



Chinney Investments, Limited

Stock Code : 216

Interim Report 2006/2007

CONTENTS

Corporate Information 2

Chairman’s Statement 3

General Information 8

Condensed Consolidated Income Statement 13

Condensed Consolidated Balance Sheet 14

Condensed Consolidated Statement of Changes in Equity 17

Condensed Consolidated Cash Flow Statement 18

Notes to the Condensed Consolidated Interim Financial Statements 19

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*

* *Independent non-executive directors*

AUDIT COMMITTEE

Johnny Chung-Ah Wong
William Chung-Yue Fan
Clement Kwok-Hung Young
Peter Man-Kong Wong

SECRETARY

Wendy Yuk-Ying Chan

PRINCIPAL BANKERS

The Bank of East Asia, Limited
CITIC Ka Wah Bank Limited
DBS Bank (Hong Kong) Limited
Hang Seng Bank Limited
The Hongkong and Shanghai Banking
Corporation Limited
Shanghai Commercial Bank Limited
Standard Chartered Bank (Hong Kong)
Limited

AUDITORS

Deloitte Touche Tohmatsu

REGISTRARS

Tengis Limited
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Tesbury Centre
28 Queen's Road East
Hong Kong

REGISTERED OFFICE

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STOCK CODE

SEHK 216

CONSOLIDATED RESULTS

The Group's turnover and profit attributable to shareholders of the Company for the six months ended 30th September, 2006 were HK\$1,050 million (2005: HK\$1,243 million) and HK\$54 million (2005: HK\$39 million), respectively. Earnings per share were 9.78 cents (2005: 7.09 cents).

DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30th September, 2006 (2005: Nil).

REVIEW OF OPERATIONS

Property

During the period, the Company acquired additional shares of Hon Kwok Land Investment Company, Limited ("Hon Kwok", together with its subsidiaries, the "Hon Kwok Group") from the market and increased its shareholding in Hon Kwok from 58.81% as at 1st April, 2006 to 62.70% as at 30th September, 2006. These shares were acquired at a discount to the net asset per share of Hon Kwok, thus contributing a credit of HK\$29 million to the income statement. Since the beginning of this financial year, Hon Kwok raised funds by means of an issue of convertible bonds for a principal amount of HK\$280 million at par (the "Bonds") in June 2006 and an issue of 80,047,700 new shares at a price of HK\$4.05 each in November 2006. As a result of the share placement, the Company's shareholding in Hon Kwok was diluted to 52.44% as of the date hereof. The bondholders have the right to convert the Bonds into Hon Kwok shares at a price of HK\$4.00 each, subject to adjustment. Assuming full conversion of the Bonds, the Company's interest in Hon Kwok would have been further diluted to 45.77%.

Hon Kwok reported turnover of HK\$261 million (2005: HK\$649 million) and a net profit of HK\$109 million (2005: HK\$91 million). The decrease in turnover was mainly attributable to fewer residential units sold in Mainland China. Hon Kwok has chosen to revalue its investment properties to their fair values as at 30th September, 2006 in compliance with the accounting standard. This resulted in a fair value gain of HK\$57 million, net of deferred tax, in the period. Hon Kwok's investment properties had not been revalued as at 30th September, 2005. During the period, Hon Kwok bought out the minority interest in a subsidiary at a consideration below net asset value and resulted in a further credit of HK\$51 million to the income statement.

REVIEW OF OPERATIONS (Continued)

Property (Continued)

Apart from the issue of Bonds and new shares, Hon Kwok also completed the disposal of an investment property in Malaysia for MYR70 million in December 2006 and, pending for completion, disposed a 50% interest in a Guangzhou project for RMB245 million. These events have improved the financial position of Hon Kwok and provided additional cash resources for Hon Kwok's property activities in Hong Kong and Mainland China.

Interested shareholders may refer to the Hon Kwok's interim report for further details.

Construction

The Group's Construction Division continues to engage in sub-structure and superstructure building construction. The Construction Division, in which the Group has an 86.05% interest, reported turnover of HK\$440 million (2005: HK\$268 million) and a net loss of HK\$53.8 million (2005: HK\$10.7 million) in the period. The loss has widened, as there was margin pressure in our substructure business, write-off of deferred tax assets and operating loss of our superstructure business in Hong Kong and Macau. Excluding the depreciation charges of HK\$14 million relating to plant and machinery, the net loss of the Construction Division would have been HK\$40 million.

