

Strategic Investment
Prudent Management



HON KWOK LAND INVESTMENT COMPANY, LIMITED

Stock Code: 160

2008-09

Interim Report

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CORPORATE INFORMATION

DIRECTORS

James Sai-Wing Wong (*Chairman*)
Madeline May-Lung Wong
Herman Man-Hei Fung (*Vice-Chairman*)
Dennis Kwok-Wing Cheung
Zuric Yuen-Keung Chan
Daniel Chi-Wai Tse*
Kenneth Kin-Hing Lam*
Hsin-Kang Chang*

* *Independent non-executive directors*

AUDIT COMMITTEE

Kenneth Kin-Hing Lam
Daniel Chi-Wai Tse
Hsin-Kang Chang

REMUNERATION COMMITTEE

Herman Man-Hei Fung
Daniel Chi-Wai Tse
Kenneth Kin-Hing Lam

SECRETARY

Wendy Yuk-Ying Chan

PRINCIPAL BANKERS

Bank of Communications Co., Ltd.
The Bank of East Asia, Limited
DBS Bank (Hong Kong) Limited
Hang Seng Bank Limited
The Hongkong and Shanghai Banking
Corporation Limited
Shanghai Commercial Bank Limited

AUDITORS

Ernst & Young

REGISTRARS

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28 Queen's Road East
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STOCK CODE

SEHK 160

WEBSITE

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BUSINESS AND FINANCIAL HIGHLIGHTS

- About HK\$900 million realized from property sales since late 2007.
- Gearing ratio substantially reduced to 31% as at 30 September 2008 (2007: 71%).
- Our property development project in Guangzhou commenced presale in late November 2008.
- To strengthen our recurring income base and capital value, plan in progress to develop and implement “The Bauhinia” brand name, comprising a chain of 2 serviced apartment operations and 4 hotels with over 600 rooms in Hong Kong, Shenzhen and Guangzhou.

<i>For the six months ended 30 September</i>	2008	2007	<i>Increase/Decrease</i>	
	<i>HK\$ Million</i>	<i>HK\$ Million</i>	<i>HK\$ Million</i>	<i>+/-</i>
1. Turnover (mainly from property sales)	147	86	+61	+71%
2. Profit after tax attributable to shareholders after revaluation on investment properties (note 1)	21	57	-36	-63%
3. Basic earnings per share	HK 4.4 cents	HK 11.9 cents	-7.5	-63%
<i>As at 30 September</i>	2008	2007		
	<i>HK\$ Million</i>	<i>HK\$ Million</i>		
4. Bank borrowings less bank balances	684	1,632	-948	-58%
5. Shareholders' funds	3,111	2,666	+445	+17%
6. Gearing ratio (note 2)	31%	71%		-40% points
7. Net assets per share attributable to shareholders	HK\$6.48	HK\$5.55	+0.93	+17%

Notes:

1. Drop in profit mainly due to HK\$95 million reduction in net revaluation gain on investment properties, partly set off by incremental property sales profits of HK\$21 million and decrease in finance and operating costs of HK\$35 million.
2. Representing ratio of “bank borrowings + convertible bonds – bank balances” to “shareholders' funds”.

CHAIRMAN'S STATEMENT

FINANCIAL RESULTS

For the six months ended 30 September 2008, the Group's turnover and profit attributable to shareholders were respectively HK\$147 million (2007: HK\$86 million) and HK\$21 million (2007: HK\$57 million). Basic earnings per share amounted to 4.4 Hong Kong cents (2007: 11.9 Hong Kong cents). Net assets per share attributable to shareholders as at 30 September 2008 were HK\$6.48 (2007: HK\$5.55).

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 September 2008 (2007: Nil).

BUSINESS REVIEW

1. Disposal of Investment Property

Upon completion of our disposal of **Yien Yieh Commercial Building** (鹽業商業大廈) on 31 July 2008 on a vacant site basis, full consideration of the sales proceeds of HK\$335 million was duly received. The Group acquired the property in December 2002 at a tender price of HK\$68 million of which 70% was financed by a mortgage loan. Return on equity after transaction and demolition costs was over 10 times on this investment property throughout the 5.5 year period. However, since this property was held as long term investment for rental income, revaluation gains on the property were recognized on an annual basis in previous years' income statements according to Hong Kong accounting standards. Hence, profit on disposal reflected in the current period under review only amounted to HK\$21 million.

2. Property Sales and Cash Proceeds

Since mid 2007, we saw an accelerating upward trend in the Hong Kong property market. The Group captured this opportunity and started to restructure our property portfolio and unloaded our properties gradually in order to realize and conserve cash so as to de-leverage the Group's gearing as well as to replenish our land bank at some opportune time. Up to the date of this statement, total cash proceeds from sales of various properties in Hong Kong together with the repatriation of proceeds from sale of **One City Hall** in Toronto, Canada, amounted to approximately HK\$900 million. About half of the cash proceeds were received during the period under review. As of 30 September 2008, the Group fully repaid all its revolving bank loans and two property mortgage loans and hence its gearing ratio was substantially reduced to 31% from 71% as of 30 September 2007.

