITIES)</b>		<u>1,151,678</u>	<u>1,029,328</u>	<u>(63,856)</u>	<u>(135,463)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>3,457,036</u>	<u>3,026,661</u>	<u>962,229</u>	<u>890,618</u>
<b>NON-CURRENT LIABILITIES</b>					
Obligations under finance leases – due after one year	30	6,840	960	–	–
Bank borrowings – due after one year	31	1,302,788	1,331,833	–	–
Deferred taxation liabilities	23	50,488	58,525	–	–
Amounts due to minority shareholders of subsidiaries	32	76,976	70,477	–	–
		<u>1,437,092</u>	<u>1,461,795</u>	<u>–</u>	<u>–</u>
<b>MINORITY INTERESTS</b>		<u>868,747</u>	<u>622,920</u>	<u>–</u>	<u>–</u>
		<u>1,151,197</u>	<u>941,946</u>	<u>962,229</u>	<u>890,618</u>
<b>CAPITAL AND RESERVES</b>					
Share capital	33	137,842	137,842	137,842	137,842
Reserves	34	1,013,355	804,104	824,387	752,776
		<u>1,151,197</u>	<u>941,946</u>	<u>962,229</u>	<u>890,618</u>

**Condensed Consolidated Statement of Changes in Equity***For the year ended 31st March, 2005*

	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
Total shareholders' equity at the beginning of the year	941,946	925,865
Share of exchange reserve of associates attributable to the Group	6	(328)
Exchange differences arising from translation of financial statements denominated in foreign currencies	6,487	7,941
Net gain not recognised in the consolidated income statement	6,493	7,613
Transfer of capital reserve arising from the acquisition of an associate in prior years to negative goodwill	–	(4,581)
Release of exchange reserve upon disposal of a subsidiary	–	881
Share of capital reserve of associates attributable to the Group	(98)	4,780
Share of revaluation reserve of associate attributable to the Group	532	–
Surplus on revaluation of investment properties attributable to the Group	34,130	4,459
Impairment loss on capital reserve	(42)	–
Net profit for the year	179,263	13,956
Dividend paid	(11,027)	(11,027)
Total shareholders' equity at the end of the year	<u>1,151,197</u>	<u>941,946</u>

**Consolidated Cash Flow Statement***For the year ended 31st March, 2005*

	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
<b>OPERATING ACTIVITIES</b>		
Profit before taxation	274,936	62,356
Adjustments for:		
Share of results of associates and jointly-controlled entities	(14,753)	(81,375)
Interest income	(2,832)	(5,168)
Interest expenses	32,258	34,168
Dividend income from unlisted investments in securities	–	(361)
Depreciation and amortisation	42,181	45,030
Release of negative goodwill of subsidiaries	(59,507)	(58,511)
Write back of allowance for properties under development	–	(9,345)
Gain on disposals of subsidiaries	(233,662)	(1,394)
Write off of goodwill/(negative goodwill) arising from acquisitions of subsidiaries	2,463	(820)
Loss on deemed disposal of partial interests in a subsidiary	–	56,242
Write off of debt from a jointly-controlled entity	3,873	–
Write off of loans to jointly-controlled entities	–	84,488
Loss/(gain) on disposals of property, plant and equipment	466	(1,798)
Unrealised loss/(gain) on investments in securities	127	(123)
Surplus arising on revaluation of investment properties	–	(184,355)
Operating cash flows before movements in working capital	45,550	(60,966)
Increase in properties under development	(457,357)	(124,967)
Decrease in inventories	3,050	38,892
(Increase)/decrease in properties held for sale	(213,870)	77,212
(Increase)/decrease in amounts due from customers for contract work	(153)	5,436
Decrease in retention monies receivable	4,160	10,254
Decrease/(increase) in debtors and prepayments	57,021	(36,142)
Increase/(decrease) in creditors and accrued charges	26,604	(112,731)
Decrease in amounts due to customers for contract work	(53,858)	(30,183)
(Decrease)/increase in customers' deposits	(369)	2,141
Increase in sales deposits received	241,968	53,819
Exchange differences	(1,939)	(348)
Cash used in operations	(349,193)	(177,583)
Hong Kong Profits Tax paid	(1,980)	(17,561)
Overseas taxes paid	(2,232)	(2,772)
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(353,405)</b>	<b>(197,916)</b>



**Consolidated Cash Flow Statement (Continued)***For the year ended 31st March, 2005*

	<i>Notes</i>	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
<b>INVESTING ACTIVITIES</b>			
Interest received		2,832	5,168
Dividends received from jointly-controlled entities		–	5,913
Dividends received from unlisted investments in securities		–	361
Proceeds from disposals of property, plant and equipment		2,023	3,109
Purchases of property, plant and equipment		(21,204)	(16,913)
Purchases of investment properties		(3,212)	(5,498)
Acquisitions of subsidiaries – net of cash and cash equivalents acquired	35	–	123,571
Net cash inflow from disposals of subsidiaries	36	400,171	989
Investments in associates		–	(3,950)
Repayment from/(advances to) associates (Advances to)/repayments from jointly-controlled entities		3,746 (5,414)	(3,784) 23,057
Capital (injection)/repatriation of investments in securities		(942)	2,000
Purchase of investments		(50,563)	–
Increase in loans to minority shareholders of subsidiaries		(39,747)	–
<b>NET CASH FROM INVESTING ACTIVITIES</b>		<u>287,690</u>	<u>134,023</u>
<b>FINANCING ACTIVITIES</b>			
Interest paid		(56,882)	(49,192)
Dividend paid		(11,027)	(11,027)
Dividends paid to minority shareholders of a subsidiary		(10,128)	(977)
New bank borrowings raised		860,114	1,202,697
Repayments of bank borrowings		(857,741)	(936,174)
Repayments of obligations under finance leases		(1,622)	(4,104)
Capital contributions from minority shareholders		131,080	107,303
Advances from/(repayment to) minority shareholders of subsidiaries		6,499	(9,167)
Decrease/(increase) in pledged bank balances		59,274	(116,722)
<b>NET CASH FROM FINANCING ACTIVITIES</b>		<u>119,567</u>	<u>182,637</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		53,852	118,744
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>		<u>287,913</u>	<u>169,169</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>		<u><u>341,765</u></u>	<u><u>287,913</u></u>
<b>ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Bank balances and cash		376,597	328,508
Bank overdrafts		(34,832)	(40,595)
		<u><u>341,765</u></u>	<u><u>287,913</u></u>

**Notes to the Financial Statements***For the year ended 31st March, 2005***1. GENERAL**

The Company is a public limited company incorporated in Hong Kong with its shares listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Its ultimate holding company is Lucky Year Finance Limited (“Lucky Year”), an international business company incorporated in the British Virgin Islands.

The Company is an investment holding company. The principal activities of its principal operating subsidiaries, associates and jointly-controlled entities are set out in notes 18, 19 and 20, respectively.

**2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS**

In 2004, the Hong Kong Institute of Certified Public Accountants issued a number of new and revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (hereinafter collectively referred to as the “new HKFRSs”) which are effective for accounting periods beginning on or after 1st January, 2005 except for HKFRS 3 “Business Combinations”. HKFRS 3 is applicable to business combinations for which the agreement date is on or after 1st January, 2005. The Group has not entered into any business combination for which the agreement date is on or after 1st January, 2005. Hence HKFRS 3 has no impact to the Group from 1st January, 2005 to 31st March, 2005.

The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st March, 2005 except for the Hong Kong Interpretation 3 “Revenue – Pre-completion contracts for the Sale of Development Properties”. The early adoption of the interpretation has no impact on the Group’s financial performance for the year ended 31st March, 2004 as there was no revenue arising from pre-completion contracts for the sale of any development properties entered into during the year ended 31st March, 2004.

The Group is in the process of making an assessment of the impact of other new HKFRSs.

**3. SIGNIFICANT ACCOUNTING POLICIES**

The financial statements have been prepared under the historical cost convention as modified for the revaluation of investment properties and certain investments in securities. The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below:

**Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st March each year.

The results of subsidiaries acquired and disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

**Goodwill**

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group’s interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly-controlled entity at the date of acquisition.

Goodwill arising on acquisitions prior to 1st April, 2001 continues to be held in reserves, and will be charged to the consolidated income statement at the time of disposal of the relevant subsidiary, associate or jointly-controlled entity, or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisitions after 1st April, 2001 is capitalised and amortised on a straight-line basis over its estimated useful life. Goodwill arising on the acquisition of an associate or a jointly-controlled entity is included within the carrying amount of the associate or jointly-controlled entity. Goodwill arising on the acquisition of subsidiaries is presented separately in the consolidated balance sheet. Any impairment of goodwill will be recognised as an expense in the consolidated income statement immediately.

On disposal of a subsidiary, associate or jointly-controlled entity, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

**3. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***Negative goodwill**

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly-controlled entity at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisitions prior to 1st April, 2001 continues to be held in reserves and will be credited to income at the time of disposal of the relevant subsidiary, associate or jointly-controlled entity.

Negative goodwill arising on acquisition after 1st April, 2001, is presented as deduction from assets. To the extent that such negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired depreciation assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

Negative goodwill arising on the acquisition of an associate or a jointly-controlled entity is deducted from the carrying value of that associate or jointly-controlled entity. Negative goodwill arising on the acquisition of subsidiaries is presented separately in the consolidated balance sheet as a deduction from assets.

**Investments in subsidiaries**

Investments in subsidiaries are included in the Company's balance sheet at cost less any impairment losses.

**Interests in associates**

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates, less any identified impairment loss.

**Joint ventures**

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly-controlled entities.

The Group's interests in jointly-controlled entities are included in the consolidated balance sheet at the Group's share of the net assets of the jointly-controlled entities, less any identified impairment loss. The Group's share of the post-acquisition results of its jointly-controlled entities is included in the consolidated income statement.

**Property, plant and equipment**

Property, plant and equipment are stated at cost less depreciation and accumulated impairment losses, if any.

Depreciation and amortisation are provided to write off the cost of items of property, plant and equipment other than leasehold improvements, over their estimated useful lives and after taking into account their estimate residual value, using the straight line method, at the following rates:

Leasehold land	5% or over the unexpired terms of the leases
Buildings	2% to 5%
Plant and machinery	10% to 30%
Motor vehicles	20% to 30%
Furniture, fixtures and equipment	20% to 33 $\frac{1}{3}$ %

Depreciation on leasehold improvements is calculated to write off the cost of the leasehold improvements over their expected useful lives or the unexpired duration of the leases, whichever is the shorter.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or where shorter, the term of the relevant lease.

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

**Properties under development**

Properties under development are stated at cost less accumulated impairment losses, if any, and include the cost of land, construction, financing and other related expenses, less any impairment losses.

**3. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***Investment properties**

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on annual professional valuation at the balance sheet date. Any revaluation increase and decrease arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance of this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

On disposal of investment properties, the balance on the investment property revaluation reserve attributable to the property disposed of is transferred to the income statement.

No depreciation is provided on investment properties except where the unexpired terms of the relevant lease is 20 years or less.

**Properties held for sale**

Properties held for sale, consisting of completed properties and properties under development in respect of which the Group has established pre-sale programmes, are classified under current assets and are stated at the lower of cost and net realisable value. Cost includes all development expenditure, applicable borrowing costs and other direct costs attributable to such properties. Net realisable value is determined by reference to management estimates based on prevailing market conditions, on an individual property basis.

**Investments in securities**

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the period.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

**Construction contracts**

When the outcome of a construction contract can be estimated reliably, contract revenue and costs associated with the construction contract are recognised as revenue and expenses, respectively, by reference to the stage of completion of the contract activity at the balance sheet date.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that is probable will be recoverable and contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

When a contract covers a number of assets, the construction of each asset is treated as a separate contract when separate proposals have been submitted for each asset, or when each asset has been separately negotiated, or when the costs and revenues of each asset can be separately identified. A group of contracts, performed concurrently or in a continuous sequence, is treated as a single construction contract when the contracts were negotiated as a single package and are so closely inter-related that they constitute a single project with an overall profit margin.

**3. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***Impairment**

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

**Assets held under finance leases**

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant lease so as to produce a constant periodic rate of charged on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the annual rentals are charged to the income statement on a straight-line basis over the relevant lease term.

**Revenue recognition**

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (i) sales of goods are recognised when goods are delivered and title has passed;
- (ii) revenue on construction contracts is recognised using the percentage of completion method by reference to the value of the construction work performed;
- (iii) rental income from property letting under operating leases is recognised on a straight-line basis over the term of the relevant lease;
- (iv) income from the sale of properties, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the properties sold;
- (v) property management income, in the period in which services are rendered;
- (vi) interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rates applicable; and
- (vii) dividend income is recognised when the Group's rights to receive payments have been established.

**Capitalisation of borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, namely assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of these assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowings costs are recognised as an expense in the period in which they are incurred.

**Taxation**

Income tax expense represents the sum of the tax currently payable and deferred taxation.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years and it further excludes income statement items that are never taxable and deductible.

**3. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Deferred taxation is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred taxation liabilities are generally recognised for all taxable temporary differences, and deferred taxation assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred taxation liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred taxation assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred taxation is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred taxation is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred taxation is also dealt with in equity.

**Foreign currencies**

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Gains and losses arising on exchange are included in the net profit or loss for the period.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's exchange reserve. Such exchange differences are recognised as income or as expenses in the period on which the operation is disposed of.

**Retirement benefit scheme contributions**

The retirement benefit scheme contributions charged to the income statement represent the amount of contributions payable by the Group under defined contribution retirement benefit scheme and defined contribution mandatory provident fund scheme.

**4. TURNOVER**

Turnover for the year comprises:

	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Building construction and foundation piling	561,022	732,414
Sales of consumer goods and provision of maintenance services	680,693	632,989
Sales of properties	99,827	263,167
Rental income	70,061	50,197
Others	6,324	6,322
	<u>1,417,927</u>	<u>1,685,089</u>

**5. BUSINESS AND GEOGRAPHICAL SEGMENTS****(i) Business segments**

For management purposes, the Group is currently organised into five operating divisions including construction activities, garment activities, property development activities, property investment activities and others. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

- |     |                                 |   |   |
|-----|---------------------------------|---|---|
| (a) | Construction activities         | : | Building construction and foundation piling             |
| (b) | Garment activities              | : | Garment manufacture and trading                         |
| (c) | Property development activities | : | Properties for sale development                         |
| (d) | Property investment activities  | : | Property investment                                     |
| (e) | Others                          | : | Investment holding and provision of management services |

## 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

## (i) Business segments (Continued)

Segment information about these businesses is presented below:

## Income statement

	Construction activities		Garment activities		Property development activities		Property investment activities		Others		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	561,022	732,414	680,693	632,989	99,827	263,167	70,061	50,197	6,324	6,322	1,417,927	1,685,089
Segment results	(10,904)	29,833	(3,314)	(95,868)	(20,697)	(57,102)	33,721	212,870	5,346	1,600	4,152	91,333
Net income from investments											2,886	6,061
Unallocated corporate expenses											(1,430)	(1,420)
Profit from operations											5,608	95,974
Finance costs											(32,258)	(34,168)
Gain on disposals of subsidiaries											233,662	1,394
Loss on deemed disposal of partial interests in a subsidiary											-	(56,242)
Write off of goodwill arising from acquisition of a subsidiary											(2,463)	-
Release of negative goodwill of subsidiaries											59,507	58,511
Share of results of associates	-	-	1	(2,077)	-	-	-	-	4,871	(7,242)	4,872	(9,319)
Share of results of jointly-controlled entities	-	-	5,614	4,434	4,267	86,260	-	-	-	-	9,881	90,694
Write off of debts due from jointly-controlled entities	-	-	-	-	(3,873)	(84,488)	-	-	-	-	(3,873)	(84,488)
Profit before taxation											274,936	62,356
Taxation credit/(charge)											7	(4,126)
Profit before minority interests											274,943	58,230
Minority interests											(95,680)	(44,274)
Net profit for the year											179,263	13,956