The local construction industry continues to suffer from insufficient jobs in both the private and public sectors. Going forward, the Group will tighten its project tendering and cost controls to achieve a better profitability and remain diversified outside Hong Kong to Macau.

Garment

The Garment Division comprises two distinct operations, (i) the J.L. Group, which produces fashionable garment in Mainland China for customers mainly in Europe; and (ii) the Gateway Group, which produces woven and knitted garment mainly in Indonesia for customers in the United States. The Gateway Group has a 50% interest in SGA Group, which produces outerwear, suits and pants in Mainland China for customers in North America. The Garment Division reported turnover of HK\$348 million (2005: HK\$327 million) and a net profit of HK\$14 million (2005: HK\$15 million) in the period.

The turnover of J.L. Group was HK\$191 million (2005: HK\$161 million) with a net profit of HK\$17 million (2005: HK\$12 million) in the period. Over the past years, J.L. Group has been diversifying its customer base from Germany to the United States and other European countries including Italy and the Netherlands. The growth in sales volume together with a tight control of overhead contributed to the better results of J.L. Group.

REVIEW OF OPERATIONS (Continued)

Garment (Continued)

The turnover of Gateway Group was HK\$157 million (2005: HK\$166 million) with a net loss of HK\$2.5 million (2005: net profit of HK\$3 million) in the period. The results included a 50% share of the net profit of SGA Group amounting to HK\$4.3 million (2005: HK\$2.8 million). The Gateway Group suffered continuous losses since 1st April, 2003 despite a complete overhaul involving job cuts, factory consolidation and management re-shuffle. In view of the gloomy outlook of the Indonesian operation following abolishment of quota system and the stringent labour law requirements, the Board resolved to dispose the Gateway Group (including Royal Treasure Limited) to Grow Ahead Enterprises Limited for a cash consideration of HK\$8.6 million. The transaction was completed in October 2006. For full details, please refer to the Company's announcement dated 25th July, 2006 and circular to the shareholders dated 15th August, 2006.

Trading

Chinney Alliance Group Limited ("Chinney Alliance"), a 29.1% owned associate of the Group, is engaged in the trading of plastics and chemicals, trading of industrial products and equipment, and building related contracting business. The building related contracting business was acquired from Shun Cheong Holdings Limited in March 2006 and being integrated into the air-conditioning engineering business of Chinney Alliance.

Chinney Alliance reported a net loss of HK\$6.4 million (2005: net profit of HK\$0.5 million) against a slight drop in turnover to HK\$519 million (2005: HK\$535 million) for the six months ended 30th June, 2006. Revenue from the newly acquired contracting business offset the decrease in revenue from the plastic trade caused by the soaring oil prices. Customers have seen to reduce their purchases, as plastic prices grow in tandem with the oil prices. Net loss for the period was mainly attributable to the loss of HK\$6.2 million arising from the disposal of Shun Cheong Holdings Limited, a former 29.93% owned associate of Chinney Alliance, in April 2006. For details of the disposal, please refer to the announcement of Chinney Alliance dated 13th April, 2006 and circular to the shareholders of Chinney Alliance dated 8th May, 2006.

Subsequent to 30th June, 2006, Chinney Alliance announced, amongst others, an open offer of new shares on the basis of three offer shares for every two shares at a price of HK\$0.25 each. The open offer raised net proceeds of about HK\$57 million for general working capital use. The Company took up its entitlement under the open offer for about HK\$17.3 million and maintained its shareholding in Chinney Alliance at 29.1%. For details of the open offer, please refer to the announcement of Chinney Alliance dated 21st August, 2006 and circulars to the shareholders of Chinney Alliance dated 8th September, 2006 and 6th October, 2006.

FINANCIAL REVIEW

Liquidity and financial resources

The total interest-bearing debts of the Group amounted to approximately HK\$2,669 million as at 30th September, 2006 (as at 31st March, 2006: HK\$2,419 million), of which approximately 37% of the debts were due and repayable within one year. Total cash on hand was approximately HK\$504 million as at 30th September, 2006 (as at 31st March, 2006: HK\$528 million). Total shareholders' fund as at 30th September, 2006 was approximately HK\$1,472 million (as at 31st March, 2006: HK\$1,408 million).