BUSINESS REVIEW *(Continued)*

2. Property Sales and Cash Proceeds *(Continued)*

During the past 15 months, properties sold comprising various residential flats we purchased in 2005, over 200 carparking spaces purchased during the SARS period in 2003 and some remaining unsold units from previous development projects. These included 9 ground floor shops at **Kensington Plaza** (金威廣場) in Jordan District and the cash proceeds of HK\$71.5 million was fully received upon completion of the sale on 9 July 2008.

3. PRC Projects

Guangzhou, PRC

The Group's residential property development project at Tianhe District, known as **Botanica** (寶翠園), comprises approximately 40 medium-rise residential blocks with approximately 2,070 units. The Group acquired this development project in 2004. Presale of Phase 1, with a total of 332 residential units mainly ranging from 95 sq.m. to 165 sq.m., commenced in late November 2008.

Benefiting from the economic and property stimulus measures by Central Government, including substantial lowering deed tax to 1% from 1.5% for first time purchasers, lowering mortgage down payment to 20% from 30% and reducing mortgage interest rates to 70% of base lending rates for both first time purchasers and those upgrading their homes coupled with the Central Bank cutting benchmark lending rates by a further 1.08% on 25 November 2008, it is expected that all units at Phase 1 would gradually be sold out within months. Completion of the Phase 1 units is scheduled in mid 2009.

Botanica (寶翠園) is the third project we launched for sale in the PRC after the **Millennium Oasis** (城市綠洲花園) at Futian District in 2000 with 680 units and the **City Square** (城市天地廣場) at Luohu District in 2005 with 2,198 units, both in Shenzhen and were fully sold.

The fourth project we plan to launch in the PRC is **No. 5 Residence** (北京路5號公館) at 5 Beijing Road, previously known as 17-43 Beijing Nan Road, in Yuexiu District, Guangzhou. It comprises 160 residential flats and commercial podium floors with a total gross floor area of 20,300 sq.m. This project was acquired by us in 2004. Presale is expected to be in the first half of 2009 and project completion in by the last quarter of 2009.

Detailed design and planning for our other three projects in Liwan District, Dong Guan Zhuan and Nanhai are still in progress.

CHAIRMAN'S STATEMENT *(Continued)*

BUSINESS REVIEW *(Continued)*

3. PRC Projects *(Continued)*

Chongqing, PRC

Construction works for our 108,000 sq.m. twin-tower **Cha's Centre** (查氏中心) in Beibuxinqu District are scheduled for completion by end of March 2009. Taking into account the growth potential of property market in the district, the Group considers our medium to long term returns from rental yield and capital gain on the project far outweigh the current sales profits upon realization of its retail podium spaces, office and residential units. The Group intends to hold the property for long term investment purpose.

Shenzhen, PRC

The detailed construction plans of our 128,000 sq.m. super high rise commercial/residential development project "**Hon Kwok City Commercial Centre** 漢國城市商業中心" on Shennanzhong Road, Futian District, are in good progress.

4. Property Investment, Serviced Apartments, Hotel Operations and Management

The Group noted the increasing demand of mid-price hotel/guest rooms for short stay visitors and business executives working in Central and Tsimshatsui Districts. As our serviced apartments at **The Bauhinia** (寶軒) only cater to visitors who stay for more than a month, the Group is in the process to convert the office floors to a 42 room hotel on first to fourth floors at **The Bauhinia/Honwell Commercial Centre** (寶軒及漢貿商業中心), leaving the ground floor for commercial purpose. Building plans for hotel have been approved by the Buildings Department and other relevant government departments concerned. Alteration and renovation works for this hotel as well as our 44 room hotel on the upper floors at **Hon Kwok TST Centre** (漢國尖沙咀中心) in Tsimshatsui District are expected to complete by end of 2009 and mid 2009 respectively.

Parallel to the accommodation solution catering for long and short term stay guests at **The Bauhinia/Honwell Commercial Centre** (寶軒及漢貿商業中心) in Hong Kong, the Group is also in the process to convert the commercial podium at **City Square** (城市天地廣場), in Shenzhen, to an approximate 180 room hotel, to be named as **City Square Hotel** (寶軒酒店), pending approval by the relevant government authorities. Once approved, alteration and renovation works are scheduled for completion within 12 months. The Group intends to hold the 64 serviced apartments ("**City Suites** 寶軒公寓") which is already in operation, and the planned **City Square Hotel** (寶軒酒店) as long term investment properties for recurrent rental income.

BUSINESS REVIEW *(Continued)*

4. Property Investment, Serviced Apartments, Hotel Operations and Management *(Continued)*

In addition, the Group has also acquired management rights to manage a 170 room hotel in Yuexiu District, Guangzhou. An upgrade and refurbishment program is in progress. Upon completion, it will be renamed “**Bauhinia Guangzhou 寶軒廣州**”, subject to local government's approval.

With two hotels and one serviced apartment operation in Hong Kong, one hotel and one serviced apartment operation in Shenzhen plus a hotel in Guangzhou, operating costs tend to be relatively competitive due to economy of scale. The Group will be in a better position to enhance the rental income and capital value of our existing properties with limited disruption to our cashflow.