## 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

## (i) Business segments (Continued)

## Balance sheet

	Construction activities		Garment activities		Property development activities		Property investment activities		Others		Elimination		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>ASSETS</b>														
Segment assets	402,283	480,118	345,490	366,666	2,183,162	1,448,632	1,343,201	1,272,728	2,534,471	2,580,218	(2,514,766)	(2,751,689)	4,293,841	3,396,673
Interests in associates	–	–	611	611	14,857	14,857	–	–	44,356	40,214	–	–	59,824	55,682
Interests in jointly-controlled entities	–	–	15,954	2,679	36,371	3,697	–	–	–	–	–	–	52,325	6,376
Unallocated corporate assets	–	–	–	–	–	–	–	–	–	–	–	–	46,824	475,863
Consolidated total assets													4,452,814	3,934,594
<b>LIABILITIES</b>														
Segment liabilities	307,035	355,980	111,401	77,617	1,448,630	1,517,971	1,066,924	965,031	212,713	274,761	(2,514,766)	(2,751,689)	631,937	439,671
Unallocated corporate liabilities	–	–	–	–	–	–	–	–	–	–	–	–	1,800,933	1,930,057
Consolidated total liabilities													2,432,870	2,369,728
<b>OTHER INFORMATION</b>														
Additions to property, plant and equipment														
– The Group	20,164	14,239	9,639	2,836	31	1,120	–	410	510	336	–	–	30,344	18,941
– Acquired on acquisitions of subsidiaries	–	–	182	–	–	3,186	–	102	–	1,008	–	–	182	4,296
Depreciation and amortisation of property, plant and equipment	37,964	39,505	7,629	8,196	630	509	115	54	331	645	–	–	46,669	48,909

## 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

## (ii) Geographical segments

The following table provides an analysis of the Group's turnover by geographical market:

	Turnover	
	2005	2004
	HK\$'000	HK\$'000
Hong Kong	716,114	1,014,237
North America	419,273	409,808
Europe	250,322	240,217
Others	32,218	20,827
	<u>1,417,927</u>	<u>1,685,089</u>

The following is an analysis of the carrying amount of the segment assets and additions to property, plant and equipment analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	2,057,036	2,355,665	21,309	16,585
The People's Republic of China (other than Hong Kong) (the "PRC")	1,694,693	980,307	1,334	1,305
The Republic of Indonesia	145,883	156,252	7,701	1,051
Others	543,362	435,161	–	–
	<u>4,440,974</u>	<u>3,927,385</u>	<u>30,344</u>	<u>18,941</u>
Unallocated assets	11,840	7,209	–	–
	<u>4,452,814</u>	<u>3,934,594</u>	<u>30,344</u>	<u>18,941</u>

## 6. PROFIT FROM OPERATIONS

	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit from operations has been arrived at after charging:		
Depreciation and amortisation:		
Owned assets	46,173	47,656
Assets held under finance leases	496	1,253
	<u>46,669</u>	<u>48,909</u>
Less: Amount capitalised in contract costs	(4,488)	(3,879)
	<u>42,181</u>	<u>45,030</u>
Staff costs (including directors' emoluments)	199,536	206,980
Less: Amount capitalised in contract costs	(65,957)	(70,771)
	<u>133,579</u>	<u>136,209</u>
Auditors' remuneration	2,814	2,565
Loss on disposals of property, plant and equipment	466	–
Minimum lease payment paid in respect of land and buildings	3,406	3,601
Unrealised loss on investments in securities	127	–
and after crediting:		
Dividend income from unlisted investments in securities	–	361
Interest income from investments in securities	–	1,227
Bank interest income	2,787	2,490
Other interest income	45	1,451
Exchange gain	6,874	3,964
Gain on disposals of property, plant and equipment	–	1,798
Gain on disposals of permanent textile quota entitlements	352	71
Write off of negative goodwill arising from acquisitions of subsidiaries (included in other operating income)	–	820
Gross rental income (included in turnover and other operating income)	74,403	51,045
Less: Outgoing expenses	(22,667)	(21,386)
	<u>51,736</u>	<u>29,659</u>
Unrealised gain on investments in securities	<u>–</u>	<u>123</u>

## 7. FINANCE COSTS

	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on:		
Bank borrowings wholly repayable within five years	(53,500)	(47,158)
Bank borrowings wholly repayable after five years	(1,094)	(1,820)
Other borrowings wholly repayable within five years	(2,202)	(97)
Finance leases	(86)	(117)
	<u>(56,882)</u>	<u>(49,192)</u>
Total borrowing costs	(56,882)	(49,192)
Less: Amount capitalised under property development projects	(24,624)	(15,024)
	<u>(32,258)</u>	<u>(34,168)</u>

## 8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

## (i) Information regarding directors' emoluments

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
The emoluments paid to directors of the Company during the year are as follows:		
Directors' fees paid to independent non-executive directors	138	50
Emoluments paid to executive directors		
– Salaries	4,710	4,828
– Bonuses paid and payable	2,495	2,000
– Retirement benefit scheme contributions	–	118
	<u>7,343</u>	<u>6,996</u>

The emoluments of directors fall within the following bands:

	Number of directors	
	2005	2004
Nil	1	5
HK\$1 to HK\$1,000,000	4	1
HK\$1,500,001 to HK\$2,000,000	–	1
HK\$2,000,001 to HK\$2,500,000	–	1
HK\$2,500,001 to HK\$3,000,000	–	1
HK\$3,000,001 to HK\$3,500,000	1	–
HK\$3,500,001 to HK\$4,000,000	1	–
	<u>7</u>	<u>9</u>

## (ii) Information regarding employees' emoluments

The five highest paid individuals of the Group in the year include two directors (2004: two directors). The emoluments of the remaining three highest paid individuals, who are not directors, are as follows:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Salaries	3,445	2,321
Bonuses paid and payable	1,908	3,760
Retirement benefit scheme contributions	229	141
	<u>5,582</u>	<u>6,222</u>

The emoluments of these three individuals fall within the following bands:

	Number of employees	
	2005	2004
HK\$1,000,001 to HK\$1,500,000	1	–
HK\$1,500,001 to HK\$2,000,000	1	1
HK\$2,000,001 to HK\$2,500,000	1	2
	<u>3</u>	<u>3</u>

## 9. RETIREMENT BENEFIT SCHEME CONTRIBUTIONS

The Group operates defined contribution mandatory provident fund schemes (the “MPF Schemes”) under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate. The MPF Schemes became effective on 1st December, 2000. Contributions made are based on a percentage, specific in the rule of relevant schemes, of the employees’ basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Schemes. The assets of the MPF Schemes are held separately from those of the Group in independently administered funds. The Group’s employer contributions vested fully with the employees when contributed into the MPF Schemes except for the Group’s employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully in accordance with the rules of the MPF Schemes.

As an alternative, certain subsidiaries of the Company also operated defined contribution provident fund schemes (the “Provident Funds”) under the Occupational Retirement Schemes Ordinance for those employees who are eligible to participate. Provident Funds operated in a similar way to the MPF Schemes, except that when an employee left the Provident Funds prior to his/her interest in the Group’s employer contributions being vested fully, the ongoing contributions payable by the Group were reduced by the relevant amount of forfeited contributions.

	2005 HK\$'000	2004 HK\$'000
Contributions payable to the Group’s MPF Schemes	4,949	5,244
Contributions payable to the Group’s Provident Funds	731	1,068
Less: Forfeited contributions	–	–
	731	1,068
Contributions charged to the income statement	<u>5,680</u>	<u>6,312</u>

There are no forfeited contributions for both years.

## 10. LOSS ON DEEMED DISPOSAL OF PARTIAL INTERESTS IN A SUBSIDIARY

In the prior year, loss on deemed disposal of partial interests in a subsidiary amounting to HK\$56,242,000 was as a result of the Company’s placement of 66,700,000 ordinary shares of Hon Kwok Land Investment Company, Limited (“Hon Kwok”) and conditional subscription of 66,700,000 of Hon Kwok’s new shares. The new shares ranked pari passu with the existing shares. The Company’s shareholding in Hon Kwok decreased from 69.39% to 57.83% accordingly.

Details of the transaction are set out in note 41(c).

## 11. SHARE OF RESULTS OF JOINTLY-CONTROLLED ENTITIES

	2005 HK\$'000	2004 HK\$'000
Share of operating profit	6,008	6,206
Waiver of debts	3,873	84,488
	<u>9,881</u>	<u>90,694</u>

During the year, a non-wholly owned subsidiary of the Company and its joint venture partner wrote off the debts which were non-recoverable from jointly-controlled entities. The corresponding debit of HK\$3,873,000 (2004: HK\$84,488,000) was recognised as write off of debts due from jointly-controlled entities whilst the corresponding credit of HK\$3,873,000 (2004: HK\$84,488,000) was recognised as share of results of jointly-controlled entities.

## 12. TAXATION CREDIT/(CHARGE)

	2005 HK\$'000	2004 HK\$'000
The credit/(charge) for the year comprises:		
Hong Kong Profits Tax		
Current year	(1,032)	(7,971)
(Under)/over provision in prior years	(3,261)	24
Other jurisdictions	(1,630)	(2,947)
	<u>(5,923)</u>	<u>(10,894)</u>
Deferred taxation credit ( <i>note 23</i> )	7,326	7,657
	1,403	(3,237)
Share of taxation of associates	(1,170)	(853)
Share of taxation of jointly-controlled entities	(226)	(36)
	<u>7</u>	<u>(4,126)</u>

Hong Kong Profits Tax is calculated at 17.5% (2004: 17.5%) on the estimated assessable profits of the year. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

The taxation credit/(charge) for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2005 HK\$'000	2004 HK\$'000
Profit before taxation	<u>274,936</u>	<u>62,356</u>
Tax charge at Hong Kong Profits Tax rate at 17.5% (2004: 17.5%) on assessable income for the year	(48,114)	(10,912)
Tax effect of share of results of associates	(317)	(2,484)
Tax effect of share of results of jointly-controlled entities	1,503	1,050
Tax effect of expenses not deductible for tax purpose	(9,677)	(26,031)
Tax effect of income not taxable for tax purpose	69,168	50,567
(Under)/over provision in prior years	(3,261)	24
Tax effect of deferred taxation assets not recognised	(16,522)	(9,616)
Utilisation of tax losses previously not recognised	(740)	(5,742)
Effect of different tax rates of subsidiaries operating in other jurisdictions	5,782	1,464
Others	2,185	(2,446)
Taxation credit/(charge) for the year	<u>7</u>	<u>(4,126)</u>

## 13. DIVIDEND

	2005 HK\$'000	2004 HK\$'000
Proposed final dividend of 3 cents (2004: 2 cents) per ordinary share	<u>16,541</u>	<u>11,027</u>

## 14. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit for the year of HK\$179,263,000 (2004: HK\$13,956,000) and on 551,368,153 (2004: 551,368,153) shares in issue during the year.

There has been no dilutive effect on the basic earnings per share for the current year as the exercise prices of outstanding share options of an associate of the Group were higher than the average market price of its shares.

No disclosure of diluted earnings per share for the prior year is presented as the exercise of the outstanding share options of an associate of the Group would only serve to increase the earnings per share from the continuing ordinary activities.

## 15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings		Leasehold improvements	Plant and machinery	Motor vehicles	Furniture, fixtures and equipment	Total
	Hong Kong	Overseas					
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>THE GROUP</b>							
<b>COST</b>							
At 1st April, 2004	80,997	69,920	12,781	417,507	9,598	33,508	624,311
Currency realignment	–	49	5	5	1	2	62
Acquisition of a subsidiary	–	–	–	98	56	28	182
Additions	–	3,665	373	22,161	2,765	1,380	30,344
Disposals	–	(1,547)	(17)	(1,235)	(2,468)	(3,120)	(8,387)
At 31st March, 2005	80,997	72,087	13,142	438,536	9,952	31,798	646,512
<b>DEPRECIATION AND AMORTISATION</b>							
At 1st April, 2004	13,409	20,465	11,873	247,473	7,693	26,624	327,537
Currency realignment	–	9	4	4	1	1	19
Provided for the year	1,642	1,908	361	39,117	967	2,674	46,669
Eliminated on disposals	–	(390)	(7)	(404)	(2,175)	(2,922)	(5,898)
At 31st March, 2005	15,051	21,992	12,231	286,190	6,486	26,377	368,327
<b>NET BOOK VALUES</b>							
At 31st March, 2005	65,946	50,095	911	152,346	3,466	5,421	278,185
At 31st March, 2004	67,588	49,455	908	170,034	1,905	6,884	296,774

Details of the leasehold land and buildings are as follows:

	2005	2004
	HK\$'000	HK\$'000
Medium-term leases:		
Hong Kong	65,946	67,588
Overseas	48,181	47,427
Long leases in the PRC	1,914	2,028
	116,041	117,043

Included in the net book value of property, plant and equipment of the Group at 31st March, 2005 is an amount of HK\$12,542,000 (2004: HK\$9,568,000) in respect of assets held under finance leases.

## 15. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Furniture, fixtures and equipment HK\$'000
<b>THE COMPANY</b>	
COST	
At 1st April, 2004 and 31st March, 2005	72
DEPRECIATION	
At 1st April, 2004	70
Provided for the year	1
At 31st March, 2005	71
NET BOOK VALUES	
At 31st March, 2005	1
At 31st March, 2004	2

## 16. PROPERTIES UNDER DEVELOPMENT

	<b>THE GROUP</b>	
	<b>2005</b>	<b>2004</b>
	HK\$'000	HK\$'000
At the beginning of the year	488,773	–
Arising on acquisitions of subsidiaries	–	346,976
Currency realignment	3,031	6,974
Additions	459,184	157,205
Disposals	(37,687)	(28,796)
Eliminated on disposals of subsidiaries	(330,715)	(1,192)
Eliminated on deemed disposal of subsidiaries	–	(1,739)
Write back of allowance for properties under development	–	9,345
At the end of the year	<u>582,586</u>	<u>488,773</u>

Details of the properties under development are as follows:

	<b>2005</b>	<b>2004</b>
	HK\$'000	HK\$'000
Medium-term leases in Hong Kong	3,582	327,506
Long leases in the PRC	579,004	127,255
Freehold property in Canada	–	34,012
	<u>582,586</u>	<u>488,773</u>

Properties under development included interest expenses and other borrowing costs of HK\$1,827,000 (2004: HK\$1,703,000) incurred and capitalised during the year.



## 17. INVESTMENT PROPERTIES

	<b>THE GROUP</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
AT VALUATION		
At the beginning of the year	1,267,575	1,500
Arising on acquisitions of subsidiaries	–	1,068,875
Additions	3,212	5,498
Surplus arising from revaluation	58,613	191,702
	<u>1,329,400</u>	<u>1,267,575</u>
At the end of the year	<u>1,329,400</u>	<u>1,267,575</u>

The Group's investment properties at 31st March, 2005 were revalued on an open market value basis by Chesterton Petty Limited and Knight Frank, firms of international property consultants, as well as Henry Butcher Malaysia Sdn. Bhd., chartered surveyors. The revaluation resulted in a surplus of approximately HK\$58,613,000 (2004: HK\$191,702,000). HK\$34,130,000 (2004: HK\$4,459,000) (net of amount shared by minority interests and deferred taxation) has been credited to investment property revaluation reserve. In the prior year, approximately HK\$184,355,000 had also been credited to the consolidated income statement.

Details of the investment properties are as follows:

	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Freehold land in Malaysia	142,100	187,775
Medium-term leases in Hong Kong	402,300	361,800
Long lease in Hong Kong	785,000	718,000
	<u>1,329,400</u>	<u>1,267,575</u>

All the Group's investment properties are rented out under operating leases.

## 18. INTERESTS IN SUBSIDIARIES

	<b>THE COMPANY</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	839,466	839,466
Amounts due from subsidiaries, net ( <i>note</i> )	186,618	186,613
	<u>1,026,084</u>	<u>1,026,079</u>

*Note:* The amounts are unsecured, non-interest bearing and have no fixed repayment terms. In the opinion of directors of the Company, the amounts will not be repaid within the next twelve months from the balance sheet date.