The gearing ratio of the Group, as measured by the consolidated net borrowings of approximately HK\$2,165 million over the total shareholders' fund plus minority interests of approximately HK\$2,544 million, was 85% as at 30th September, 2006 (as at 31st March, 2006: 74%). The Group's apparent high gearing is primarily due to consolidating all debts of Hon Kwok, a 62.70% owned but separately listed subsidiary of the Group as at 30th September, 2006. Had Hon Kwok been equity accounted for as an associate in previous years, the pro forma gearing of the Group at period end would have been 12%.

The Group had a total of HK\$572 million committed but undrawn banking facilities at period end available for its working capital purpose.

Funding and treasury policies

The Group adopts a prudent funding and treasury policy. Surplus funds are maintained in the form of cash deposits with leading banks. Borrowings are mainly denominated in Hong Kong dollars, Renminbi and United States dollars and bear interest at floating rates, except for the Renminbi loan facilities.

Pledge of assets

Inventories, trade debts, bank balances, properties and shares of an associate with an aggregate book value of HK\$3,909 million as at 30th September, 2006 and shares in a subsidiary were pledged to secure certain banking facilities of the Group.

Contingent liabilities

Contingent liabilities of material importance to the Group have been set out in the annual report of the Group for the year ended 31st March, 2006. Apart from the litigation in relation to a subsidiary of the Group which has ceased to be of any effect following the dissolution of the plaintiff, there was no significant change to the contingent liabilities of the Group.

FINANCIAL REVIEW (Continued)

Employees and remuneration policies

The Group, not including its associates and jointly-controlled entities, employed approximately 2,800 people as at 30th September, 2006. There have been no significant changes in the remuneration policies and benefits to the employees of the Group.

OVERVIEW

The Hong Kong economy continues its growth momentum, with a third quarter GDP growth of 6.8% over the previous year. Unemployment rate declined further to 4.4%, the lowest level in the past six years. Across the border, the Mainland economy remains prosperous, with the third quarter GDP grew by 10.7% from a year earlier. Looking ahead, the Mainland China will likely remain as the focal point amongst investors, as there are no other places in the world the economy of which are enjoying such unprecedented growth.

During the period, the Group has streamlined its operation by disposing the non-profitable garment business in Indonesia. Hon Kwok, a major subsidiary of the Group, is being transformed into a property developer in Mainland China, which shall stand to benefit from the continuous economic growth in Mainland China. Hopefully, the current ebb in the local construction industry will soon be over as the Hong Kong Government has pledged in its recent Policy Address to increase public investment. Pending recovery of the construction sector, the Group will remain active in seeking job opportunities in Macau and exercise a tighter control on job tendering, costing and project monitoring. In view of all these, your directors are optimistic on the future prospects of the Group.

Taking this opportunity, I would like to thank the Board and all staff for their contribution and look forward to their continued support in the future.

James Sai-Wing Wong
Chairman

Hong Kong, 19th December, 2006

DIRECTORS' INTERESTS IN SECURITIES

As at 30th September, 2006, 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' interest in the ordinary shares of the Company

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

All the interests stated above represent long positions.

(b) Directors' interest in the shares of associated corporations

| 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 | 250,948,553 | 62.70 |
| | 3 | Chinney Alliance | Corporate | 284,118,017 | 71.64 |
| | 5 | Chinney Holdings Limited ("Chinney Holdings") | Corporate | 9,900,000 | 99.00 |
| | | Chinney Holdings | Personal | 100,000 | 1.00 |
| | | Lucky Year Finance Limited ("Lucky Year") | Personal | 10,000 | 50.00 |
| Madeline May-Lung Wong | 2 | Hon Kwok | Corporate | 250,948,553 | 62.70 |
| | 4 | Chinney Alliance | Corporate | 115,395,797 | 29.10 |
| | 5 | Chinney Holdings | Corporate | 9,900,000 | 99.00 |
| | | Lucky Year | Personal | 10,000 | 50.00 |
| William Chung-Yue Fan | 6 | Wise Pacific Investment Limited | Corporate | 2,000 | 20.00 |

All the interests stated above represent long positions.