OUTLOOK

In July this year, I pointed out in our 2007-08 Annual Report that world-wide economic growth was expected to slow down resulting from the financial crisis in the USA. Following the recent credit crunch and collapse of giant corporations including top investment banks, leading manufacturers and retailers, the global economy has apparently sunk into a quagmire with negative growth, rising unemployment, low consumption, plunging asset and property prices which will lead to a global economic recession in the coming years.

Strategic investment and prudent management, being two of our corporate strategies, will enable the Group to survive amid this world-wide financial tsunami. Over the past 23 years, we have only focused on activities related to property development and property investment in which our experience and expertise warrant. The Group did not enter into any contracts on speculative financial derivatives. We strategically did not replenish land bank in the past 18 months, during which property prices in Hong Kong and the PRC remained high. To the contrary, the Group realized approximately HK\$900 million from sales of our property stocks and investment properties since 2007. These cash proceeds not only reduced our gearing level, but strengthened our liquidity for us to capture high yield investment opportunities that are likely to arise, both in Hong Kong and the PRC in the months ahead. Coupled with benefit of prevailing downward trend in interest rates, the next two years could provide opportunities for us to replenish our land bank and property investment portfolio.

CHAIRMAN'S STATEMENT *(Continued)*

OUTLOOK *(Continued)*

Since property prices are largely driven by the general economy and market forces, our development property sales profits are inevitably subject to market fluctuation. To safeguard the interest of our shareholders, it is the Group's policy to sell its assets only at a time when we consider opportune to maximize return on our investment. Being a medium sized developer, it is difficult to achieve a steady and continued growth trend in our annual net profits. Nevertheless, we plan to expand our investment property portfolios to strengthen our recurring rental income base and to look for long term capital gain. We have therefore decided to hold our serviced apartments and the planned hotel rooms in **City Square** (城市天地廣場), Shenzhen together with Phase 1 of our Chongqing project for long term rental and investment purposes.

Despite drastic reduction in interest rates and other emergency measures by various governments to stabilize the general economy and to restore confidence, market sentiments and spending level remain very low. With no exception, Hong Kong will be affected and hopefully not to an extent worse than we had experienced during the 1997 Asian financial turmoil and the outbreak of SARS in 2003. With government intervention and huge self-contained internal market, the economy in Mainland China seems less affected despite drop in exports and retrieval of foreign investment funds. Given uncertainty on the recovery period of the global economic recession, 2009 will be a difficult year for many property developers in Hong Kong and the PRC, and your Company is no exception. However, the Board remains optimistic about the future outlook of the Group.

Finally, I wish to express my sincere thanks and appreciation to all our staff and fellow directors for their dedicated hard work and contributions during this period.

James Sai-Wing Wong
Chairman

Hong Kong, 18 December 2008

GENERAL INFORMATION

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 30 September 2008, the interests and short positions of the directors of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

(a) Directors' interests in the ordinary shares of the Company

Name of director	Notes	Nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
James Sai-Wing Wong	1 & 2	Corporate	257,476,553	53.61
Madeline May-Lung Wong	1 & 2	Corporate	257,476,553	53.61
Herman Man-Hei Fung	1	Personal	300,000	0.06

(b) Directors' interests in the ordinary shares of associated corporations

Name of director	Notes	Name of associated corporation	Nature of interest	Number of ordinary shares/ amount of paid up registered capital held	Percentage of the associated corporation's issued share capital/paid up registered capital
James Sai-Wing Wong	1 & 3	Chinney Investments, Limited ("Chinney Investments")	Corporate	309,067,324	56.05
	1 & 4	Chinney Holdings Limited ("Chinney Holdings")	Corporate	9,900,000	99.00
	1	Chinney Holdings	Personal	100,000	1.00
	1	Lucky Year Finance Limited ("Lucky Year")	Personal	10,000	50.00
	1 & 5	Guangzhou Honkwok Fuqiang Land Development Ltd.	Corporate	RMB185,000,000	100.00
Madeline May-Lung Wong	1 & 3	Chinney Investments	Corporate	309,067,324	56.05
	1 & 4	Chinney Holdings	Corporate	9,900,000	99.00
	1	Lucky Year	Personal	10,000	50.00

GENERAL INFORMATION *(Continued)*

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(Continued)*

Notes:

1. *All the interests stated above represent long positions.*
2. *These shares are beneficially held by Chinney Investments, which is a subsidiary of Chinney Holdings. More than one-third of the equity capital of Chinney Holdings is owned by Lucky Year of which Mr. James Sai-Wing Wong and Madam Madeline May-Lung Wong are also directors and have beneficial interests therein.*
3. *These shares are beneficially held by Chinney Holdings. By virtue of note 2, Mr. James Sai-Wing Wong and Madam Madeline May-Lung Wong are deemed to be interested in these shares.*
4. *These shares are beneficially held by Lucky Year. By virtue of note 2, Mr. James Sai-Wing Wong and Madam Madeline May-Lung Wong are deemed to be interested in these shares.*
5. *Out of the RMB185,000,000 paid up registered capital, RMB111,000,000 is held by a wholly-owned subsidiary of the Company and RMB74,000,000 is held by a company controlled by Mr. James Sai-Wing Wong. By virtue of note 2, Mr. James Sai-Wing Wong is deemed to be interested in this company.*