## 18. INTERESTS IN SUBSIDIARIES (Continued)

Details of the Company's principal subsidiaries at 31st March, 2005 are as follows:

Name of subsidiary	Place of incorporation/ registration	Place of operation	Nominal value of issued ordinary shares/registered capital	Proportion of nominal value of issued ordinary shares/ registered capital held by the Company		Principal activities
				Directly %	Indirectly %	
Apex Curtain Wall and Windows Company Limited	Hong Kong	Hong Kong	HK\$10,000	–	86.05	Contracting of building aluminium works
Champion Fine International Investments Inc.	Canada	Canada	C\$1	–	57.83	Property development
China Parking Limited	Hong Kong	Hong Kong	HK\$2	–	57.83	Property holding
Chinney Builders and Foundation Company Limited	Hong Kong	Hong Kong	HK\$2	–	86.05	Building construction
Chinney Construction (BVI) Limited	British Virgin Islands	British Virgin Islands	US\$10,000	–	86.05	Investment holding
Chinney Construction Company, Limited	Hong Kong	Hong Kong	HK\$18,000,000	–	86.05	Building construction
Chinney Contractors Company Limited	British Virgin Islands	British Virgin Islands	US\$18,961	86.05	–	Investment holding
Chinney Property Management Limited	Hong Kong	Hong Kong	HK\$100	–	57.83	Property management
Cosmos Wealth Development Limited	Hong Kong	Hong Kong	HK\$1,000	–	57.83	Property development
CP Management Limited	Hong Kong	Hong Kong	HK\$2	–	57.83	Carpark management
Crown Honour Developments Limited	Hong Kong	Hong Kong	HK\$2	–	57.83	Provision of nominee services
Debest Development Limited	Hong Kong	Hong Kong	HK\$2	–	57.83	Property development
Dongguan Chinney Garments Limited	PRC	PRC	HK\$9,000,000*	–	100.00	Garment manufacture
Dongguan Marigold Industry City Developing Co., Ltd.	PRC	PRC	HK\$50,000,000**	–	100.00	Property holding and development
DrilTech Geotechnical Engineering Limited	Hong Kong	Hong Kong	HK\$10,000	–	86.05	Drilling, site investigation and related ground engineering construction
DrilTech Ground Engineering Limited	Hong Kong	Hong Kong	HK\$12,500,000	–	86.05	Drilling, site investigation and related ground engineering construction

## 18. INTERESTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ registration	Place of operation	Nominal value of issued ordinary shares/registered capital	Proportion of nominal value of issued ordinary shares/ registered capital held by the Company		Principal activities
				Directly %	Indirectly %	
Full Yip Development Limited	British Virgin Islands	Hong Kong	US\$1	–	57.83	Property holding and letting
Gateway Group Holdings Limited	British Virgin Islands	British Virgin Islands	US\$2,500,000	100.00	–	Investment holding
Gateway Trade and Development Company, Limited	Hong Kong	Hong Kong	HK\$9,000,000	–	100.00	Garment trading
Guangzhou Honkwok Fuqiang Land Development Ltd.	PRC	PRC	RMB183,795,038*	–	27.76***	Property development
Guangzhou Honkwok Hengsheng Land Development Ltd.	PRC	PRC	RMB90,000,000*	–	34.70***	Property development
Hon Cheong Limited	Hong Kong	Hong Kong	HK\$2	–	57.83	Property holding and letting
Hon Kwok Land Investment (China) Limited	Hong Kong	Hong Kong	HK\$2	–	57.83	Investment holding
Hon Kwok Land Investment Company, Limited	Hong Kong	Hong Kong	HK\$400,238,501	57.83	–	Investment holding
Hon Kwok Land Investment (Shenzhen) Co., Ltd.	PRC	PRC	HK\$30,000,000*	–	57.83	Property development
Hon Kwok Project Management Limited	Hong Kong	Hong Kong	HK\$2	–	57.83	Project management
Hon Kwok Treasury Limited (formerly Honbest Investment Limited)	Hong Kong	Hong Kong	HK\$2	–	57.83	Financing
Honour Well Development Limited	Hong Kong	Hong Kong	HK\$2	–	57.83	Property holding and letting
Island Parking Limited	British Virgin Islands	Hong Kong	US\$10	–	57.83	Property holding and letting
J.L. Chinney (Holdings) Company Limited	British Virgin Islands	British Virgin Islands	US\$1,250,000	100.00	–	Investment holding
J.L. Group Company Limited	Hong Kong	Hong Kong	HK\$8,000,000	–	100.00	Garment trading
J.L. Investment Company Limited	Hong Kong	Hong Kong	HK\$10,000	–	100.00	Property holding
King Capital Development Limited	Hong Kong	Hong Kong	HK\$2	–	57.83	Property holding and letting
King Champion Limited	Hong Kong	Hong Kong	HK\$2	–	57.83	Property holding and letting

## 18. INTERESTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ registration	Place of operation	Nominal value of issued ordinary shares/registered capital	Proportion of nominal value of issued ordinary shares/ registered capital held by the Company		Principal activities
				Directly %	Indirectly %	
Kin Wing Chinney (BVI) Limited	British Virgin Islands	British Virgin Islands	US\$208	–	86.05	Investment holding
Kin Wing Engineering Company Limited	Hong Kong	Hong Kong	HK\$10,000,000	–	86.05	Foundation piling
Kin Wing Foundations Limited	Hong Kong	Hong Kong	HK\$10,000	–	86.05	Foundation piling
Kin Wing Machinery & Transportation Limited	Hong Kong	Hong Kong	HK\$100	–	86.05	Equipment and machinery leasing
Kin Wing Treasury Limited	Hong Kong	Hong Kong	HK\$10,000	–	86.05	Financing
Lido Parking Limited	British Virgin Islands	Hong Kong	US\$1	–	57.83	Property holding and letting
Multiway Apparel Limited (formerly Multi-Way Trading Limited)	Hong Kong	Hong Kong	HK\$5,000,000	–	100.00	Garment trading
Nanhai Xin Da Real Estate Development Co., Ltd.	PRC	PRC	HK\$90,480,000*	–	46.26***	Property development
One City Hall Place Limited	Canada	Canada	C\$100	–	43.37***	Property development
Pacific Corporate Services Limited	Hong Kong	Hong Kong	HK\$2	–	57.83	Provision of corporate services
PT. Prefash Wears Cemerlang	Republic of Indonesia	Republic of Indonesia	US\$500,000	–	100.00	Garment manufacture and trading
Royal Treasure Limited	Hong Kong	Hong Kong	HK\$2	100.00	–	Property holding
Shenzhen Honkwok Huaye Development Co., Ltd.	PRC	PRC	RMB50,000,000*	–	46.26***	Property development
Spark Eagle Development Limited	Hong Kong	Malaysia	HK\$2	–	57.83	Property holding and letting
Star World Property Limited	Hong Kong	Hong Kong	HK\$2	–	57.83	Property development
Sunny Land Sdn. Bhd.	Malaysia	Malaysia	M\$2	–	57.83	Property management
Victory Venture Development Limited	Hong Kong	Hong Kong	HK\$2	–	57.83	Property development
Wide Fame Investment Limited	Hong Kong	Hong Kong	HK\$2	–	57.83	Property development

**18. INTERESTS IN SUBSIDIARIES (Continued)**

- \* These companies are registered as foreign owned enterprises.
- \*\* This company is a co-operative joint venture enterprise. Pursuant to an agreement entered into with the joint venture partner, the Group is:
- obliged to contribute 100% of the registered capital of the company
  - entitled to 85% of the profit but has to bear all of the losses of the company
  - entitled to 100% of the residual net assets of the company upon winding up
- \*\*\* The Group held controlling indirect interest in these companies through a non-wholly owned subsidiary thus the Group has the power to direct the financial and operating policies of these companies and they are therefore accounted for as subsidiaries.

Some shares in Hon Kwok were pledged to a bank to secure banking facilities granted.

The above table lists the subsidiaries of the Company which, in the opinion of the directors of the Company, principally affected the results or assets of the Group. To give details of all the subsidiaries would, in the opinion of directors of the Company, result in particulars of excessive length.

**19. INTERESTS IN ASSOCIATES**

	<b>THE GROUP</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Share of net assets	51,123	46,981
Amounts due from associates ( <i>note</i> )	8,701	8,701
	<u>59,824</u>	<u>55,682</u>

*Note:* The amounts are unsecured, non-interest bearing and have no fixed repayment terms. In the opinion of directors of the Company, the amounts will not be repaid within the next twelve months from the balance sheet date.

The market values of an associate listed on the Stock Exchange held by the Group at 31st March are as follows:

	<b>THE GROUP</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
1,153,957,982 (2004: 1,153,957,982) shares of Chinney Alliance Group Limited (“Chinney Alliance”) at a closing price of HK\$0.025 (2004: HK\$0.018) each	<u>28,849</u>	<u>20,771</u>

The Group has 29.10% equity interest in the issued share capital of its principal associate, Chinney Alliance, an investment holding company incorporated in Bermuda, with its subsidiaries engaged in trading and manufacture of industrial products in Hong Kong.

The above lists the associate of the Group which, in the opinion of the directors of the Company, principally affected the results or form a substantial portion of the net assets of the Group.

Extracts from the financial statements of Chinney Alliance, the major associate of the Company, are set out in note 42(a).

## 20. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	<b>THE GROUP</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Share of net assets less liabilities	46,397	(7,914)
Amounts due from jointly-controlled entities, net ( <i>note</i> )	5,928	14,290
	<u>52,325</u>	<u>6,376</u>

*Note:* The amounts are unsecured, non-interest bearing and have no fixed repayment terms. In the opinion of directors of the Company, the amounts will not be repaid within the next twelve months from the balance sheet date.

Details of the Company's principal jointly-controlled entities at 31st March, 2005 are as follows:

<b>Name of jointly-controlled entity</b>	<b>Place of incorporation/operation</b>	<b>Proportion of nominal value of issued ordinary shares held by the Company</b>		<b>Principal activities</b>
		<b>Directly</b>	<b>Indirectly</b>	
		<b>%</b>	<b>%</b>	
2012829 Ontario Inc.	Canada	–	28.92	Property development
King Success Limited	Hong Kong	–	28.92	Property development
SGA Holdings Limited	British Virgin Islands/ Hong Kong	–	50	Garment trading

The above table lists the jointly-controlled entities of the Group, which in the opinion of the directors of the Company, principally affected the results or form a substantial portion of the net assets of the Group.

Extracts from the financial statements of the major jointly-controlled entities of the Group are set out in note 42(b).

## 21. GOODWILL

	<b>THE GROUP</b>
	<i>HK\$'000</i>
<b>COST</b>	
Arising on acquisition of a subsidiary during the year and balance at 31st March, 2005	2,463
<b>IMPAIRMENT</b>	
Recognised during the year and balance at 31st March, 2005	<u>2,463</u>
<b>CARRYING VALUE</b>	
At 31st March, 2005	<u><u>–</u></u>

At the balance sheet date, the Group identified an indicator of impairment in the carrying amount of its goodwill. As a result, the goodwill of HK\$2,463,000 was fully written off.

## 22. NEGATIVE GOODWILL

	<b>THE GROUP</b> <i>HK\$'000</i>
<b>GROSS AMOUNT</b>	
Arising on acquisitions during the year	209,627
Transfer of capital reserve arising from the acquisition of an associate in prior years	4,581
Eliminated upon deemed disposal	<u>(35,685)</u>
At 31st March, 2004 and 31st March, 2005	<u>178,523</u>
<b>RELEASED TO INCOME</b>	
Released in the year	58,511
Eliminated upon deemed disposal	<u>(8,921)</u>
At 31st March, 2004	49,590
Released in the year	<u>59,507</u>
At 31st March, 2005	<u>109,097</u>
<b>CARRYING AMOUNT</b>	
At 31st March, 2005	<u><u>69,426</u></u>
At 31st March, 2004	<u><u>128,933</u></u>

The negative goodwill is released to income on a straight-line basis of three years, the remaining weighted average useful life of the depreciable assets acquired.

## 23. DEFERRED TAXATION

The following are the major deferred taxation assets/(liabilities) recognised by the Group and movements thereon during the current and prior periods:

	<b>Accelerated tax depreciation</b> <i>HK\$'000</i>	<b>Revaluation of properties</b> <i>HK\$'000</i>	<b>Tax losses</b> <i>HK\$'000</i>	<b>Others</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
<b>THE GROUP</b>					
At 1st April, 2003	(34,887)	–	4,696	165	(30,026)
Credit/(charge) to income during the year	5,547	–	2,115	(5)	7,657
Charge to equity during the year	–	(1,104)	–	–	(1,104)
Arising on acquisition of subsidiaries	<u>(1,335)</u>	<u>(30,817)</u>	<u>–</u>	<u>–</u>	<u>(32,152)</u>
At 31st March, 2004	(30,675)	(31,921)	6,811	160	(55,625)
Credit to income during the year	4,200	–	3,118	8	7,326
Credit to equity during the year	–	1,104	–	–	1,104
Release upon disposal of properties under development	<u>–</u>	<u>1,982</u>	<u>–</u>	<u>–</u>	<u>1,982</u>
At 31st March, 2005	<u><u>(26,475)</u></u>	<u><u>(28,835)</u></u>	<u><u>9,929</u></u>	<u><u>168</u></u>	<u><u>(45,213)</u></u>

**23. DEFERRED TAXATION (Continued)**

The following is the analysis of the deferred taxation balances for financial reporting purposes:

	2005 HK\$'000	2004 HK\$'000
Deferred taxation assets	5,275	2,900
Deferred taxation liabilities	(50,488)	(58,525)
	<u>(45,213)</u>	<u>(55,625)</u>

At the balance sheet date, the Group and the Company had unused tax losses of HK\$1,502,108,000 (2004: HK\$814,618,000) and HK\$61,522,000 (2004: HK\$64,484,000), respectively available to offset against future profits. A deferred taxation has been recognised in respect of HK\$56,737,000 (2004: HK\$38,920,000) of such losses. No deferred taxation asset has been recognised in respect of the remaining HK\$1,445,371,000 (2004: HK\$775,698,000) due to the unpredictability of future profit streams. Tax losses may be carried forward indefinitely.

**24. INVESTMENTS IN SECURITIES**

	Investment securities		Other investments		Total	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
<b>THE GROUP</b>						
Equity securities:						
Listed shares	–	–	635	762	635	762
Unlisted						
– at cost (note 1)	50,563	–	–	–	50,563	–
– capital contributions (note 2)	2,452	1,510	–	–	2,452	1,510
	<u>53,015</u>	<u>1,510</u>	<u>635</u>	<u>762</u>	<u>53,650</u>	<u>2,272</u>
Total:						
Listed – Hong Kong	–	–	635	762	635	762
Unlisted	53,015	1,510	–	–	53,015	1,510
	<u>53,015</u>	<u>1,510</u>	<u>635</u>	<u>762</u>	<u>53,650</u>	<u>2,272</u>
Market value of listed securities	<u>–</u>	<u>–</u>	<u>635</u>	<u>762</u>	<u>635</u>	<u>762</u>
Carrying amount analysed for reporting purposes as:						
Current	–	–	635	762	635	762
Non-current	53,015	1,510	–	–	53,015	1,510
	<u>53,015</u>	<u>1,510</u>	<u>635</u>	<u>762</u>	<u>53,650</u>	<u>2,272</u>

Notes:

- In the current year, a non-wholly owned subsidiary acquired a 90% equity interest in a company operating in Mainland China and the non-wholly owned subsidiary intends to dispose of 45% equity interest of the company to an independent third party subsequent to the balance sheet date. The management of the non-wholly owned subsidiary considers control of the company to be temporary because it is acquired and held with a view to its subsequent partial disposal in the near future, and accordingly the company was not consolidated as at the balance sheet date.



**24. INVESTMENTS IN SECURITIES (Continued)**

2. *Included in capital contributions which are stated at carrying value is the Group's 8% (2004: 11%) equity interest in the registered capital of Gansu Longhai Chinney Construction Engineering Co., Ltd., a company which is established in the PRC. During the year, HK\$500,000 (2004: HK\$2,000,000) registered capital was repatriated to the Group.*

**25. INVENTORIES**

	<b>THE GROUP</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	36,422	33,739
Work in progress	42,533	45,945
Finished goods	4,736	7,057
	<u>83,691</u>	<u>86,741</u>

At 31st March, 2005, the carrying value of finished goods that was carried at net realisable value amounted to HK\$260,000 (2004: Nil).