DIRECTORS' INTERESTS IN SECURITIES (Continued)**(c) Directors' interests in the underlying shares of associated corporation**

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. During the period, no share options were exercised.

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. By virtue of note 1, James Sai-Wing Wong and Madeline May-Lung Wong are deemed to be interested in these shares.*
3. *The interest in 284,118,017 shares of Chinney Alliance consists of the following interests: (i) 46,158,319 shares held by Multi-Investment Group Limited, ("Multi-Investment"), an indirect wholly-owned subsidiary of the Company; (ii) pursuant to a proposed open offer ("Proposed Open Offer") of new shares of Chinney Alliance dated 18th August, 2006 ("Proposed Open Offer"), Multi-Investment has agreed to subscribe for 69,237,478 new offer shares to be issued pursuant to the Proposed Open Offer; and (iii) Enhancement Investments Limited ("Enhancement"), a company controlled by James Sai-Wing Wong, has agreed to underwrite for 168,722,220 new offer shares to be issued pursuant to the Proposed Open Offer. Upon completion of the Proposed Open Offer on 25th October, 2006, Enhancement has subscribed for 102,742,486 shares (instead of 168,722,220 shares) pursuant to the underwriting of the Proposed Open Offer and thus as at 25th October, 2006 and thereafter, James Sai-Wing Wong is interested in 218,138,283 shares of Chinney Alliance of which 115,395,797 shares are held by Multi-Investment and 102,742,486 shares are held by Enhancement.*
4. *This represents the interest of Multi-Investment in 115,395,797 shares of Chinney Alliance as described in note 3.*
5. *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.*
6. *These shares are held by Gold Sound Enterprises Limited, of which William Chung-Yue Fan is both a director and a shareholder.*

Save as disclosed herein, as at 30th September, 2006, 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

As at 30th September, 2006, 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 | 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.

Save as disclosed herein, as at 30th September, 2006, 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.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30th September, 2006, there were no purchases, sales or redemptions by the Company or any of its subsidiaries of the Company's shares.

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 Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") as its own code of conduct for directors' securities transactions. Having made specific enquiry of all directors, the directors have complied with the required standard set out in the Model Code during the six months ended 30th September, 2006.

CORPORATE GOVERNANCE (Continued)

Compliance with 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 30th September, 2006, except for the following deviations:

1. 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 and Managing Director 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 and Managing Director provide 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.

CORPORATE GOVERNANCE (Continued)

Compliance with Code on Corporate Governance Practices (Continued)

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 16th 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).
3. CG Code provisions B.1.4 and C.3.4 stipulate that the issuer should make available the terms of reference of its remuneration committee and audit committee on request and by including the information on the issuer's website.

At present, the Company does not maintain a website. However, the terms of reference of the two committees are available from the Company Secretary on request.

Audit committee

The Company has established an audit committee comprising Johnny Chung-Ah Wong, William Chung-Yue Fan, Clement Kwok-Hung Young and Peter Man-Kong Wong.

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 30th September, 2006 has not been audited, but has been reviewed by the Audit Committee.

CONDENSED CONSOLIDATED INCOME STATEMENT

| | <i>Notes</i> | Six months ended | |
|--|--------------|-------------------------|--------------------|
| | | 2006 | 2005 |
| | | (Unaudited) | (Unaudited) |
| | | HK\$'000 | HK\$'000 |
| Turnover | 2 | 1,050,042 | 1,243,153 |
| Cost of sales | | (914,029) | (1,025,556) |
| Gross profit | | 136,013 | 217,597 |
| Other income | | 17,921 | 14,806 |
| Selling and distribution costs | | (27,327) | (26,186) |
| Administrative expenses | | (102,296) | (84,385) |
| Increase in fair value changes of investment properties | | 76,621 | – |
| Finance costs | 3 | (57,414) | (30,593) |
| Share of results of associates | | (2,070) | 227 |
| Share of results of jointly-controlled entities | | 4,434 | 2,928 |
| Discounts on acquisition of additional interests in subsidiaries | | 82,190 | – |
| Profit before taxation | 4 | 128,072 | 94,394 |
| Taxation charge | 5 | (33,453) | (14,644) |
| Profit for the period | | 94,619 | 79,750 |
| Attributable to: | | | |
| Equity holders of the parent | | 53,917 | 39,111 |
| Minority interests | | 40,702 | 40,639 |
| | | 94,619 | 79,750 |
| Earnings per share | 6 | | |
| Basic | | 9.78 cents | 7.09 cents |
| Diluted | | 8.76 cents | N/A |