Save as disclosed herein, as at 30 September 2008, none of the directors of the Company 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 are required to be recorded in the register kept by the Company under section 352 of the SFO, or which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 30 September 2008, so far as is known to the directors of the Company, the following substantial shareholders and other persons (other than directors of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name	Notes	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Chinney Investments	1 & 2	Directly beneficially owned	257,476,553	53.61
Chinney Holdings	1 & 2	Through a controlled corporation	257,476,553	53.61
Lucky Year	1 & 2	Through a controlled corporation	257,476,553	53.61
DJE Investment S.A.	1 & 3	Directly beneficially owned	33,618,000	7.00
Dr. Jens Ehrhardt Kapital AG	1 & 3	Through a controlled corporation	33,618,000	7.00
Dr. Jens Alfred Karl Ehrhardt	1 & 3	Through a controlled corporation	33,618,000	7.00
Morgan Stanley	1 & 4	Directly beneficially owned	37,179,494	7.74

Notes:

1. *All the interests stated above represent long positions.*
2. *Chinney Investments, Chinney Holdings and Lucky Year are deemed to be interested in the same parcel of share by virtue of section 316 of the SFO.*
3. *DJE Investment S.A., Dr. Jens Ehrhardt Kapital AG and Dr. Jens Alfred Karl Ehrhardt are deemed to be interested in the same parcel of shares by virtue of section 316 of the SFO.*
4. *In June 2006, a wholly-owned subsidiary of the Company issued 3.5% convertible guaranteed bonds due 2011 (the "Bonds") with a principal sum of HK\$280 million. The bondholders have the right to convert the Bonds into shares of the Company at a conversion price, subject to adjustment in certain events, of HK\$4.00 per share. Morgan Stanley subscribed for a principal sum of HK\$145 million of the Bonds and was regarded to be interested in 36,250,000 shares of the Company at the issue date of the Bonds. The Bonds are freely transferable and there has been no conversion of the Bonds since issuance. With effect from 3 October 2008, the conversion price of the Bonds has been adjusted from HK\$4.00 per share to HK\$3.90 per share.*

Based on the last corporate substantial shareholder notice, Morgan Stanley disclosed it held a long position of 37,179,494 shares of the Company as at 23 September 2008.

Save as disclosed herein, as at 30 September 2008, none of the substantial shareholders or other persons (other than the directors of the Company) had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

GENERAL INFORMATION *(Continued)*

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

There were no purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries during the six months ended 30 September 2008.

DISCLOSURE PURSUANT TO RULE 13.18 OF THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE (THE "LISTING RULES")

On 22 November 2007, Hon Kwok Treasury Limited, a wholly-owned subsidiary of the Company, as borrower entered into the facilities agreement (the "Facilities Agreement") relating to a HK\$280 million transferable term and revolving loan facilities (the "Loan Facilities") with a syndicate of banks. The Loan Facilities have a term of 36 months commencing from the date of the Facilities Agreement and will be used as general working capital of the Group.

Pursuant to the Facilities Agreement, it shall be an event of default if (i) Chinney Investments ceases to remain as the single largest shareholder of the Company or ceases to hold (whether directly or indirectly) not less than 30% of the effective shareholding in the Company; or (ii) Mr. James Sai-Wing Wong, the Chairman of both the Company and Chinney Investments, ceases to hold a controlling shareholding interest in Chinney Investments.

If an event of default under the Facilities Agreement occurs, the agent acting for the lending banks may, and shall if so requested by a majority of the lending banks, terminate the Loan Facilities and/or declare all outstanding amounts together with all interest accrued under the Loan Facilities to be immediately due and payable.

CORPORATE GOVERNANCE

Compliance with Model Code for Securities Transactions By Directors

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its own code of conduct for directors' securities transactions. Having made specific enquiry, all the directors have confirmed that they have complied with the required standard as set out in the Model Code during the six months ended 30 September 2008.

Compliance with the Code on Corporate Governance Practices

In the opinion of the Directors, the Company has complied with the applicable code provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Listing Rules for the six months ended 30 September 2008, except for the following deviations:

1. CG Code provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

CORPORATE GOVERNANCE *(Continued)*

Compliance with the Code on Corporate Governance Practices *(Continued)*

Currently, Mr. James Sai-Wing Wong is the Chairman of the Company and assumes the role of the Chairman and also the chief executive officer. Given the nature of the Group's businesses which require considerable market expertise, the Board believed that the vesting of the two roles for the time being provides the Group with stable and consistent leadership and allows for more effective planning and implementation of long term business strategies. The Board will continuously review the effectiveness of the structure to balance the power and authority of the Board and the management.

- CG Code provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election and CG Code provision A.4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

The non-executive directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election in accordance with the articles of association of the Company (the "Articles of Association"). The Articles of Association do not require the directors to retire by rotation at least once every three years. However, in accordance with article 104 of the Articles of Association, at each annual general meeting of the Company, one-third of the directors for the time being (or, if their number is not three or a multiple of three, then the number nearest one-third), other than the one who holds the office as executive chairman or managing director, shall retire from office by rotation. The Board will ensure the retirement of each director, other than the one who holds the office as executive chairman or managing director, by rotation at least once every three years in order to comply with the CG Code provisions.