At 31st March, 2004, the carrying value of raw materials that was carried at net realisable value amounted to HK\$31,610,000.

Cost of inventories recognised as expense for the year amounted to HK\$659,840,000 (2004: HK\$588,304,000).

**26. PROPERTIES HELD FOR SALE**

	<b>THE GROUP</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
At the beginning of the year	960,378	–
Arising on acquisitions of subsidiaries	–	1,017,104
Additions	361,705	311,391
Exchange realignment	12,357	7,165
Eliminated on deemed disposal of subsidiaries	–	(1,739)
Eliminated on sales of properties	(125,038)	(373,543)
	<u>1,209,402</u>	<u>960,378</u>

At 31st March, 2005, the carrying amount of properties held for sale carried at net realisable value amounted to HK\$145,962,000 (2004: HK\$238,191,000).

Properties held for sale included interest expense and other borrowing costs totalling HK\$22,797,000 (2004: HK\$13,321,000) incurred and capitalised during the year.

## 27. AMOUNTS DUE FROM/(TO) CUSTOMERS FOR CONTRACT WORK

	<b>THE GROUP</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Contracts in progress at the balance sheet date comprised:		
Contract costs incurred	4,965,708	4,951,401
Add: Recognised profits less recognised losses	506,130	540,251
	<u>5,471,838</u>	<u>5,491,652</u>
Less: Progress billings	(5,455,866)	(5,534,179)
	<u>15,972</u>	<u>(42,527)</u>
Represented by:		
Amounts due from customers shown under current assets	48,048	43,407
Amounts due to customers shown under current liabilities	(32,076)	(85,934)
	<u>15,972</u>	<u>(42,527)</u>

Staff costs, hiring charges for plant and machinery and depreciation charges of HK\$65,957,000 (2004: HK\$70,771,000), HK\$16,145,569 (2004: HK\$6,597,000) and HK\$4,488,000 (2004: HK\$3,879,000), respectively, were included in contract costs. No borrowing costs were capitalised in either year.

## 28. DEBTORS AND PREPAYMENTS

Included in debtors and prepayments are trade debtors of approximately HK\$102,830,000 (2004: HK\$242,364,000). The aging analysis of trade debtors is as follows:

	<b>THE GROUP</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current to 30 days	75,785	192,407
31 to 60 days	13,379	39,043
61 to 90 days	6,136	2,412
Over 90 days	7,530	8,502
	<u>102,830</u>	<u>242,364</u>
Total	<u>102,830</u>	<u>242,364</u>

The Group allows an average credit period of 30 days to its trade customers.

Monthly rent in respect of leased properties is payable in advance by the tenants pursuant to the terms of the tenancy agreements. The balance of consideration in respect of sold properties is payable by the purchasers pursuant to the terms of the sale and purchase agreements. Overdue trade debts are followed up closely by management and are provided in full in case of non-recoverability.

## 29. CREDITORS AND ACCRUED CHARGES

Included in creditors and accrued charges are trade creditors of approximately HK\$99,359,000 (2004: HK\$118,771,000). The aging analysis of trade creditors is as follows:

	THE GROUP	
	2005	2004
	HK\$'000	HK\$'000
Current to 30 days	52,701	71,912
31 to 60 days	28,933	26,228
61 to 90 days	6,086	13,929
Over 90 days	11,639	6,702
	<u>99,359</u>	<u>118,771</u>
Total	<u>99,359</u>	<u>118,771</u>

## 30. OBLIGATIONS UNDER FINANCE LEASES

	THE GROUP			
	Minimum payments		Present value of minimum payments	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The maturity of the Group's obligations under finance leases is as follows:				
Within one year	3,379	1,504	3,095	1,457
Due after one year but within two years	2,472	938	2,278	898
Due after two years but within five years	4,722	78	4,562	62
	<u>10,573</u>	<u>2,520</u>	<u>9,935</u>	<u>2,417</u>
Less: Future finance charges	(638)	(103)	–	–
Present value of lease obligations	<u>9,935</u>	<u>2,417</u>	9,935	2,417
Less: Amount due within one year shown under current liabilities			<u>3,095</u>	<u>1,457</u>
Amount due after one year			<u>6,840</u>	<u>960</u>

It is the Group's policy to lease certain of its plant and machinery under finance leases. The average lease term is 4 years. For the year ended 31st March, 2005, the average effective borrowing rate was 3.25%. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

## 31. BANK BORROWINGS

	THE GROUP		THE COMPANY	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Bank overdrafts	34,832	40,595	–	–
Bank loans	1,668,320	1,826,714	64,500	12,500
	<u>1,703,152</u>	<u>1,867,309</u>	<u>64,500</u>	<u>12,500</u>
Unsecured bank loans and overdrafts due within a period of:				
Less than one year or on demand	112,969	118,909	–	2,500
More than one year but not exceeding two years	541,387	–	–	–
More than two years but not exceeding five years	77,393	–	–	–
	<u>731,749</u>	<u>118,909</u>	<u>–</u>	<u>2,500</u>
Secured bank loans and overdrafts due within a period of:				
Less than one year or on demand	287,395	416,567	64,500	10,000
More than one year but not exceeding two years	51,033	131,652	–	–
More than two years but not exceeding five years	589,958	1,186,035	–	–
More than five years	43,017	14,146	–	–
	<u>971,403</u>	<u>1,748,400</u>	<u>64,500</u>	<u>10,000</u>
Total bank borrowings	1,703,152	1,867,309	64,500	12,500
Less: Amount due within one year or on demand and shown under current liabilities	400,364	535,476	64,500	12,500
Amount due after one year	<u>1,302,788</u>	<u>1,331,833</u>	<u>–</u>	<u>–</u>

**31. BANK BORROWINGS** *(Continued)*

The secured bank loans and overdrafts of the Group are secured by the following assets of the Group with carrying amounts as follows:

	<b>THE GROUP</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Inventories	19,500	35,100
Investment properties <i>(note)</i>	1,327,000	1,265,875
Property, plant and equipment	128,494	148,695
Properties under development	–	323,924
Properties held for sale	385,762	295,837
Shares in associates, stated at the Group's share of the associates' net assets	44,355	40,215
Trade debtors	35,100	35,100
Bank balances	76,400	137,874
	<u>2,016,611</u>	<u>2,282,620</u>

Certain banking facilities of the Company are secured by certain shares in subsidiaries held by the Company with carrying value of HK\$767,426,000 (2004: HK\$767,422,000).

*Note:* Certain assignments for rental income that related to investment properties are also pledged for security of bank loans.

**32. LOANS TO/AMOUNTS DUE TO MINORITY SHAREHOLDERS OF SUBSIDIARIES**

The amounts are unsecured, non-interest bearing and have no fixed repayment terms, except for loans to the minority shareholders of non-wholly owned subsidiaries, which are bearing interest at normal commercial rate. As agreed with minority shareholders of subsidiaries, the amounts due to minority shareholders will not be repaid within the next twelve months from the balance sheet date.

**33. SHARE CAPITAL**

	<b>Number of shares</b>	<b>Amount</b>
	<b>2005 &amp; 2004</b>	<b>2005 &amp; 2004</b>
		<i>HK\$'000</i>
Ordinary shares of HK\$0.25 each:		
Authorised:		
At the beginning and the end of the year	<u>1,000,000,000</u>	<u>250,000</u>
Issued and fully paid:		
At the beginning and the end of the year	<u>551,368,153</u>	<u>137,842</u>

## 34. RESERVES

	Share premium HK\$'000	Exchange reserve HK\$'000	Capital/ (goodwill) reserve HK\$'000	Dividend reserve HK\$'000	Investment property revaluation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
<b>THE GROUP</b>							
At 1st April, 2004	267,569	(35,893)	(6,580)	11,027	4,459	563,522	804,104
Share of reserves of associates attributable to the Group	–	6	(98)	–	532	–	440
Exchange differences arising from translation of financial statements denominated in foreign currencies	–	6,487	–	–	–	–	6,487
Impairment loss on capital reserve	–	–	(42)	–	–	–	(42)
Surplus on revaluation of investment properties attributable to the Group	–	–	–	–	34,130	–	34,130
Net profit for the year	–	–	–	–	–	179,263	179,263
Dividend paid	–	–	–	(11,027)	–	–	(11,027)
Proposed final dividend	–	–	–	16,541	–	(16,541)	–
	<u>267,569</u>	<u>(29,400)</u>	<u>(6,720)</u>	<u>16,541</u>	<u>39,121</u>	<u>726,244</u>	<u>1,013,355</u>
At 31st March, 2005							
Attributable to:							
The Company and subsidiaries	267,569	(29,409)	(7,858)	16,541	38,589	663,878	949,310
Associates	–	9	1,138	–	532	(40,985)	(39,306)
Jointly-controlled entities	–	–	–	–	–	103,351	103,351
	<u>267,569</u>	<u>(29,400)</u>	<u>(6,720)</u>	<u>16,541</u>	<u>39,121</u>	<u>726,244</u>	<u>1,013,355</u>
At 31st March, 2005							

## 34. RESERVES (Continued)

	Share premium HK\$'000	Exchange reserve HK\$'000	Capital/ (goodwill) reserve HK\$'000	Dividend reserve HK\$'000	Investment property revaluation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st April, 2003	267,569	(44,387)	(6,779)	11,027	–	560,593	788,023
Share of reserves of associates attributable to the Group	–	(328)	4,780	–	–	–	4,452
Exchange differences arising from translation of financial statements denominated in foreign currencies	–	7,941	–	–	–	–	7,941
Transfer of capital reserve arising from the acquisition of an associate in prior years to negative goodwill	–	–	(4,581)	–	–	–	(4,581)
Release of exchange reserve upon disposal of a subsidiary	–	881	–	–	–	–	881
Surplus on revaluation of investment properties attributable to the Group	–	–	–	–	4,459	–	4,459
Net profit for the year	–	–	–	–	–	13,956	13,956
Dividend paid	–	–	–	(11,027)	–	–	(11,027)
Proposed final dividend	–	–	–	11,027	–	(11,027)	–
	<u>267,569</u>	<u>(35,893)</u>	<u>(6,580)</u>	<u>11,027</u>	<u>4,459</u>	<u>563,522</u>	<u>804,104</u>
At 31st March, 2004	<u>267,569</u>	<u>(35,893)</u>	<u>(6,580)</u>	<u>11,027</u>	<u>4,459</u>	<u>563,522</u>	<u>804,104</u>
Attributable to:							
The Company and subsidiaries	267,569	(35,896)	(7,816)	11,027	4,459	519,343	758,686
Associates	–	3	1,236	–	–	(44,688)	(43,449)
Jointly-controlled entities	–	–	–	–	–	88,867	88,867
	<u>267,569</u>	<u>(35,893)</u>	<u>(6,580)</u>	<u>11,027</u>	<u>4,459</u>	<u>563,522</u>	<u>804,104</u>
At 31st March, 2004	<u>267,569</u>	<u>(35,893)</u>	<u>(6,580)</u>	<u>11,027</u>	<u>4,459</u>	<u>563,522</u>	<u>804,104</u>

## 34. RESERVES (Continued)

	Share premium <i>HK\$'000</i>	Dividend reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>THE COMPANY</b>				
At 1st April, 2003	267,569	11,027	465,719	744,315
Net profit for the year	–	–	19,488	19,488
Dividend paid	–	(11,027)	–	(11,027)
Proposed final dividend	–	11,027	(11,027)	–
	<u>267,569</u>	<u>11,027</u>	<u>465,719</u>	<u>744,315</u>
At 1st April, 2004	267,569	11,027	474,180	752,776
Net profit for the year	–	–	82,638	82,638
Dividend paid	–	(11,027)	–	(11,027)
Proposed final dividend	–	16,541	(16,541)	–
	<u>267,569</u>	<u>16,541</u>	<u>474,180</u>	<u>752,776</u>
At 31st March, 2005	<u>267,569</u>	<u>16,541</u>	<u>540,277</u>	<u>824,387</u>

In addition to the retained profits of the Company which are distributable to shareholders, the share premium account of the Company can be applied under the Companies Ordinance to pay up bonus shares issuable to shareholders of the Company.

## 35. ACQUISITIONS OF SUBSIDIARIES

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Net (liabilities)/assets acquired:		
Property, plant and equipment	182	4,296
Properties under development	–	346,976
Investment properties	–	1,068,875
Interest in an associate	–	14,857
Interests in jointly-controlled entities	–	2,504
Properties held for sale	–	1,017,104
Debtors and prepayments	849	85,368
Taxation recoverable	–	58
Bank balances and cash	–	166,649
Creditors and accrued charges	(3,494)	(175,521)
Customers' deposits	–	(10,078)
Bank overdrafts	–	(868)
Shareholders' loan	–	(191,867)
Taxation payable	–	(345)
Bank borrowings	–	(1,269,974)
Amounts due to minority shareholders	–	(61,615)
Minority interests	–	(376,984)
Deferred taxation liabilities	–	(32,152)
	<u>(2,463)</u>	<u>587,283</u>
Assignment of shareholders' loan	–	191,867
Negative goodwill arising from acquisitions	–	(209,627)
Write off of goodwill/(negative goodwill) arising from acquisitions	2,463	(820)
	<u>–</u>	<u>568,703</u>
Consideration given	<u>–</u>	<u>568,703</u>
Satisfied by:		
Cash	–	42,210
Reclassification of interests in an associate upon the former associate becoming a subsidiary	–	385,493
Settlement of convertible guaranteed bonds	–	141,000
	<u>–</u>	<u>568,703</u>



**35. ACQUISITIONS OF SUBSIDIARIES** *(Continued)*

Analysis of net outflow of cash and cash equivalents in connection with the acquisitions of subsidiaries:

	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash consideration	–	(42,210)
Bank balances and cash acquired	–	166,649
Bank overdrafts acquired	–	(868)
	<u>–</u>	<u>123,571</u>
	<u>–</u>	<u>123,571</u>

The subsidiary acquired during the year ended 31st March, 2005 did not have any significant impact to the Group's turnover and profit from operations.

In the prior year, the subsidiaries acquired contributed HK\$317,686,000 and HK\$139,689,000 to the Group's turnover and profit before taxation.

**36. DISPOSALS OF SUBSIDIARIES**

	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net assets/(liabilities) disposed of:		
Properties under development	330,715	1,192
Creditors and accrued charges	–	(450)
Amount due to minority shareholders of subsidiaries	–	(5,226)
Bank borrowings	(164,206)	–
Minority interests	–	3,198
	<u>166,509</u>	<u>(1,286)</u>
Release of exchange reserve	–	881
Gain on disposal of subsidiaries	233,662	1,394
	<u>400,171</u>	<u>989</u>
Satisfied by cash consideration received, net	<u>400,171</u>	<u>989</u>

Analysis of net cash inflow of cash and cash equivalents in connection with the disposals of subsidiaries:

	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash consideration, net	<u>400,171</u>	<u>989</u>

The subsidiaries disposed of during the years ended 31st March, 2005 and 2004 did not have any significant impact to the Group's turnover and profit from operations.

**37. MAJOR NON-CASH TRANSACTIONS**

During the year, the Group entered into finance lease arrangements in respect of plant and machinery with a total capital value at the inception of the contracts of HK\$9,140,000 (2004: HK\$2,028,000).

In the prior year, part of the consideration for the purchase of a subsidiary comprised assignment of shareholders' loan and redemption of convertible guaranteed bonds. Further details of the acquisition are set out in note 35 above.

## 38. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
(a) Extent of general banking facilities guaranteed by the Group/Company which were utilised at the balance sheet date by:				
– subsidiaries	–	–	53,032	105,477
– jointly-controlled entities	92,701	110,105	–	–
Bills discounted with recourse	3,408	6,051	–	–
	<u>96,109</u>	<u>116,156</u>	<u>53,032</u>	<u>105,477</u>

- (b) Certain subsidiaries of Chinney Contractors Company Limited were involved in legal proceedings or claims against them in the ordinary course of their respective business activities. The aggregate amount of claims, including estimated legal costs, resulting from such contingent liabilities was approximately HK\$41,011,000 as at 31st March, 2005 (2004: HK\$67,961,000). The directors of the Company consider that, after taking into account of the legal advices obtained, these proceedings and claims were made without valid grounds and accordingly, no provision for any potential liabilities is considered necessary.