CONDENSED CONSOLIDATED BALANCE SHEET

| | | As at 30th September, 2006 (Unaudited) HK\$'000 | As at 31st March, 2006 (Audited) HK\$'000 |
|---|--------------|---|---|
| | <i>Notes</i> | | |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 7 | 211,344 | 222,461 |
| Properties under development | | 1,352,155 | 1,209,884 |
| Prepaid lease payments | | 15,092 | 15,035 |
| Investment properties | | 2,071,709 | 1,987,092 |
| Interests in associates | | 43,954 | 45,841 |
| Interests in jointly-controlled entities | | 46,000 | 43,934 |
| Deferred taxation assets | | 191 | 6,760 |
| Available-for-sale investments | | 1,300 | 1,300 |
| | | 3,741,745 | 3,532,307 |
| CURRENT ASSETS | | | |
| Inventories | | 24,675 | 16,881 |
| Properties held for sale | | 986,664 | 1,012,275 |
| Prepaid lease payments | | 404 | 397 |
| Financial assets at fair value through profit and loss | | 691 | 733 |
| Debtors and prepayments | 8 | 357,471 | 326,755 |
| Amounts due from customers for contract work | | 58,308 | 55,446 |
| Retention monies receivable | | 63,062 | 61,255 |
| Amounts due from jointly-controlled entities | | 141,422 | 129,483 |
| Loans to minority shareholders of subsidiaries | | 85,188 | 86,114 |
| Taxation recoverable | | 338 | 967 |
| Pledged bank balances | | 77,087 | 65,948 |
| Bank balances and cash | | 425,363 | 461,874 |
| | | 2,220,673 | 2,218,128 |
| Assets classified as held for sale | | 133,922 | 168,142 |
| | | 2,354,595 | 2,386,270 |

CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

| | | As at 30th September, 2006 (Unaudited) HK\$'000 | As at 31st March, 2006 (Audited) HK\$'000 |
|---|--------------|---|---|
| | <i>Notes</i> | | |
| CURRENT LIABILITIES | | | |
| Creditors and accrued charges | 9 | 368,982 | 311,118 |
| Customers' deposits | | 19,030 | 12,298 |
| Sales deposits received | | 126,281 | 114,570 |
| Amounts due to customers for contract work | | 55,432 | 63,172 |
| Amounts due to minority shareholders of subsidiaries | | 50,288 | 99,930 |
| Taxation payable | | 64,553 | 51,938 |
| Dividend payable | | 22,055 | – |
| Obligations under finance leases | | | |
| – amount due within one year | | 2,304 | 2,227 |
| Bank borrowings – amount due within one year | | 889,610 | 570,589 |
| | | 1,598,535 | 1,225,842 |
| Liabilities associated with assets classified as held for sale | | 127,966 | 159,519 |
| | | 1,726,501 | 1,385,361 |
| NET CURRENT ASSETS | | 628,094 | 1,000,909 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 4,369,839 | 4,533,216 |

CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

| | | As at 30th September, 2006 (Unaudited) HK\$'000 | As at 31st March, 2006 (Audited) HK\$'000 |
|---|-------|---|---|
| | Notes | | |
| NON-CURRENT LIABILITIES | | | |
| Obligations under finance leases | | | |
| – amount due after one year | | 3,561 | 4,732 |
| Bank borrowings – amount due after one year | | 1,429,865 | 1,841,807 |
| Convertible bonds | 10 | 254,397 | – |
| Deferred taxation liabilities | | 138,468 | 127,563 |
| | | <u>1,826,291</u> | <u>1,974,102</u> |
| | | <u>2,543,548</u> | <u>2,559,114</u> |
| CAPITAL AND RESERVES | | | |
| Share capital | 11 | 137,842 | 137,842 |
| Reserves | | 1,334,349 | 1,270,298 |
| | | <u>1,472,191</u> | <u>1,408,140</u> |
| Equity attributable to equity holders of the parent | | 1,472,191 | 1,408,140 |
| Minority interests | | 1,071,357 | 1,150,974 |
| | | <u>2,543,548</u> | <u>2,559,114</u> |
| Total equity | | <u>2,543,548</u> | <u>2,559,114</u> |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Attributable to equity holders of the parent | | | | | | | Minority interests HK\$'000 | Total HK\$'000 |
|---|--|---------------------------|---------------------------|------------------------------|------------------------------|------------------------------|-------------------|--------------------------------|-------------------|
| | Share capital HK\$'000 | Share premium HK\$'000 | Other reserve HK\$'000 | Exchange reserve HK\$'000 | Dividend reserve HK\$'000 | Retained profits HK\$'000 | Total HK\$'000 | | |
| At 1st April, 2005 | 137,842 | 267,569 | - | (29,400) | 16,541 | 826,020 | 1,218,572 | 867,640 | 2,086,212 |
| Share of reserves of associates attribute 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 | 137,842 | 267,569 | - | (13,890) | - | 865,131 | 1,256,652 | 955,856 | 2,212,508 |
| At 1st April, 2006 | 137,842 | 267,569 | - | (14,206) | 22,055 | 994,880 | 1,408,140 | 1,150,974 | 2,559,114 |
| Exchange differences arising from translation of foreign operations | - | - | - | 17,606 | - | - | 17,606 | 17,418 | 35,024 |
| Share of reserves of associates | - | - | - | (17) | - | - | (17) | - | (17) |
| Net income recognised directly in equity | - | - | - | 17,589 | - | - | 17,589 | 17,418 | 35,007 |
| Profit for the period | - | - | - | - | - | 53,917 | 53,917 | 40,702 | 94,619 |
| Total recognised income and expense for the period | - | - | - | 17,589 | - | 53,917 | 71,506 | 58,120 | 129,626 |
| Capital contributions by minority interests | - | - | - | - | - | - | - | 614 | 614 |
| Acquisition of additional interests in subsidiaries | - | - | - | - | - | - | - | (148,577) | (148,577) |
| Equity reserve arising from the issue of convertible bonds by a subsidiary | - | - | 14,600 | - | - | - | 14,600 | 10,226 | 24,826 |
| Final dividend in respect of previous financial year | - | - | - | - | (22,055) | - | (22,055) | - | (22,055) |
| At 30th September, 2006 | 137,842 | 267,569 | 14,600 | 3,383 | - | 1,048,797 | 1,472,191 | 1,071,357 | 2,543,548 |

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

| | Six months ended | |
|--|-------------------------|-----------------------|
| | 30th September, | |
| | 2006 | 2005 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Net cash inflow/(outflow) from operating activities | 31,183 | (408,377) |
| Net cash outflow from investing activities | (75,989) | (71,606) |
| Net cash (outflow)/inflow from financing activities | (3,017) | 384,940 |
| Decrease in cash and cash equivalents | (47,823) | (95,043) |
| Cash and cash equivalents at beginning of the period | 426,440 | 341,765 |
| Cash and cash equivalents at end of the period | <u>378,617</u> | <u>246,722</u> |
| Analysis of balances of cash and cash equivalents | | |
| Bank balances and cash | 426,896 | 308,842 |
| Bank overdrafts | (48,279) | (62,120) |
| | <u>378,617</u> | <u>246,722</u> |

1. Basis of preparation and accounting policies*Basis of preparation*

The unaudited condensed consolidated interim financial statements for the six months ended 30th September, 2006 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 (“HKICPA”) and the applicable disclosure requirements of the Listing Rules.

The unaudited condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31st March, 2006.