The Chairman will not be subject to retirement by rotation as stipulated in CG Code provision A.4.2 as the Board considered that the continuity of office of the Chairman provides the Group with a strong and consistent leadership and is of great importance to the smooth operations of the Group.

All directors appointed to fill a casual vacancy is subject to re-election by shareholders at the next following annual general meeting of the Company instead of at the first general meeting after their appointment as stipulated in CG Code provision A.4.2.

- CG Code provision B.1.3 stipulates that the terms of reference of the remuneration committee should include, as a minimum, those specific duties as set out in the CG Code provisions. The Company adopted the terms of reference of the remuneration committee on 16 December 2005 with certain deviations from the CG Code provisions. Pursuant to the terms of reference, the remuneration committee should review (as opposed to determine) and make recommendations to the Board on the remuneration of directors (as opposed to directors and senior management).

GENERAL INFORMATION *(Continued)*

CORPORATE GOVERNANCE *(Continued)*

Compliance with the Code on Corporate Governance Practices *(Continued)*

4. The terms of reference of the remuneration committee and audit committee of the Company are available from the Company Secretary on request and not yet ready on the Company's website as stipulated in CG Code provisions B.1.4 and C.3.4.

Audit committee

The Company has established an audit committee comprising Mr. Kenneth Kin-Hing Lam, Mr. Daniel Chi-Wai Tse and Mr. Hsin-Kang Chang.

Regular meetings have been held by the audit committee of the Company since its establishment and it meets at least twice each year to review and supervise the Group's financial reporting process and internal control. The Company's interim results for the six months ended 30 September 2008 has not been audited, but has been reviewed by the audit committee.

FINANCIAL REVIEW

Liquidity and financial resources

The total interest-bearing debts of the Group amounted to HK\$1,226 million as at 30 September 2008 (as at 31 March 2008: HK\$1,708 million), of which approximately 29% of the debts were due and repayable within one year.

Total cash and bank balances including time deposits were HK\$252 million as at 30 September 2008 (as at 31 March 2008: HK\$519 million). The Group had a total of HK\$468 million committed but undrawn banking facilities at period end available for its working capital purpose.

Total shareholders' funds as at 30 September 2008 was approximately HK\$3,111 million (as at 31 March 2008: HK\$3,102 million).

The gearing ratio of the Group, as measured by the net interest-bearing debts of approximately HK\$974 million over the total shareholders' funds of approximately HK\$3,111 million, was 31% as at 30 September 2008 (as at 31 March 2008: 38%).

During the period, completion of disposal of Yien Yieh Commercial Building and the nine ground floor shops at Kensington Plaza have generated net cash proceeds, after repayment of related bank loans and expenses, of approximately HK\$350 million to the Group and have further enhanced its financial position.

FINANCIAL REVIEW *(Continued)*

Use of proceeds from share placement

In November 2006, the Group issued 80 million new shares at a price of HK\$4.05 per share and generated net cash proceeds of HK\$315 million for general working capital of the Group, including acquisition of landbank. During the years ended 31 March 2007 and 2008, the Group utilised HK\$65 million and HK\$141 million respectively for general working capital. During the period under review, the Group have applied the remaining balance of HK\$109 million for general working capital.

Funding and treasury policies

There are no significant changes in the Group's funding and treasury policies. As at 30 September 2008, the Group had no material exposure under foreign exchange contracts or any other hedging instruments.

Pledge of assets

Properties with an aggregate carrying value of HK\$2,858 million as at 30 September 2008 were pledged to secure certain banking facilities of the Group.

Employees and remuneration policies

The Group, not including its jointly-controlled entities, employed approximately 320 employees as at 30 September 2008. There have been no significant changes in the remuneration policies and benefits to the employees of the Group.

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended	
		30 September	
		2008	2007
	<i>Notes</i>	(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
Revenue	2	147,392	86,322
Cost of sales		(115,560)	(52,928)
Gross profit		31,832	33,394
Other income	3	26,567	4,346
Fair value gains/(losses) on investment properties, net		(56,395)	115,386
Change in fair value of properties held for sale transferred to investment properties		38,188	–
Administrative expenses		(20,329)	(24,902)
Other operating income/(expenses), net		2,364	(609)
Finance costs	4	(10,965)	(41,426)
Share of profits and losses of jointly-controlled entities		285	283
Profit before tax	5	11,547	86,472
Tax	6	10,419	(29,570)
Profit for the period		21,966	56,902
Attributable to:			
Equity holders of the Company		21,058	56,939
Minority interests		908	(37)
		21,966	56,902
Earnings per share attributable to ordinary equity holders of the Company	7		
Basic		4.38 cents	11.86 cents
Diluted		3.83 cents	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	As at 30 September 2008 (Unaudited) HK\$'000	As at 31 March 2008 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		26,067	26,395
Properties under development		1,820,082	1,699,408
Investment properties		2,084,073	2,373,878
Interests in jointly-controlled entities		58,288	55,880
Total non-current assets		3,988,510	4,155,561
CURRENT ASSETS			
Amounts due from jointly-controlled entities		172,815	159,417
Tax recoverable		678	464
Properties held for sale		453,221	523,230
Trade receivables	8	1,272	5,550
Prepayments, deposits and other receivables		37,615	27,806
Cash and cash equivalents		251,685	519,226
Total current assets		917,286	1,235,693
CURRENT LIABILITIES			
Trade payables and accrued liabilities	9	120,183	144,836
Interest-bearing bank borrowings		358,500	576,999
Amount due to a related company		679	44
Customer deposits		4,085	38,528
Dividend payable		60,036	–
Tax payable		51,408	58,126
Total current liabilities		594,891	818,533
NET CURRENT ASSETS		322,395	417,160
TOTAL ASSETS LESS CURRENT LIABILITIES		4,310,905	4,572,721
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		577,682	851,267
Convertible bonds		289,481	279,980
Deferred tax liabilities		183,462	190,879
Total non-current liabilities		1,050,625	1,322,126
Net assets		3,260,280	3,250,595