Certain subsidiaries of the Group have appealed against additional tax assessments of approximately HK\$6,159,000 raised by the Hong Kong Inland Revenue Department (“IRD”) regarding the taxability of certain profits recognised in prior years. By the decision of the Board of Review on 14th February, 2005 (“Decision”), the Group was ordered to pay IRD the sum of HK\$5,370,135 (being HK\$3,168,986 plus interest of HK\$2,201,149). At the balance sheet date, a provision had been made in the financial statements with respect of this Decision.

- (c) On 20th April, 1996, a writ was filed against a wholly-owned subsidiary of Hon Kwok, Joint Peace Investment Limited (“Joint Peace”), regarding an alleged disparity between the pavement and the ground floor level of the building at 18-22 Percival Street, junction of Jaffe Road, Causeway Bay, Hong Kong. The amount claimed, excluding minor construction and related costs, was either HK\$41,000,000 or HK\$69,300,000, representing the claim for loss of rental income or loss of interest on the purchase price, over a period of 12 months. A defence to contest this claim was filed on 22nd July, 1996.

On 2nd December, 1997, the plaintiff of this claim was allowed to amend the Writ of Summons and the Statement of Claim dated 20th April, 1996. Under advice by Hon Kwok’s solicitors, an Amended Defence in respect thereof was filed by Joint Peace on 30th December, 1997. On the same date, a Request for Further and Better Particulars of the Amended Statement of Claim was sent by Hon Kwok’s solicitors to the plaintiff’s solicitors.

Following consultation with Hon Kwok’s legal advisers (in their capacity as the legal advisers of Joint Peace), the directors of the Company have formed the view that the amended claim was unlikely to succeed and were therefore of the opinion that no provision regarding this claim is necessary in the Group’s financial statements. There has been no further progress of the claim so far up to the date of this report.

**39. OPERATING LEASE ARRANGEMENTS****The Group as lessor**

At the balance sheet date, the Group had total future minimum lease receivables under non-cancellable operating leases with tenants in respect of investment properties fall due:

	<b>THE GROUP</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	30,444	34,712
In the second to fifth year inclusive	22,730	35,171
Beyond five years	–	8,182
	<u>53,174</u>	<u>78,065</u>

The Company had no commitments under operating leases.

All of the properties held have committed tenants with lease terms ranging from one to five years.

**The Group as lessee**

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings fall due:

	<b>THE GROUP</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	4,221	3,164
In the second to fifth year inclusive	4,029	2,134
Beyond five years	1,472	–
	<u>9,722</u>	<u>5,298</u>

The Company had no operating lease commitments at the balance sheet date.

At 31st March, 2005, a jointly-controlled entity had annual commitments payable under non-cancellable operating leases for land and buildings falling due within one year and in the second to fifth year inclusive amounting to HK\$518,000 (2004: HK\$1,212,000) and HK\$792,000 (2004: HK\$3,217,000), respectively. The Group's share of these operating lease commitments amounted to HK\$259,000 (2004: HK\$606,000) and HK\$396,000 (2004: HK\$1,609,000), respectively.

Operating lease payments represent rental payable by the Group for certain land and buildings. Leases are negotiated for an average term of not more than three years.

**40. CAPITAL COMMITMENTS**

The Group had authorised and contracted capital commitments in respect of leasehold improvement and property development expenditure amounting to approximately HK\$545,543,000 (2004: HK\$309,325,000) at the balance sheet date.

The Company did not have any significant capital commitments at the balance sheet date.

## 41. RELATED PARTY TRANSACTIONS

- (a) Set out below are the significant transactions between the Group and other related parties during the year:

	<i>Notes</i>	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
Interest received from investment in securities of a former associate	<i>(i)</i>	–	1,227
Net interest received from jointly-controlled entities	<i>(ii)</i>	–	185
Management fee income received from an associate	<i>(iii)</i>	2,000	2,000
Commissions paid to the ultimate holding company	<i>(iv)</i>	2,625	2,188
Legal and professional fees paid to a firm to which a director of the Company is a consultant	<i>(v)</i>	527	1,064
Fee paid by a jointly-controlled entity for sales handled	<i>(vi)</i>	1,547	–
Write off of debts due from jointly-controlled entities	<i>(vii)</i>	<u>3,873</u>	<u>84,488</u>

*Notes:*

- (i) The amount represented interest at a fixed coupon rate of 10% per annum relating to the 10% convertible guaranteed bonds issued by Hon Kwok and due on April 2003. The bonds were repaid in the prior year.*
- (ii) The amounts due from certain jointly-controlled entities, which amounted to HK\$668,000 as at 31st March, 2004, were unsecured, interest-bearing at prevailing market rates and repayable on demand.*
- (iii) The management fee based on underlying costs incurred for the associate.*
- (iv) The amount represented payment by Hon Kwok as a subsidiary of the Company to Lucky Year for the provision of cash security for certain bank loans granted to Hon Kwok. The commissions were agreed and charged on bases taking into consideration the average borrowing costs of Hon Kwok and its subsidiaries.*
- (v) The directors consider that the provision of legal and professional services was made according to the standard prices and conditions similar to those offered to their clients of the firm.*
- (vi) The fee was paid to a subsidiary by a jointly-controlled entity for handling of sales on the latter's behalf.*
- (vii) During the year, a non-wholly owned subsidiary and a joint venture partner wrote off the debts amounting to HK\$3,873,000 (2004: HK\$84,488,000) which were non-recoverable from jointly-controlled entities.*
- (b) On 31st March, 2003, Hon Kwok entered into an agreement for a bridging facility with the Company whereby the Company agreed to provide financing to Hon Kwok to partly finance the redemption of convertible guaranteed bonds. Interest paid on the bridging finance facilities provided by the Company during the year ended 31st March, 2004 was HK\$2,486,000.
- (c) On 25th February, 2004, the Company and Hon Kwok entered into a placing agreement for the Company to place 66,700,000 existing shares of Hon Kwok of HK\$1 each at the placing price of HK\$1.65 per share. Pursuant to the placing agreement, the Company has conditionally agreed to subscribe for 66,700,000 new shares of Hon Kwok at the placing price. Upon the completion of the placing and subscription, the Company's shareholding in Hon Kwok decreased from 69.39% to 57.83%.

## 41. RELATED PARTY TRANSACTIONS (Continued)

- (d) On 3rd March, 2004, Multi-Investment Group Limited (“MIG”), an indirect wholly-owned subsidiary of the Company, entered into a placing agreement with a placing agent pursuant to which MIG agreed to place 468,000,000 existing shares of Chinney Alliance of HK\$0.01 each at the placing price of HK\$0.02 per share to more than six dependent third parties. Concurrently on the same day, MIG entered into a top-up subscription agreement with Chinney Alliance relating to the subscription for 660,000,000 new shares of Chinney Alliance of HK\$0.01 each at the issue price of HK\$0.02 per share. The subscription was completed on 16th March, 2004. After the completion of the placing of existing shares and the subscription of new shares, MIG remains to be interested in approximately 29.1% of the issued share capital of Chinney Alliance.
- (e) Except for an amount of HK\$20,000,000 due from a subsidiary carried interest at prevailing market rates in 2004, the amounts due from/to subsidiaries and associates are unsecured, non-interest bearing and repayable on demand in both years.

The amounts due from/to jointly controlled entities are unsecured, interest bearing at the prevailing market rates and repayable on demand in both years.

## 42. EXTRACTS FROM THE FINANCIAL STATEMENTS OF THE GROUP'S MAJOR ASSOCIATE/ JOINTLY-CONTROLLED ENTITIES

- (a) The following information is extracted from the most recent published audited financial statements of the Group's major associate:

**Chinney Alliance Group Limited****Consolidated income statement**

*For the year ended 31st December, 2004*

	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
Turnover	<u>1,073,103</u>	<u>852,722</u>
Operating profit/(loss)	20,501	(20,477)
Share of profits less losses of jointly-controlled entities	<u>(3,542)</u>	<u>(3,991)</u>
Profit/(loss) before tax	16,959	(24,468)
Taxation	<u>(4,019)</u>	<u>(2,932)</u>
Profit/(loss) before minority interests	12,940	(27,400)
Minority interests	<u>(220)</u>	<u>(418)</u>
Net profit/(loss) from ordinary activities attributable to shareholders	<u>12,720</u>	<u>(27,818)</u>

**Consolidated balance sheet**

*At 31st December, 2004*

	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
Fixed assets	36,545	30,938
Goodwill	–	1,759
Interests in associates	28,279	34,299
Other non-current assets	5,440	3,542
Current assets	448,902	357,663
Current liabilities	(358,708)	(298,754)
Non-current liabilities	(6,185)	(2,821)
Minority interests	<u>(1,912)</u>	<u>(1,692)</u>
Net assets	<u>152,361</u>	<u>124,934</u>

42. EXTRACTS FROM THE FINANCIAL STATEMENTS OF THE GROUP'S MAJOR ASSOCIATE/  
JOINTLY-CONTROLLED ENTITIES (Continued)

- (b) Extracts of the financial statements as at 31st March, 2005 of the Group's principal jointly-controlled entities are as follows:

	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>2012829 Ontario Inc.</b>		
Non-current assets	75,600	–
Non-current liabilities	(75,600)	–
	<u>75,600</u>	<u>–</u>
<b>King Success Limited*</b>		
Current assets	15,112	37,145
Current liabilities	(5,302)	(21,484)
Non-current liabilities	(12,177)	(18,181)
Income	400	29,640
Net profit for the year	153	42,131
	<u>153</u>	<u>42,131</u>
<b>SGA Holdings Limited</b>		
Non-current assets	829	684
Current assets	129,849	112,912
Current liabilities	(98,770)	(108,239)
Income	480,274	380,577
Net profit for the year	11,160	8,804
	<u>11,160</u>	<u>8,804</u>

\* The financial year end of this company is 31st December.

### 3. UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2005 AND 2004

Set out below are the unaudited condensed consolidated income statement of the Group, the unaudited condensed consolidated balance sheet of the Group, the unaudited condensed consolidated statement of changes in equity of the Group and the unaudited condensed consolidated cash flow statement of the Group together with the relevant notes to the financial statements, as extracted from the interim report of the Company for the six months ended 30th September, 2005.

#### Condensed Consolidated Income Statement

	<i>Notes</i>	<b>Six months ended 30th September,</b>	
		<b>2005</b> (Unaudited) <i>HK\$'000</i>	<b>2004</b> (Unaudited and restated) <i>HK\$'000</i>
Turnover	4	1,243,153	725,904
Cost of sales		<u>(1,025,556)</u>	<u>(600,774)</u>
Gross profit		217,597	125,130
Other operating income		14,806	13,817
Selling and distribution costs		(26,186)	(37,187)
Administrative expenses		(84,385)	(91,347)
Finance costs	5	(30,593)	(14,038)
Release of negative goodwill of subsidiaries		–	29,754
Share of results of associates		227	2,246
Share of results of jointly-controlled entities	6	2,928	7,370
Write off of debt due from a jointly-controlled entity		<u>–</u>	<u>(3,873)</u>
Profit before taxation	7	94,394	31,872
Taxation (charge)/credit	8	<u>(14,644)</u>	<u>1,484</u>
Profit for the period		<u><u>79,750</u></u>	<u><u>33,356</u></u>
Attributable to:			
Equity holders of the parent		39,111	30,644
Minority interests		<u>40,639</u>	<u>2,712</u>
		<u><u>79,750</u></u>	<u><u>33,356</u></u>
Earnings per share	9		
Basic		<u><u>7.1 cents</u></u>	<u><u>5.6 cents</u></u>

## Condensed Consolidated Balance Sheet

		As at 30th September, 2005 (Unaudited)	As at 31st March, 2005 (Audited and restated)
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	<i>10</i>	247,007	262,760
Prepaid premium for land lease		15,095	15,030
Properties under development		804,804	582,586
Investment properties		1,330,527	1,329,400
Interests in associates		44,614	59,824
Interests in jointly-controlled entities		56,760	52,325
Negative goodwill		–	(69,426)
Deferred taxation assets		5,275	5,275
Available-for-sale investments		74,895	53,015
Retention monies receivable		–	14,174
		<u>2,578,977</u>	<u>2,304,963</u>
<b>CURRENT ASSETS</b>			
Inventories		69,388	83,691
Properties held for sale		1,320,341	1,209,402
Prepaid premium for land lease		395	395
Amounts due from customers for contract work		76,355	48,048
Retention monies receivable		46,273	30,736
Debtors and prepayments	<i>11</i>	418,304	259,701
Amounts due from associates		11,916	12,601
Amounts due from jointly-controlled entities		1,260	1,133
Loans to minority shareholders of subsidiaries		85,632	39,747
Taxation recoverable		4,437	6,565
Investments at fair value through profit or loss		733	635
Pledged bank balances		52,720	78,600
Bank balances and cash		308,842	376,597
		<u>2,396,596</u>	<u>2,147,851</u>



## Condensed Consolidated Balance Sheet (Continued)

		As at 30th September, 2005 (Unaudited)	As at 31st March, 2005 (Audited and restated)
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>CURRENT LIABILITIES</b>			
Creditors and accrued charges	12	311,840	246,748
Customers' deposits		12,996	11,850
Sales deposits received		107,763	295,787
Amounts due to customers for contract work		32,084	32,076
Amount due to a minority shareholder of a subsidiary		23,255	–
Loans from minority interests		68,527	–
Amounts due to a related company		30,000	–
Taxation payable		19,829	5,858
Dividend payable		16,541	–
Obligations under finance leases			
– due within one year		2,595	3,095
Bank borrowings			
– due within one year		968,135	400,364
		<u>1,593,565</u>	<u>995,778</u>
<b>NET CURRENT ASSETS</b>		<u>803,031</u>	<u>1,152,073</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>3,382,008</u>	<u>3,457,036</u>
<b>NON-CURRENT LIABILITIES</b>			
Obligations under finance leases			
– due after one year		5,788	6,840
Bank borrowings			
– due after one year		1,115,859	1,302,788
Deferred taxation liabilities		47,853	53,114
Amounts due to minority shareholders of subsidiaries		–	76,976
		<u>1,169,500</u>	<u>1,439,718</u>
		<u>2,212,508</u>	<u>2,017,318</u>
<b>CAPITAL AND RESERVES</b>			
Equity attributable to equity holders of the parent			
Share capital	13	137,842	137,842
Reserves		1,118,810	1,011,836
		<u>1,256,652</u>	<u>1,149,678</u>
Minority interests		955,856	867,640
<b>Total equity</b>	14	<u>2,212,508</u>	<u>2,017,318</u>

## Condensed Consolidated Statement of Changes in Equity

	<b>Six months ended</b>	
	<b>2005</b>	<b>2004</b>
	(Unaudited)	(Unaudited and restated)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Total equity as at 1st April:		
As previously reported as shareholders' equity	1,151,197	941,946
As previously reported separately as minority interests	868,747	622,920
Prior period and opening adjustments	66,268	(5,088)
Total equity at 1st April, as restated	2,086,212	1,559,778
Changes in equity during the period:		
Exchange differences arising on translation of financial statements denominated in foreign currencies	26,639	(1,578)
Share of exchange reserve of associates attributable to the Group	(48)	5
Net (loss)/gain not recognised in the consolidated income statement	26,591	(1,573)
Net profit for the period	79,750	33,356
Dividends paid to minority shareholders	(13,504)	(10,128)
Final dividend in respect of previous financial year	(16,541)	(11,027)
Capital injection from minority shareholders	50,000	–
Total equity as at 30th September	2,212,508	1,570,406

## Condensed Consolidated Cash Flow Statement

	<b>Six months ended</b>	
	<b>30th September,</b>	
	<b>2005</b>	<b>2004</b>
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash (outflow)/inflow from operating activities	(408,377)	7,158
Net cash outflow from investing activities	(71,606)	(14,496)
Net cash inflow from financing activities	384,940	2,205
	<u>          </u>	<u>          </u>
Decrease in cash and cash equivalents	(95,043)	(5,133)
Cash and cash equivalents at beginning of the period	341,765	287,913
	<u>          </u>	<u>          </u>
Cash and cash equivalents at end of the period	<u>246,722</u>	<u>282,780</u>
Analysis of balances of cash and cash equivalents		
Bank balances and cash	308,842	304,920
Bank overdrafts	(62,120)	(22,140)
	<u>          </u>	<u>          </u>
	<u>246,722</u>	<u>282,780</u>

**Notes to the Condensed Consolidated Interim Financial Statements****1. BASIS OF PREPARATION**

The unaudited condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Listing Rules and the Hong Kong Accounting Standard (“HKAS”) 34 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants.

**2. PRINCIPAL ACCOUNTING POLICIES**

The condensed consolidated interim financial statements have been prepared under the historical cost convention except for investment properties and financial instruments, which are measured at fair values or revalued amounts, as appropriate.

The accounting policies adopted are consistent with those followed in the preparation of the audited financial statements of the Group for the year ended 31st March, 2005, except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (“HKFRSs”), HKASs and Interpretations (hereinafter collectively referred to as “new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1st January, 2005 with the exception of fair value assessment of investment properties as detailed in the accounting policy for investment properties below. The application of these new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. The adoption of the new HKFRSs has resulted in changes to the Group’s accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented.

**Business combination**

In the current period, the Group has applied the transitional provisions of HKFRS 3 “Business Combinations” to goodwill acquired in business combinations for which the agreement date was before 1st January, 2005. The principal effects of the application of the transitional provisions of HKFRS 3 to the Group are summarised below:

**Goodwill**

In previous periods, goodwill/negative goodwill arising on acquisitions prior to 1st April, 2001 was held in reserves, and goodwill arising on acquisition after 1st April, 2001 was capitalised and amortised over its estimated useful life. Negative goodwill arising on acquisition after 1st April, 2001 is presented as a deduction from assets and recognised as income based on an analysis of the circumstances from which the balance resulted. The Group has applied the relevant transitional provisions in HKFRS 3. With respect to goodwill previously capitalised on the balance sheet, the Group has discontinued amortising such goodwill from 1st April, 2005 onwards and goodwill will be tested for impairment at least annually/in the financial year in which the acquisition takes place. Goodwill arising on acquisitions after 1st April, 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. Negative goodwill arising on acquisitions after 1st April, 2005 is recognised immediately in the profit and loss account. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current period, goodwill held in reserves was fully impaired against retained profits and the carrying amount of negative goodwill including that remaining in consolidated capital reserve, was derecognised against retained profits. Comparative figures have not been restated (see Note 3 for the financial impact).

**Financial Instruments**

In the current period, the Group has applied HKAS 32 “Financial Instruments: Disclosure and Presentation” and HKAS 39 “Financial Instruments: Recognition and Measurement”. HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1st January, 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

**2. PRINCIPAL ACCOUNTING POLICIES** *(Continued)***Classification and measurement of financial assets and financial liabilities**

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31st March, 2005, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 (SSAP 24). Under SSAP 24, investments in debt or equity securities are classified as “investment securities”, “other investments” or “held-to-maturity investments” as appropriate. “Investment securities” are carried at cost less impairment losses (if any) while “other investments” are measured at fair value, with unrealised gains or losses included in the profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any). From 1 April, 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as “financial assets at fair value through profit or loss”, “available-for-sale financial assets”, “loans and receivables”, or “held-to-maturity financial assets”. The classification depends on the purpose for which the assets are acquired. “Financial assets at fair value through profit or loss” and “available-for-sale financial assets” are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. “Loans and receivables” and “held-to-maturity financial assets” are measured at amortised cost using the effective interest method. The adoption of HKAS 39 has had no material effect on the results for the prior period and no prior period adjustment is necessary.

**Financial assets and financial liabilities other than debt and equity securities**

From 1st April, 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as “financial assets at fair value through profit or loss”, “available-for-sale financial assets”, “loans and receivables” or “held-to-maturity financial assets”. Financial liabilities are generally classified as “financial liabilities at fair value through profit or loss” or “financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)”. “Other financial liabilities” are carried at amortised cost using the effective interest method. There were no material impact resulted from the classification and measurement.

**Derecognition**

HKAS 39 provides more rigorous criteria for the derecognition of financial assets than the criteria applied in previous periods. Under HKAS 39, a financial asset is derecognised, when and only when, either the contractual rights to the asset’s cash flows expire, or the asset is transferred and the transfer qualifies for derecognition in accordance with HKAS 39. The decision as to whether a transfer qualifies for derecognition is made by applying a combination of risks and rewards and control tests. The Group has applied the relevant transitional provisions and applied the revised accounting policy prospectively for transfers of financial assets on or after 1st April, 2005. As a result, the Group’s bill receivables with full recourse which were derecognised prior to 1st April, 2005 have not been restated. As at 30th September, 2005, the Group’s bills receivables with full recourse have not been derecognised. Instead, the related borrowings of HK\$13,143,000 have been recognised on the balance sheet date. This change has had no material effect on the results for the current period.

**Owner-occupied leasehold interest in land**

In previous periods, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. Under HKAS 17 “Leases”, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification. The consideration paid is allocated between the land and buildings elements unless impracticable. The leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively (see Note 3 for the financial impact).

**2. PRINCIPAL ACCOUNTING POLICIES** *(Continued)***Investment properties**

In the current period, the Group has, for the first time, applied HKAS 40 “Investment Property”. The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the profit or loss for the period in which they arise. In previous periods, investment properties under the predecessor accounting standard were measured at open market values, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and revaluation surplus subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1st April, 2005 onwards. The amount held in investment property revaluation reserve at 1st April, 2005 has been transferred to the Group’s retained profits (see Note 3 for the financial impact).

The Directors considered not meaningful to revalue all investment properties at each interim period end, as there could be significant ups and downs on the capital value of properties over a financial year, which ends up a high volatility of earnings in the income statement. So, the Group will follow the existing policy to assess the fair value of the investment properties at 31st March, 2006 and at each subsequent year end.

**Deferred taxes related to revalued investment properties**

In previous periods, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor Interpretation. In the current period, the Group has applied HKAS Interpretation 21 “Income Taxes – Recovery of Revalued Non-Depreciable Assets” which states that deferred tax arising on the revaluation of the Group’s investment properties is determined depending on whether the properties will be recovered through use or through sale. The Group has determined that its investment properties will be recovered through use, and accordingly the deferred tax consequences of the revalued investment properties are now assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. In the absence of any specific transitional provisions in HKAS Interpretation 21, this change in accounting policy has been applied retrospectively. Comparative figures have been restated (see Note 3 for the financial impact).

**Interests in jointly controlled entities**

In previous periods, interests in jointly controlled entities were accounted for using the equity method. HKAS 31 “Interests in Jointly Controlled Entities” allows entities to use either proportionate consolidation or the equity method to account for its interests in jointly controlled entities. Upon the application of HKAS 31, the Group has elected to continue applying the equity method to account for its interests in jointly controlled entities. As a result, there has been no change in accounting policy in respect of the Group’s interests in jointly controlled entities.

## 3. FINANCIAL IMPACT

The cumulative effects of the application of the new HKFRSs on the Group as at 31st March, 2005 and 1st April, 2005 are summarised below:

<b>Balance sheet items</b>	<b>31.3.2005</b> <i>HK\$'000</i> (originally stated)	<b>Adjustments</b> <i>HK\$'000</i>	<b>31.3.2005</b> <i>HK\$'000</i> (restated)	<b>Adjustments</b> <i>HK\$'000</i>	<b>1.4.2005</b> <i>HK\$'000</i> (restated)
Property, plant and equipment	278,185	(15,425)	262,760	–	262,760
Prepaid premium for land lease	–	15,425	15,425	–	15,425
Interests in associates	59,824	–	59,824	(532)	59,292
Negative goodwill	(69,426)	–	(69,426)	69,426	–
Deferred tax liabilities	(50,488)	(2,626)	(53,114)	–	(53,114)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total effects on assets and liabilities		<u>(2,626)</u>		<u>68,894</u>	
	<u>(1,151,197)</u>	<u>1,519</u>	<u>(1,149,678)</u>	<u>(68,894)</u>	<u>(1,218,572)</u>
Minority interests	<u>(868,747)</u>	<u>1,107</u>	<u>(867,640)</u>	<u>–</u>	<u>(867,640)</u>

Impact of the early adoption of HK Interpretation 3 – “Revenue – Pre-completion contracts for the sale of development properties” (“HK Int 3”) on the results of the Group for same period last year:

As disclosed in the Group’s financial statements for the year ended 31st March, 2005, the Group has early adopted HK Int 3 in the financial statements for the year ended 31st March, 2005. The Group has retrospectively applied HK Int 3 to pre-completion contracts for the sale of development properties entered into before 1st January, 2005.

HK Int 3 was re-issued in May 2005 after the Group published its unaudited condensed consolidated interim financial statements for the six months ended 30th September, 2004 and accordingly, the Group’s profits arising on the pre-completion contracts for the sale of development properties for the six months ended 30th September, 2004 as previously reported, was recognised over the course of the development and was calculated on each project as a proportion of the total estimated profit to completion, after taking into account further costs to completion. The proportion used was the estimated construction costs of pre-sold units over the total estimated construction costs of the development properties. The profit per pre-sold unit so recognised was restricted to the amount of instalments received and receivable under legally binding contracts at the balance sheet date.

Upon the adoption of HK Int 3, revenue is to be recognised only when all of the criteria specified in paragraph 14 of HKAS 18 “Revenue” are met.

As a consequence, the early adoption of HK Int 3 impacted the Group’s result for the period ended 30th September 2004 as previously reported, and resulted in a reduction of profit attributable to equity holders of the parent by HK\$1,989,000. The comparative amounts had been restated accordingly.

## 4. SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to profit from operations by business segments and turnover by geographical segments is as follows:

**Business segments**

	Construction activities		Garment activities		Property development activities		Property investment activities		Others		Consolidated	
	Six months ended 30th September, 2005	2004 (Unaudited and restated) HK\$'000	Six months ended 30th September, 2005	2004 (Unaudited and restated) HK\$'000	Six months ended 30th September, 2005	2004 (Unaudited and restated) HK\$'000	Six months ended 30th September, 2005	2004 (Unaudited and restated) HK\$'000	Six months ended 30th September, 2005	2004 (Unaudited and restated) HK\$'000	Six months ended 30th September, 2005	2004 (Unaudited and restated) HK\$'000
Turnover	267,730	271,936	326,513	334,820	609,195	80,533	37,589	34,712	2,126	3,903	1,243,153	725,904
Segment results	(8,424)	3,349	17,242	(3,737)	88,856	(12,587)	23,910	21,245	998	2,910	122,582	11,180
Net income from investments											2,067	2,502
Unallocated corporate expenses											(2,817)	(3,269)
Finance costs											(30,593)	(14,038)
Release of negative goodwill of subsidiaries											-	29,754
Share of results of associates	-	-	74	741	-	-	-	-	153	1,505	227	2,246
Share of results of jointly-controlled entities	(36)	-	2,811	3,482	161	3,873	-	-	(8)	15	2,928	7,370
Write off of debt due from a jointly-controlled entity	-	-	-	-	-	(3,873)	-	-	-	-	-	(3,873)
Profit before taxation											94,394	31,872
Taxation (charge)/credit											(14,644)	1,484
Profit for the period											79,750	33,356



4. SEGMENT INFORMATION *(Continued)*

## Geographical segments

	Turnover	
	Six months ended 30th September,	
	2005	2004
	(Unaudited)	(Unaudited and restated)
	HK\$'000	HK\$'000
Hong Kong	348,167	375,348
North America	194,120	189,575
Europe	120,711	125,906
The People's Republic of China (other than Hong Kong)	565,224	12,330
Others	14,931	22,745
	1,243,153	725,904
	1,243,153	725,904

## 5. FINANCE COSTS

	Six months ended 30th September,	
	2005	2004
	(Unaudited)	(Unaudited and restated)
	HK\$'000	HK\$'000
Interest on:		
Bank borrowings wholly repayable within five years	42,531	25,067
Bank borrowings wholly repayable after five years	1,354	773
Finance leases	199	38
	44,084	25,878
Less: Amounts capitalised under property development projects	13,491	11,840
	30,593	14,038
	30,593	14,038

## 6. SHARE OF RESULTS OF JOINTLY-CONTROLLED ENTITIES

	Six months ended 30th September,	
	2005	2004
	(Unaudited)	(Unaudited and restated)
	HK\$'000	HK\$'000
Operating profit, net	2,928	3,497
Waiver of debts	–	3,873
	2,928	7,370
	2,928	7,370

During the last corresponding period, the Group and its joint venture partner wrote off the debts which were non-recoverable from a jointly-controlled entity. The corresponding debit of HK\$3,873,000 was recognised as write off of debt due from a jointly-controlled entity whilst the corresponding credit of HK\$3,873,000 was recognised as share of profits of jointly-controlled entities.

## 7. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

	<b>Six months ended</b>	
	<b>30th September,</b>	
	<b>2005</b>	<b>2004</b>
	(Unaudited)	(Unaudited and restated)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Depreciation of property, plant and equipment		
Owned assets	21,176	23,527
Assets held under hire purchase contracts	683	242
	<u>21,859</u>	<u>23,769</u>
Less: Amount capitalised in contract costs	2,180	2,134
	<u>19,679</u>	<u>21,635</u>
Staff costs (including directors' emoluments)	82,331	97,139
Less: Amount capitalised in contract costs	22,690	31,351
	<u>59,641</u>	<u>65,788</u>
Unrealised loss on investments in securities	–	15
and after crediting:		
Unrealised gain on investments in securities	(98)	–
Bank interest income	(1,955)	(2,189)
	<u><u>(1,955)</u></u>	<u><u>(2,189)</u></u>

## 8. TAXATION CHARGE/(CREDIT)

	<b>Six months ended</b>	
	<b>30th September,</b>	
	<b>2005</b>	<b>2004</b>
	(Unaudited)	(Unaudited and restated)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong profits tax		
Current period	1,080	1,389
Over provision in prior periods	(39)	(45)
	<u>1,041</u>	<u>1,344</u>
Other jurisdictions	18,893	1,932
	<u>19,934</u>	<u>3,276</u>
Deferred taxation credit	(5,290)	(4,760)
	<u>14,644</u>	<u>(1,484)</u>

Hong Kong profits tax is calculated at 17.5% on the estimated assessable profits of the period. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

**9. EARNINGS PER SHARE**

The calculation of basic earnings per share is based on the profit attributable to equity holders of the parent of HK\$39,111,000 (2004 (restated): HK\$30,644,000) and on 551,368,153 (2004: 551,368,153) shares in issue during the period.

There has been no dilutive effect on the basic earnings per share for the periods ended 30th September, 2005 and 30th September, 2004 as the exercise prices of outstanding share options of an associate of the Group were higher than the average market price of its shares during both periods.

**10. PROPERTY, PLANT AND EQUIPMENT**

During the six months ended 30th September 2005, the Group acquired property, plant and equipment amounting to HK\$6,894,000 (2004 (restated): HK\$20,415,000) and disposed property, plant and equipment amounting to HK\$242,000 (2004 (restated): HK\$252,000), being the net book values at disposal.

**11. DEBTORS AND PREPAYMENTS**

Included in debtors and prepayments are trade debtors of approximately HK\$128,857,000 (as at 31st March, 2005: HK\$102,830,000). The ageing analysis of trade debtors is as follows:

	<b>As at 30th September, 2005</b> (Unaudited) <i>HK\$'000</i>	<b>As at 31st March, 2005</b> (Audited) <i>HK\$'000</i>
Current to 30 days	80,278	75,785
31 to 60 days	36,568	13,379
61 to 90 days	4,549	6,136
Over 90 days	7,462	7,530
	<hr/>	<hr/>
Total	<u>128,857</u>	<u>102,830</u>

The Group allows an average credit period of 30 days to its trade customers.