CONDENSED CONSOLIDATED BALANCE SHEET *(Continued)*

		As at 30 September 2008 (Unaudited) HK\$'000	As at 31 March 2008 (Audited) HK\$'000
	<i>Notes</i>		
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	<i>10</i>	480,286	480,286
Equity component of convertible bonds		24,826	24,826
Reserves		2,605,636	2,537,126
Proposed final dividend		—	60,036
		3,110,748	3,102,274
Minority interests		149,532	148,321
Total equity		3,260,280	3,250,595

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company									
	Issued capital (Unaudited) HK\$'000	Share premium account (Unaudited) HK\$'000	Capital redemption reserve (Unaudited) HK\$'000	Equity component	Exchange fluctuation reserve (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Proposed final dividend (Unaudited) HK\$'000	Total (Unaudited) HK\$'000	Minority interests (Unaudited) HK\$'000	Total equity (Unaudited) HK\$'000
				of convertible bonds (Unaudited) HK\$'000						
At 1 April 2007	480,286	396,352	10	24,826	112,587	1,524,979	60,036	2,599,076	131,283	2,730,359
Exchange realignment	-	-	-	-	70,052	-	-	70,052	4,078	74,130
Total income and expense for the period recognized directly in equity	-	-	-	-	70,052	-	-	70,052	4,078	74,130
Profit/(loss) for the period	-	-	-	-	-	56,939	-	56,939	(37)	56,902
Total income and expense for the period	-	-	-	-	70,052	56,939	-	126,991	4,041	131,032
Final dividend in respect of previous financial year	-	-	-	-	-	-	(60,036)	(60,036)	-	(60,036)
At 30 September 2007	480,286	396,352	10	24,826	182,639	1,581,918	-	2,666,031	135,324	2,801,355
At 1 April 2008	480,286	396,352	10	24,826	276,305	1,864,459	60,036	3,102,274	148,321	3,250,595
Exchange realignment	-	-	-	-	47,452	-	-	47,452	3,116	50,568
Total income and expense for the period recognized directly in equity	-	-	-	-	47,452	-	-	47,452	3,116	50,568
Profit for the period	-	-	-	-	-	21,058	-	21,058	908	21,966
Total income and expense for the period	-	-	-	-	47,452	21,058	-	68,510	4,024	72,534
Dividend paid to minority shareholders	-	-	-	-	-	-	-	-	(2,813)	(2,813)
Final dividend in respect of previous financial year	-	-	-	-	-	-	(60,036)	(60,036)	-	(60,036)
At 30 September 2008	480,286	396,352	10	24,826	323,757	1,885,517	-	3,110,748	149,532	3,260,280

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended	
	30 September	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash outflow from operating activities	(65,102)	(52,637)
Net cash inflow/(outflow) from investing activities	327,905	(26,923)
Net cash outflow from financing activities	(534,493)	(77,459)
Net decrease in cash and cash equivalents	(271,690)	(157,019)
Cash and cash equivalents at beginning of the period	519,226	417,903
Effects of foreign exchange rate changes, net	4,149	15,713
Cash and cash equivalents at end of the period	<u>251,685</u>	<u>276,597</u>
Analysis of balances of cash and cash equivalents		
Cash and bank balances	186,357	276,597
Non-pledged time deposits	65,328	–
	<u>251,685</u>	<u>276,597</u>

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of preparation

The unaudited condensed interim consolidated financial statements for the six months ended 30 September 2008 have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The unaudited condensed interim consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 March 2008.

Accounting policies

The accounting policies and methods of computation used in the preparation of this unaudited condensed interim consolidated financial statements are consistent with those adopted in the annual consolidated financial statements for the year ended 31 March 2008, except in relation to the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all HKFRSs, HKASs and Interpretations) that are adopted for the first time for the current period’s unaudited condensed interim consolidated financial statements.

HKAS 39 and HKFRS 7 Amendments	Reclassification of Financial Assets
HK(IFRIC) - Int 12	Service Concession Arrangements
HK(IFRIC) - Int 14	HKAS 19 - The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction

The adoption of the above HKFRSs has had no material impact on the accounting policies of the Group and the methods of computation in the Group’s unaudited condensed interim consolidated financial statements.

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES *(Continued)*

Accounting policies *(Continued)*

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective, in the unaudited condensed interim consolidated financial statements.