**12. CREDITORS AND ACCRUED CHARGES**

Included in creditors and accrued charges are trade creditors of approximately HK\$79,912,000 (as at 31st March, 2005: HK\$99,359,000). The ageing analysis of trade creditors is as follows:

	<b>As at 30th September, 2005</b> (Unaudited) <i>HK\$'000</i>	<b>As at 31st March, 2005</b> (Audited) <i>HK\$'000</i>
Current to 30 days	41,388	52,701
31 to 60 days	14,143	28,933
61 to 90 days	6,877	6,086
Over 90 days	17,504	11,639
	<hr/>	<hr/>
Total	<u>79,912</u>	<u>99,359</u>

**13. SHARE CAPITAL**

There were no movements in the authorised, issued and fully paid share capital of the Company in both interim periods.

## 14. TOTAL EQUITY

	Share capital (Unaudited) HK\$'000	Share premium (Unaudited) HK\$'000	Exchange reserve (Unaudited) HK\$'000	Capital/ (goodwill) reserve (Unaudited) HK\$'000	Dividend reserve (Unaudited) HK\$'000	Investment property revaluation reserve (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Total shareholders' equity (Unaudited) HK\$'000	Minority interests (Unaudited) HK\$'000	Total equity (Unaudited) HK\$'000
At 1st April, 2004										
As previously reported	137,842	267,569	(35,893)	(6,580)	11,027	4,459	563,522	941,946	622,920	1,564,866
Prior period adjustment: HKAS-Int 21 – Deferred tax arising from revaluation of investment properties	-	-	-	-	-	(2,942)	-	(2,942)	(2,146)	(5,088)
As restated	137,842	267,569	(35,893)	(6,580)	11,027	1,517	563,522	939,004	620,774	1,559,778
Share of reserves of associates attributable to the Group	-	-	5	-	-	-	-	5	-	5
Exchange differences arising on translation of financial statements denominated in foreign currencies	-	-	(1,096)	-	-	-	-	(1,096)	(482)	(1,578)
Net profit for the period (as restated)	-	-	-	-	-	-	30,644	30,644	2,712	33,356
Dividends paid to minority shareholders	-	-	-	-	-	-	-	-	(10,128)	(10,128)
Final dividend in respect of previous financial year	-	-	-	-	(11,027)	-	-	(11,027)	-	(11,027)
At 30th September, 2004 (as restated)	<u>137,842</u>	<u>267,569</u>	<u>(36,984)</u>	<u>(6,580)</u>	<u>-</u>	<u>1,517</u>	<u>594,166</u>	<u>957,530</u>	<u>612,876</u>	<u>1,570,406</u>
At 1st April, 2005										
As previously reported	137,842	267,569	(29,400)	(6,720)	16,541	39,121	726,244	1,151,197	868,747	2,019,944
Prior period adjustment: HKAS-Int 21 – Deferred tax arising from revaluation of investment properties	-	-	-	-	-	(1,519)	-	(1,519)	(1,107)	(2,626)
As restated, before opening adjustments	137,842	267,569	(29,400)	(6,720)	16,541	37,602	726,244	1,149,678	867,640	2,017,318
Opening adjustments: In respect of HKAS 40 “Investment Properties” and HKFRS 3 “Business Combinations”	-	-	-	6,720	-	(37,602)	99,776	68,894	-	68,894
As at 1st April, 2005 as restated	137,842	267,569	(29,400)	-	16,541	-	826,020	1,218,572	867,640	2,086,212
Share of reserves of associates attributable to the Group	-	-	(48)	-	-	-	-	(48)	-	(48)
Exchange differences arising on translation of financial statements denominated in foreign currencies	-	-	15,558	-	-	-	-	15,558	11,081	26,639
Net profit for the period	-	-	-	-	-	-	39,111	39,111	40,639	79,750
Dividend paid to minority shareholders	-	-	-	-	-	-	-	-	(13,504)	(13,504)
Final dividend in respect of previous financial year	-	-	-	-	(16,541)	-	-	(16,541)	-	(16,541)
Capital injection from minority shareholders	-	-	-	-	-	-	-	-	50,000	50,000
At 30th September, 2005	<u>137,842</u>	<u>267,569</u>	<u>(13,890)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>865,131</u>	<u>1,256,652</u>	<u>955,856</u>	<u>2,212,508</u>

## 15. COMMITMENTS

## (a) Capital commitments

As at 30th September, 2005, the Group had authorised and contracted capital commitments in respect of leasehold improvement and property development expenditure amounting to approximately HK\$417,050,000 (as at 31st March, 2005: HK\$545,543,000).

## (b) Operating lease commitments

At 30th September, 2005, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings which fall due as follows:

	<b>As at 30th September, 2005</b> (Unaudited) <i>HK\$'000</i>	<b>As at 31st March, 2005</b> (Audited) <i>HK\$'000</i>
Within one year	4,635	4,221
In the second to fifth year inclusive	2,471	4,029
Beyond five years	1,364	1,472
	<u>8,470</u>	<u>9,722</u>

At 30th September, 2005, a jointly-controlled entity had annual commitments payable under non-cancellable operating leases for land and buildings falling due within one year, and in the second to fifth year inclusive amounting to approximately HK\$781,000 (as at 31st March, 2005: HK\$518,000) and HK\$2,320,000 (as at 31st March, 2005: HK\$792,000) respectively. The Group's share of these operating lease commitments amounted to approximately HK\$391,000 (as at 31st March, 2005: HK\$259,000) and HK\$1,160,000 (as at 31st March, 2005: HK\$396,000) respectively.

Operating lease payments represent rental payable by the Group for certain land and buildings. Leases are negotiated for an average term of not more than three years.

## 16. RELATED PARTY TRANSACTIONS

## (a) Transactions with related parties

Set out below are the significant transactions between the Group and other related parties during the period:

	<b>Six months ended 30th September, 2005</b> (Unaudited) <i>HK\$'000</i>	<b>2004</b> (Unaudited) <i>HK\$'000</i>
Commissions paid to the ultimate holding company	1,313	1,313
Legal and professional fees paid to a firm to which a director of the Company is a consultant	337	119
	<u>1,650</u>	<u>1,432</u>

## 16. RELATED PARTY TRANSACTIONS (Continued)

## (b) Outstanding balances due from/(to) related parties

	As at 30th September, 2005 (Unaudited) HK\$'000	As at 31st March, 2005 (Audited) HK\$'000
Due from related parties:		
– A related company	663	712
Due to related parties:		
– A related company	(30,000)	–
– A subsidiary of a related company	(1,637)	(1,970)
	<u>663</u>	<u>(1,970)</u>

## (c) Compensation of key management personnel (which includes all the directors of the Company) of the Group

	Six months ended 30th September, 2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Salaries and other short-term employee benefits	1,180	1,168
	<u>1,180</u>	<u>1,168</u>

(d) In December 2003, Lucky Year extended cash security arrangement in favour of Hon Kwok for a further period of 30 months. Pursuant to the arrangement, Lucky Year pledged its deposits with certain banks in relation to bank loans of HK\$150 million granted by the banks to Hon Kwok. In consideration for the provision of cash security, Hon Kwok agreed to counter-indemnify Lucky Year and pay a commission of 1.75% per annum on the average principal amount of the cash security outstanding during the terms of the bank loans to Lucky Year. Hon Kwok provides no security to Lucky Year or other connected persons in connection with the arrangement.

(e) In last period, the Group and its joint venture partner wrote off the debts amounted to HK\$3,873,000 which were non-recoverable from a jointly-controlled entity.

(f) Other than disclosed above, the amounts due from/to associates and jointly-controlled entities are unsecured, interest-free, and are repayable on demand in both periods.

## 17. COMPARATIVE AMOUNTS

As explained in Notes 2 and 3, due to the adoption of new and revised HKFRSs during the current period, the presentation of certain items and balances in the condensed consolidated financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current period's presentation.

## 18. APPROVAL OF THE INTERIM FINANCIAL REPORT

These condensed consolidated interim financial statements were approved and authorised for issue by the board of directors on 16th December, 2005.

**4. INDEBTEDNESS**

At the close of business on 31st December, 2005, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had outstanding borrowings of approximately HK\$2,328 million comprising:

- (a) secured bank loans of approximately HK\$1,445 million;
- (b) unsecured bank loans of approximately HK\$796 million;
- (c) obligations under finance leases of approximately HK\$8 million;
- (d) unsecured amount due to a minority shareholder of a subsidiary of approximately HK\$23 million;
- (e) unsecured loans from minority interests of approximately HK\$56 million.

Details of the Group's contingent liabilities of material importance are set out in Appendix III of this circular under the section headed "Litigation".

The Group's secured bank borrowings are secured by shares in an associate and a subsidiary, charges on certain inventories, trade debtors, bank balances and fixed charges on certain leasehold properties and machineries, investment properties and properties held for sale.

Save as aforesaid and apart from intra-group liabilities, the Group did not have any mortgages, charges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance leases, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities outstanding at the close of business on 31st December, 2005.

For the purpose of this indebtedness statement, foreign currency amounts have been translated into Hong Kong dollars at the approximate exchange rates prevailing as at 31st December, 2005.

The Directors are not aware of any material adverse changes in the Group's indebtedness position or contingent liabilities since 31st December, 2005.

**5. WORKING CAPITAL**

The Directors are of the opinion that, taking into account the Group's available credit facilities, cash on hand and the net proceeds from the Transaction, the Group has, in the absence of unforeseeable circumstances, sufficient working capital for its present requirements.

**6. FINANCIAL AND TRADING PROSPECTS OF THE GROUP**

The Property is a development land bank held by the Hon Kwok Group. The Hon Kwok Group has other development land banks in Canada and the Mainland China as well as investment properties in Hong Kong and Malaysia. The Hon Kwok Group will actively seek opportunities to replenish its development land banks in the Mainland China and enlarge its investment property portfolio in Hong Kong. In view of the underlying strength of the economy, the directors of Hon Kwok are optimistic on the trading prospects of the Hon Kwok Group in the current financial year. The Directors share this optimistic view. As well as its property business conducted by the Hon Kwok Group, the Group also carries out construction, foundation piling, garment manufacturing and general trading activities. The Transaction has no impact on these activities and the Directors' view of the prospects for these activities in the current financial year remains unchanged from that expressed in the Company's interim report for the six months ended 30th September, 2005.

*The following is the text of a valuation letter and valuation certificate in relation to the Property, prepared for the sole purpose of inclusion in this circular received from Savills Valuation and Professional Services Limited, an independent valuer:*



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25th January, 2006

The Directors  
Chinney Investments, Limited  
Hon Kwok Land Investment Company, Limited  
18/F, Hang Seng Building  
77 Des Voeux Road Central  
Hong Kong

Dear Sirs

In accordance with your instructions for us to value the property interest held by Foshan Nanhai XinDa Land Development Ltd. (佛山市南海信達房地產有限公司) (“Nanhai XinDa”) in the People’s Republic of China (the “PRC”), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of value of the property interest as at 17th December, 2005.

Our valuation of the property interest is our opinion of its market value which we would define as intended to mean “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.”

The market value is the best price reasonably obtainable in the market by the seller and the most advantageous price reasonably obtainable in the market by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale, or any element of special value. The market value of a property is also estimated without regard to costs of sale and purchase, and without offset for any associated taxes.

The property, which is held by Nanhai XinDa for development, has been valued by making reference to the comparable market transactions assuming sales with the benefit of vacant possession. Hon Kwok Land Investment Company, Limited (“Hon Kwok” together with its subsidiaries, the “Group”) has an 80% equity interest in Nanhai XinDa.

We have been provided with extracts of documents in relation to the title to the property. However, we have not inspected the original documents to ascertain any amendments which may not appear on the copies handed to us. In the course of our valuation, we have relied to a very considerable



extent on the information given by the Group and its legal adviser, Guangdong Jindi Law Office, on PRC laws, regarding the title to the property interest. We have also accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, particulars of occupancy, site area and all relevant matters. Dimension, measurements and areas included in the valuation certificate is based on the information provided to us and are therefore only approximations. We have no reason to doubt the truth and accuracy of the information provided to us by the Group which is material to the valuation. We were also advised by the Group that no material facts have been omitted from the information provided. We consider that we have been provided with sufficient information to reach an informed view.

We have inspected the property and did not note any serious defects. However, no structural survey has been made and we are therefore unable to report whether the property is or is not free from rot, infestation or any other defects. No tests were carried out on any of the services. We have not carried out investigations on site to determine the suitability of the ground conditions and the services for future development. Our valuation is prepared on the assumption that these aspects are satisfactory and no extraordinary expenses or delay will be incurred during the development period.

We have not been able to carry out detailed on-site measurements to verify the site area of the property and have assumed that the area shown on the documents handed to us is correct.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property or for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoing of an onerous nature which could affect its value.

In valuing the property interest, we have complied with the requirements set out in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited and Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors.

Unless otherwise stated, all money amounts are stated in Renminbi. The exchange rate adopted in our valuation is HK\$1 = RMB1.04, which was the approximate exchange rate prevailing as at the date of valuation and there has been no significant fluctuation in such exchange rate between that date and the date of this letter.

We enclose herewith our valuation certificate.

Yours faithfully  
For and on behalf of  
**Savills Valuation and Professional Services Limited**  
**CHARLES C K CHAN**  
*Chartered Estate Surveyor*  
*MSc FRICS FHKIS MCI Arb RPS(GP)*  
*Managing Director*

*Note: Charles C K Chan, M.Sc., F.R.I.C.S., F.H.K.I.S., M.C.I.Arb., R.P.S. (G.P.), has been a qualified valuer and has about 21 years' experience in the valuation of properties in Hong Kong and has extensive experience in the valuation of properties in the People's Republic of China and the Asia Pacific regions.*

## VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 17th December, 2005
Land at Yayao Lijiao Da Li Zhen Nanhai District Foshan the PRC	<p>The property comprises two parcels of land with a total site area of approximately 247,987 sq.m.(2,669,307 sq.ft.).</p> <p>The property is planned to be developed into a low density residential development with a maximum permissible gross floor area of 247,987 sq.m.</p> <p>The land use rights of the property have been granted for terms expiring on 22nd July, 2063 and 28th November, 2064 respectively.</p>	The property is a bare land.	RMB250,000,000 (HK\$240,385,000)

## Notes:

- (1) Pursuant to a State-owned Land Use Rights Certificate (Nan Fu Guo Yong (2004) No.040028) issued by Foshan Municipal Land Administration Bureau on 31st May, 2004, the land use rights of a parcel of land with a site area of 200,000 sq.m., is held by Nanhai XinDa for a term expiring on 22nd July, 2063 for composite residential uses.
- (2) Pursuant to a State-owned Land Use Rights Certificate (Nan Fu Guo Yong (2004) No.040029) issued by Foshan Municipal Land Administration Bureau on 31st May, 2004, the land use rights of a parcel of land with a site area of 47,987 sq.m., is held by Nanhai XinDa for a term expiring on 28th November, 2064 for composite residential uses.
- (3) Hon Kwok holds an 80% interest in Nanhai XinDa through a wholly-owned subsidiary named Orient States Limited. The remaining 20% of the interest in Nanhai XinDa is held by Shenzhen Yujianye Development Co., Ltd. (深圳市御建業實業發展有限公司).
- (4) Pursuant to a letter issued by Foshan Planning Bureau Nanhai Sub-bureau on 14th November, 2005 in relation to the guideline for planning design of the property, the salient conditions are, inter-alia, summarized as follows:
 

Site area	:	247,987 sq.m.
Plot ratio	:	not exceeding 1
Site coverage	:	not exceeding 25%
Building height	:	not exceeding 12 storeys
- (5) Pursuant to the Business Licence No. 001230 dated 9th October, 2005, Nanhai XinDa was incorporated with a registered capital of HK\$90,480,000 and has an operation period from 23rd July, 2004 to 6th September, 2013.
- (6) We have been provided with a copy of the legal opinion on the title to the property prepared by Guangdong Jindi Law Office, the Group's PRC legal adviser, which contains, inter-alia, the following information:
  - (i) Orient States Limited (Party A), Shenzhen Yujianye Development Co., Ltd (深圳市御建業實業發展有限公司) (Party B) and Guiping Land Development Ltd. (桂平房地產開發公司)(Party C) are currently interested in Nanhai XinDa pursuant to a Co-operative Joint Venture Contract. The profit sharing arrangement is that after deducting 2.5% on the sales amount of the project to Party C, the profit will be allocated to Party A and Party B in the proportion of 80% and 20% respectively. Party C has no shareholding interest in Nanhai XinDa.
  - (ii) Nanhai XinDa has obtained the State-owned Land Use Rights Certificates for two parcels of land with site areas of 200,000 sq.m. and 47,987 sq.m. respectively for terms expiring on 22nd July, 2063 and 28th November, 2064 for composite residential uses. Nanhai XinDa has the right to transfer or mortgage of the property freely in the open market.
  - (iii) Nanhai XinDa has not complied with the requirements to complete the construction work on the lands in 1996 and 1997 which is subject to a risk that the lands will be re-entered by the relevant government authorities. The non-compliance with the aforesaid requirements is that the local government could not provide the necessary facilities such as water supply, electricity supply, road work and other ancillary facilities for the construction work to be continued though Nanhai XinDa had proceeded with the site leveling work and other initial preparation work for the development.
  - (iv) The property is not subject to any mortgages.
- (7) According to the legal opinion as previously obtained by Hon Kwok on 9th July, 2004, the chance that the land administration bureau will re-enter the property without paying compensation is slim because Nanhai XinDa has fully paid the land premium in 1993 and 1994 and the local government could not provide the necessary facilities such as water supply, electricity supply, road work and other ancillary facilities for the construction work to be continued. As such, we have assumed that the land administration bureau will not enforce its right to re-enter the property and will grant an extension for Nanhai XinDa to complete the development in undertaking our valuation.