HKAS 1 (Revised)	Presentation of Financial Statements ¹
HKAS 23 (Revised)	Borrowing Costs ¹
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ³
HKAS 32 and HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation ¹
HKAS 39 Amendment	Eligible Hedged Items ³
HKFRS 2 Amendment	Share-based Payment - Vesting Conditions and Cancellations ¹
HKFRS 3 (Revised)	Business Combinations ³
HKFRS 8	Operating Segments ¹
HK(IFRIC) - Int 13	Customer Loyalty Programmes ²
HK(IFRIC) - Int 15	Agreements for the Construction of Real Estate ¹
HK(IFRIC) - Int 16	Hedges of a Net Investment in a Foreign Operation ⁴

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

² *Effective for annual periods beginning on or after 1 July 2008*

³ *Effective for annual periods beginning on or after 1 July 2009*

⁴ *Effective for annual periods beginning on or after 1 October 2008*

The Group expects that while the adoption of the HKAS 1 and HKFRS 8 may result in new or amended disclosures, these new and revised HKFRSs will not have any material impact on the Group's financial statements in the period of initial applications.

2. SEGMENT INFORMATION

The Group is principally engaged in property development, property investment and property related activities. An analysis of the Group's revenue and results by business segments and revenue by geographical segments is as follows:

(a) Business segments

	Six months ended 30 September 2008 (Unaudited)			
	Property development <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Others <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Segment revenue:				
Sales to external customers	<u>100,061</u>	<u>27,512</u>	<u>19,819</u>	<u>147,392</u>
Segment results	<u>46,405</u>	<u>(14,711)</u>	<u>3,590</u>	35,284
Interest income				1,713
Unallocated expenses				(14,770)
Finance costs				(10,965)
Share of profits and losses of jointly-controlled entities	285	-	-	<u>285</u>
Profit before tax				11,547
Tax				<u>10,419</u>
Profit for the period				<u>21,966</u>

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

2. SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

	Six months ended 30 September 2007 (Unaudited)			
	Property development	Property investment	Others	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment revenue:				
Sales to external customers	38,466	30,508	17,348	86,322
Segment results	(1,091)	138,897	4,152	141,958
Interest income				1,272
Unallocated expenses				(15,615)
Finance costs				(41,426)
Share of profits and losses of jointly-controlled entities	283	–	–	283
Profit before tax				86,472
Tax				(29,570)
Profit for the period				56,902

(b) Geographical segments

	Six months ended 30 September 2008 (Unaudited)			
	Hong Kong	Mainland China	Canada	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment revenue:				
Sales to external customers	141,128	2,697	3,567	147,392

	Six months ended 30 September 2007 (Unaudited)			
	Hong Kong	Mainland China	Canada	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment revenue:				
Sales to external customers	84,190	2,132	–	86,322

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

3. OTHER INCOME

	Six months ended	
	30 September	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Bank interest income	1,709	1,190
Interest income from mortgage loans receivable	4	82
Exchange gain	1,051	–
Gain on disposal of investment properties	22,085	2,019
Others	1,718	1,055
	<u>26,567</u>	<u>4,346</u>

4. FINANCE COSTS

	Six months ended	
	30 September	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on bank loans, overdrafts and other loans (including convertible bonds) wholly repayable within five years	38,581	64,271
Less: Amounts capitalised under property development projects	<u>(27,616)</u>	<u>(22,845)</u>
	<u>10,965</u>	<u>41,426</u>

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	Six months ended	
	30 September	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Depreciation	1,536	1,347
Employee benefit expense (including directors' remuneration)	12,720	11,488
Less: Amounts capitalised under property development projects	<u>(2,984)</u>	<u>—</u>
	<u>9,736</u>	<u>11,488</u>

6. TAX

	Six months ended	
	30 September	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Group:		
Current – Outside Hong Kong	(463)	1,244
Deferred	<u>(9,956)</u>	<u>28,326</u>
Total tax charge/(credit) for the period	<u>(10,419)</u>	<u>29,570</u>

No Hong Kong profits tax has been provided as the Group companies did not have assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

7. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the Company and the number of ordinary shares in issue during the period.

The calculation of diluted earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the Company, adjusted to reflect the interest on the convertible bonds, if any. The number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation and the number of ordinary shares assumed to have been issued on the deemed conversion of all convertible bonds into ordinary shares.

The calculation of basic and diluted earnings per share are based on:

	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation	21,058	56,939
Interest on convertible bonds, net of tax	<u>—</u>	<u>11,126</u>
Profit attributable to ordinary equity holders of the Company before interest on convertible bonds	<u>21,058</u>	<u>68,065*</u>

7. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY *(Continued)*

	Number of shares	
	2008 (Unaudited)	2007 (Unaudited)
Shares		
Number of ordinary shares in issue during the period used in the basic earnings per share calculation	480,286,201	480,286,201
Effect of dilution – number of ordinary shares:		
Convertible bonds	<u>70,000,000</u>	<u>70,000,000</u>
	<u>550,286,201</u>	<u>550,286,201*</u>

* Last period, since the diluted earnings per share amount was increased when taking convertible bonds into account, the convertible bonds had an anti-dilutive effect on the basic earnings per share for that period. Therefore, no diluted earnings per share amount was disclosed.