**1. RESPONSIBILITY STATEMENT**

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

**2. DISCLOSURE OF INTERESTS****2.1 Directors' interests and short positions in the shares and underlying shares of the Company**

As at the Latest Practicable Date, the interests and short positions held by the Directors in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be 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 they are taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO to be entered into the register referred to therein, or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") to be notified to the Company and the Stock Exchange, were as follows:

*(a) Long positions in the ordinary shares of the Company*

<b>Name of director</b>	<i>Note</i>	<b>Nature of interest</b>	<b>Number of ordinary shares held</b>	<b>Approximate percentage of shareholding</b>
James Sai-Wing Wong	<i>1</i>	Corporate	306,959,324	55.67
Madeline May-Lung Wong	<i>1</i>	Corporate	306,959,324	55.67
William Chung-Yue Fan		Personal	1,882,285	0.34

**(b) Long positions in the ordinary shares of associated corporations of the Company**

Name of director	Notes	Name of associated corporation	Nature of interest	Number of ordinary shares held	Approximate percentage of shareholding
James Sai-Wing Wong	2	Hon Kwok	Corporate	235,370,553	58.81
	2	Chinney Alliance	Corporate	46,158,319	29.10
	3	Chinney Holdings	Corporate	9,900,000	99.00
		Chinney Holdings	Personal	100,000	1.00
		Lucky Year	Personal	10,000	50.00
Madeline May-Lung Wong	2	Hon Kwok	Corporate	235,370,553	58.81
	2	Chinney Alliance	Corporate	46,158,319	29.10
	3	Chinney Holdings	Corporate	9,900,000	99.00
		Lucky Year	Personal	10,000	50.00
William Chung-Yue Fan	4	Wise Pacific Investment Limited	Corporate	2,000	20.00

*Notes:*

1. *These shares are beneficially held by Chinney Holdings which is a subsidiary of Lucky Year. James Sai-Wing Wong and Madeline May-Lung Wong are directors and beneficially own more than one third of the equity capital of Lucky Year.*
2. *These shares are beneficially held by the Company or its wholly-owned subsidiary. By virtue of note 1, James Sai-Wing Wong and Madeline May-Lung Wong are deemed to be interested in these shares.*
3. *These shares are beneficially held by Lucky Year. By virtue of note 1, James Sai-Wing Wong and Madeline May-Lung Wong are deemed to be interested in these shares.*
4. *These shares are held by Gold Sound Enterprises Limited, of which William Chung-Yue Fan is both a director and shareholder.*

**(c) Interests in the underlying shares of associated corporation of the Company**

Pursuant to the share option scheme of Chinney Alliance, Herman Man-Hei Fung has options to subscribe for 320,000 shares in Chinney Alliance at an exercise price of HK\$1.75 per share, subject to adjustment. The options were granted on 13th July, 1999 and can be exercised up to 12th July, 2009.

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be 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 they are taken or deemed to have under such provisions of the SFO), or which were required to be recorded in the register kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

## 2.2 Other persons' interests and short positions in shares and underlying shares of the Company and other members of the Group

As at the Latest Practicable Date and so far as is known to the Directors, the following persons (not being the Directors) had or were deemed or taken to have interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name	Number of ordinary shares held	Approximate percentage of shareholding
Chinney Holdings	306,959,324	55.67
Lucky Year	306,959,324	55.67

*All the interests stated above represent long positions. Chinney Holdings and Lucky Year are deemed to be interested in the same parcel of shares by virtue of Section 316 of the SFO.*

As at the Latest Practicable Date and so far as is known to the Directors, the following persons (not being the Directors) who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other member of the Group or had any option in respect of such capital:

Name of Shareholder	Name of member of the Group in which interest held	Approximate percentage of equity interested
Zuric Yuen-Keung Chan	Chinney Contractors Company Limited	13.95
Guangzhou Fuqiang Development Co., Ltd. (廣州福強實業發展有限公司)	Guangzhou Honkwok Fuqiang Land Development Limited	40
Guangzhou Hengsheng Group Co., Ltd. (廣州市恒生集團有限公司)	Guangzhou Honkwok Hengsheng Land Development Limited	25
Shenzhen Yujianye Development Co., Ltd. (深圳市御建業實業發展有限公司)	Foshan Nanhai XinDa Land Development Ltd. (佛山市南海信達房地產有限公司)	20
Metro Corporation Indonesia Limited	Metro Gateway Concept (HK) Limited	49
Neimenggu Huaye Property Co., Ltd. (內蒙古華業地產股份有限公司)	Shenzhen Honkwok Huaye Development Co., Ltd.	20
Gold Sound Enterprises Limited	Wise Pacific Investment Limited	20
Lee Nam	Wise Pacific Investment Limited	20

Save as disclosed herein and as at the Latest Practicable Date, none of the Directors was aware of any person (not being the Directors) had or was deemed or taken to have interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other member of the Group or had any option in respect of such capital.

### 3. DIRECTORS' INTERESTS IN ASSETS, CONTRACTS AND IN COMPETING BUSINESSES

The Hon Kwok Group has obtained bank loan facilities of HK\$150 million with the support of cash collateral provided by Lucky Year. In consideration of Lucky Year's provision of the cash security, Hon Kwok Group agreed to indemnify and pay Lucky Year a commission of 1.75% per annum on the average principal amount of the cash security outstanding during the term of the bank loans. Subject to prepayment or extension, the bank loans will mature in July 2006. James Sai-Wing Wong and Madeline May-Lung Wong are directors of, and each has a 50% beneficial interest in, Lucky Year. Herman Man-Hei Fung is also a director of Lucky Year.

The Company has entered into a management contract with Hon Kwok for the provision of general corporate management services. The contract is for an unspecified duration and may be terminated by either party by giving two months' written notice. A management fee of HK\$6,000,000 was received from Hon Kwok for the year ended 31st March, 2005. James Sai-Wing Wong and Madeline May-Lung Wong are directors of and have beneficial interests in Hon Kwok. Herman Man-Hei Fung is also a director of Hon Kwok.

The Company, through providing administration and general services, received a management fee of HK\$2,000,000 from Chinney Alliance for the year ended 31st March, 2005. James Sai-Wing Wong and Herman-Man Hei Fung are directors of and have beneficial interests in Chinney Alliance. Madeline May-Lung Wong has a beneficial interest in Chinney Alliance.

William Chung-Yue Fan is the consultant of Messrs. Fan & Fan which provides legal and professional services to the Group and receives normal professional fees for such services. Total fees paid by the Group during the year ended 31st March, 2005 was approximately HK\$527,000.

Madeline May-Lung Wong is a director of HKR International Limited. HKR International Limited carries out property development, property investment, property management services, healthcare services, treasury investment and manufacturing. Madeline May-Lung Wong is therefore regarded as being interested in a competing business of the Group. No member of the Group has any business relationship with HKR International Limited. In the event that, in the future, any member of the Group has any business dealings with HKR International Limited, these dealings will be on arm's length terms and in compliance with the Listing Rules.

So far as the Directors are aware and, save as disclosed as aforesaid, as at the Latest Practicable Date:

- (a) none of the Directors or their associates had any direct or indirect interest in any assets which have been, since 31st March, 2005 (being the date to which the latest published audited financial statements of the Group were made up), acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group;
- (b) none of the Directors or their associates was materially interested in any contract or arrangement entered into by any member of the Group and subsisting at the date of this circular which was significant in relation to the business of the Group; and
- (c) none of the Directors or their associates have interests in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

### 4. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group which will not expire or is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

## 5. LITIGATION

- (a) Certain subsidiaries of Chinney Contractors Company Limited (a 86.05% owned subsidiary of the Company) were involved in legal proceedings or claims against them in the ordinary course of their respective business activities. The aggregate amount of claims, including estimated legal costs, resulting from such contingent liabilities was approximately HK\$38,081,000 as at the Latest Practicable Date. The Directors consider that, after taking into account of the legal advices obtained, these proceedings and claims were made without valid grounds and accordingly, no provision for any potential liabilities is considered necessary.
- (b) On 20th April, 1996, a writ was filed against a wholly-owned subsidiary of Hon Kwok, Joint Peace Investment Limited (“Joint Peace”), regarding an alleged disparity between the pavement and the ground floor level of the building at 18-22 Percival Street, junction of Jaffe Road, Causeway Bay, Hong Kong. The amount claimed, excluding minor construction and related costs, was either HK\$41,000,000 or HK\$69,300,000, representing the claim for loss of rental income or loss of interest on the purchase price, over a period of 12 months. A defence to contest this claim was filed on 22nd July, 1996.

On 2nd December, 1997, the plaintiff of this claim was allowed to amend the Writ of Summons and the Statement of Claim dated 20th April, 1996. Under advice by Hon Kwok’s solicitors, an Amended Defence in respect thereof was filed by Joint Peace on 30th December, 1997. On the same date, a Request for Further and Better Particulars of the Amended Statement of Claim was sent by Joint Peace’s solicitors to the plaintiff’s solicitors.

Following consultation with Hon Kwok’s legal advisers (in their capacity as the legal advisers of Joint Peace), the Directors have formed the view that the amended claim was unlikely to succeed and were therefore of the opinion that no provision regarding this claim is necessary. There has been no further progress of this claim so far up to the date of this circular.

Save as disclosed aforesaid, as at the Latest Practicable Date, the Directors are not aware that any of the respective members of the Group were engaged in any litigation or arbitration of material importance and there was no litigation, arbitration or claim of material importance known to the Directors to be pending or threatened by or against any respective members of the Group.

## 6. EXPERT AND CONSENT

The following is the qualification of the expert who has given their opinions and advice which are included in this circular:

<b>Name</b>	<b>Qualification</b>
Savills Valuation and Professional Services Limited	Property valuer

- (a) As at the Latest Practicable Date, Savills Valuation and Professional Services Limited did not has any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.
- (b) Savills Valuation and Professional Services Limited has given and has not withdrawn its written consent to the issue of this circular, with the inclusion of its letter or references to its name in the form and context in which they are included.



- (c) Savills Valuation and Professional Services Limited has no direct or indirect interest in any assets which have been, since 31st March, 2005 (being the date to which the latest published audited financial statements of the Group were made up), acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

## 7. MATERIAL CONTRACTS

Within the two years immediately preceding the issue of this circular, the following contracts, not being contracts entered into in the ordinary course of business, have been entered into by members of the Group and are or may be material:

- (a) The Shareholders' Agreement.
- (b) The S&P Agreement.
- (c) Deed of Assignment dated 28th October, 2005 entered into between Hon Kwok China, Gateway China Fund I and Rich Central Limited in relation to the assignment of the shareholder's loan owing by Rich Central Limited.
- (d) Agreement for Sale and Purchase dated 26th October, 2005 entered into between Best Treasure Limited, Chinney Construction (BVI) Limited (a 86.05% owned subsidiary of the Company) and Chinney Alliance in relation to the acquisition of the entire issued share capital of Jackson Mercantile Trading Company Limited at an aggregate consideration of HK\$7,800,000.
- (e) Joint Venture Agreement dated 21st October, 2005 entered into between Hon Kwok China and Gateway China Fund I in relation to the joint development of the landed property through Rich Central Limited.
- (f) Sale and Purchase Agreement dated 21st October, 2005 entered into between Hon Kwok China and Gateway China Fund I in relation to the disposal of 50% of the issued share capital of Rich Central Limited and the assignment of related shareholder's loan at an aggregate consideration of HK\$45,658,619.46.
- (g) Debt Assignment dated 15th November, 2004 entered into between Hon Kwok, Vast Power Development Limited, Golden Country Development Limited and Global Success Holdings Inc. in relation to the assignment of the loan owing by Global Success Holdings Inc. and its subsidiary.
- (h) Agreement for Sale and Purchase dated 13th September, 2004 entered into between Hawthorne Securities Limited (a wholly-owned subsidiary of Hon Kwok), Hon Kwok, Vast Power Development Limited and Trans Tasman Properties Limited in relation to the disposal of the entire issued share capital of Global Success Holdings Inc. and the assignment of the loan owing by Global Success Holdings Inc. and its subsidiary at an aggregate cash consideration of HK\$565,725,000.
- (i) Placing Agreement dated 3rd March, 2004 entered into between Multi-Investment Group Limited (a wholly-owned subsidiary of the Company) as vendor and China Everbright Securities (HK) Limited as placing agent in relation to the placing of 468,000,000 existing shares of Chinney Alliance at a price of HK\$0.02 each for net proceeds of approximately HK\$9 million.
- (j) Top-up Subscription Agreement dated 3rd March, 2004 entered into between Multi-Investment Group Limited as subscriber and Chinney Alliance as issuer in relation to the subscription of 660,000,000 new shares of Chinney Alliance at a price of HK\$0.02 each for net proceeds of approximately HK\$13 million.



- (k) Placing, Underwriting and Subscription Agreement dated 25th February, 2004 entered into between the Company, Hon Kwok and The Hongkong and Shanghai Banking Corporation Limited in relation to the top-up placement of 66,700,000 new shares of Hon Kwok at a price of HK\$1.65 each for net proceeds of approximately HK\$107 million.

## **8. GENERAL**

- (a) The company secretary of the Company is Ms. Wendy Yuk-Ying Chan. She is a fellow of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries.
- (b) The qualified accountant of the Company is Mr. Boris Kwok-Ming Lam. He is a fellow of the Association of Chartered Certified Accountants and an associate of The Hong Kong Institute of Certified Public Accountants.
- (c) The registered office of the Company is at 18th Floor, Hang Seng Building, 77 Des Voeux Road Central, Hong Kong.
- (d) The Company's share registrar is Tengis Limited, 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong.
- (e) The English language text of this circular shall prevail over the Chinese language text.

## **9. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection during normal business hours at the registered office of the Company at 18th Floor, Hang Seng Building, 77 Des Voeux Road Central, Hong Kong from the date of this circular up to and including 10th February, 2006:

- (a) the memorandum and articles of association of the Company;
- (b) the annual report of the Company for the year ended 31st March, 2005;
- (c) the interim report of the Company for the six months ended 30th September, 2005;
- (d) the valuation report on the Property from Savills Valuation and Professional Services Limited as set out in Appendix II to this circular;
- (e) the written consent referred to under the section headed "Expert and Consent" in this Appendix III;
- (f) the material contracts referred to under the section headed "Material Contracts" in this Appendix III;
- (g) the circular dated 14th November, 2005 issued jointly by the Company and Hon Kwok in relation to the disposal of 50% of the share capital of Rich Central Limited (together with associated shareholder's loan) and entry into joint venture agreement; and
- (h) this circular.