8. TRADE RECEIVABLES

An aged analysis of the trade receivables, based on the invoice/contract date, is as follows:

	As at 30 September 2008 (Unaudited) HK\$'000	As at 31 March 2008 (Audited) HK\$'000
Within 1 month	962	5,393
1 to 2 months	279	110
2 to 3 months	<u>31</u>	<u>47</u>
Total	<u>1,272</u>	<u>5,550</u>

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 the 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 for in full in case of non-recoverability. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk.

9. TRADE PAYABLES AND ACCRUED LIABILITIES

Included in the trade payables and accrued liabilities are trade payables of HK\$6,791,000 (as at 31 March 2008: HK\$9,211,000). An aged analysis of the trade payables, based on the invoice date, is as follows:

	As at 30 September 2008 (Unaudited) HK\$'000	As at 31 March 2008 (Audited) HK\$'000
Within 1 month	<u>6,791</u>	<u>9,211</u>

10. SHARE CAPITAL

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

11. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its properties under operating lease arrangements, with leases negotiated for terms ranging from 1 to 5 years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

As at 30 September 2008, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	As at 30 September 2008 (Unaudited) HK\$'000	As at 31 March 2008 (Audited) HK\$'000
Within one year	<u>14,862</u>	13,519
In the second to fifth years, inclusive	<u>14,304</u>	<u>7,034</u>
	<u>29,166</u>	<u>20,553</u>

11. OPERATING LEASE ARRANGEMENTS *(Continued)*

(b) As Lessee

The Group leases its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 to 3 years.

As at 30 September 2008, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 30 September 2008 (Unaudited) HK\$'000	As at 31 March 2008 (Audited) HK\$'000
Within one year	11,299	16,671
In the second to fifth years, inclusive	2,797	7,543
	<u>14,096</u>	<u>24,214</u>

12. CAPITAL COMMITMENTS

As at 30 September 2008, the Group had authorised and contracted capital commitments in respect of property development expenditure and acquisition of properties amounting to HK\$220,834,000 (as at 31 March 2008 (audited): HK\$185,198,000).

The Group's share of the jointly-controlled entities' authorised and contracted capital commitments in respect of property development expenditure and acquisition of properties, which are not included in the above, amounted to HK\$7,519,000 (as at 31 March 2008 (audited): HK\$7,310,000).

13. RELATED PARTY TRANSACTIONS

- (a) Significant transactions with related parties

	Six months ended	
	30 September	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Commissions paid to the ultimate holding company	–	1,313

The Company obtained bank loan facilities of HK\$150 million under cash collateral from Lucky Year. The financing arrangement was extended in July 2006 for a period of 30 months maturing in January 2009. Under the arrangement, the Company 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 terms of the bank loans. In March 2008, the Company served notices to early terminate the financing arrangement and cancelled the bank loan facilities on 31 March 2008.

- (b) Compensation of key management personnel of the Group

	Six months ended	
	30 September	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Short-term employee benefits	5,489	5,398
Post-employment benefits	328	320
	5,817	5,718

13. RELATED PARTY TRANSACTIONS *(Continued)*

- (c) On 11 May 2007, a wholly-owned subsidiary of the Group, Cheerworld Group Limited, as purchaser, entered into a sale and purchase agreement with Enhancement Investments Limited (“Enhancement”), Galantine Management Limited and Sharp-View Group Inc., as vendors, for the acquisition of the entire issued share capital of Unity Wise International Limited and the assignment of related shareholders’ loans to the Group at an aggregate cash consideration of HK\$90 million. On the same date, Cheerworld Group Limited, as purchaser, entered into another sale and purchase agreement with Enhancement, as vendor, for the acquisition of 50% of the issued share capital of Ample Joy International Limited and the assignment of related shareholder’s loan to the Group at an aggregate cash consideration of HK\$12 million. The considerations of the transactions were mutually agreed among the parties. Both acquisitions constituted discloseable and connected transactions to the Company under the Listing Rules as Enhancement is a company controlled by Mr. James Sai-Wing Wong, the Chairman and substantial shareholder of the Company. These two acquisitions were completed on 4 July 2007.

- (d) On 17 September 2008, a wholly-owned subsidiary of the Group, Join Ally Limited, as purchaser, entered into a sale and purchase agreement with Enhancement, as vendor, for the acquisition of the entire issued share capital of Guru Star Investments Limited and the assignment of related shareholders’ loans to the Group at an aggregate cash consideration of HK\$135,000,000 (the “Acquisition”). The Acquisition constituted a discloseable and connected transaction to the Company under the Listing Rules as Enhancement is a company controlled by Mr. James Sai-Wing Wong, the Chairman and substantial shareholder of the Company. At the extraordinary general meeting of the Company held on 20 October 2008, the Acquisition was not passed by the independent shareholders of the Company and thus the sale and purchase agreement for the Acquisition ceased to take effect and was terminated.

- (e) The balance with the related company is unsecured, interest-free and repayable on demand.

14. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

These condensed interim consolidated financial statements were approved and authorised for issue by the board of directors on 18 December 2008.