Accounting policies

The accounting policies and basis of preparation adopted in the preparation of the unaudited condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31st March, 2006, except in relation to the following amendments to and interpretation of Hong Kong Financial Reporting Standards (“HKFRSs”, which also include HKASs and Interpretations) issued by the HKICPA that affect the Group and are adopted for the first time for the current period’s financial statements:

| | |
|------------------------------|---|
| HKAS 21 Amendment | Net Investment in a Foreign Operation |
| HKAS 39 Amendment | The Fair Value Option |
| HKAS 39 & HKFRS 4 Amendments | Financial Guarantee Contracts |
| HK(IFRIC)-Int 4 | Determining whether an Arrangement contains a Lease |

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

2. 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, 2006 | | Six months ended 30th September, 2005 | | Six months ended 30th September, 2006 | | Six months ended 30th September, 2005 | | Six months ended 30th September, 2006 | | Six months ended 30th September, 2005 | |
| | (Unaudited) HK\$'000 | (Unaudited) HK\$'000 |
| Turnover | 440,560 | 267,730 | 348,333 | 326,513 | 207,971 | 609,195 | 39,388 | 37,589 | 13,790 | 2,126 | 1,050,042 | 1,243,153 |
| Segment results | (44,514) | (8,424) | 16,679 | 17,242 | 37,557 | 88,856 | 87,414 | 23,910 | 2,167 | 998 | 99,303 | 122,582 |
| Net income from investments | | | | | | | | | | | 5,161 | 2,067 |
| Unallocated corporate expenses | | | | | | | | | | | (3,532) | (2,817) |
| Finance costs | | | | | | | | | | | (57,414) | (30,593) |
| Share of results of associates | - | - | (200) | 74 | - | - | - | - | (1,870) | 153 | (2,070) | 227 |
| Share of results of jointly-controlled entities | (3) | (36) | 4,276 | 2,811 | 165 | 161 | - | - | (4) | (8) | 4,434 | 2,928 |
| Discounts on acquisition of additional interests in subsidiaries | | | | | | | | | | | 82,190 | - |
| Profit before taxation | | | | | | | | | | | 128,072 | 94,394 |
| Taxation charge | | | | | | | | | | | (33,453) | (14,644) |
| Profit for the period | | | | | | | | | | | 94,619 | 79,750 |

Geographical segments

| | Turnover Six months ended 30th September, 2006 (Unaudited) HK\$'000 | | 2005 (Unaudited) HK\$'000 | |
|--|--|------------------|---------------------------------|--|
| Hong Kong | 346,858 | 348,167 | | |
| North America | 198,163 | 194,120 | | |
| Europe | 139,041 | 120,711 | | |
| The People's Republic of China (other than Hong Kong) | 207,092 | 565,224 | | |
| Others | 158,888 | 14,931 | | |
| | <u>1,050,042</u> | <u>1,243,153</u> | | |

3. Finance costs

| | Six months ended 30th September, | |
|--|---|--|
| | 2006 (Unaudited) HK\$'000 | 2005 (Unaudited) HK\$'000 |
| Interest on: | | |
| Bank borrowings wholly repayable within five years | 66,978 | 42,531 |
| Bank borrowings wholly repayable after five years | – | 1,354 |
| Convertible bonds | 6,753 | – |
| Finance leases | 217 | 199 |
| Bank overdrafts | 101 | – |
| | <u>74,049</u> | <u>44,084</u> |
| Less: Amounts capitalised under property development projects | 16,040 | 13,491 |
| Amounts capitalised under construction contracts | 595 | – |
| | <u>57,414</u> | <u>30,593</u> |

4. Profit before taxation

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

| | Six months ended 30th September, | |
|---|---|--|
| | 2006 (Unaudited) HK\$'000 | 2005 (Unaudited) HK\$'000 |
| Depreciation of property, plant and equipment | | |
| Owned assets | 20,306 | 21,176 |
| Assets held under finance leases | 576 | 683 |
| | <u>20,882</u> | <u>21,859</u> |
| Less: Amount capitalised in contract costs | 2,065 | 2,180 |
| | <u>18,817</u> | <u>19,679</u> |
| Amortisation of prepaid lease payments | 202 | 198 |
| Staff costs (including directors' emoluments) | 100,398 | 82,331 |
| Less: Amount capitalised in contract costs | 34,612 | 22,690 |
| | <u>65,786</u> | <u>59,641</u> |
| Unrealised loss on investments in securities | 42 | – |
| and after crediting: | | |
| Unrealised gain on investments in securities | – | (98) |
| Bank interest income | (1,783) | (1,955) |
| Other interest income | (2,567) | – |
| Gain on disposal of investment properties | (2,341) | – |
| | <u>(2,341)</u> | <u>–</u> |

5. Taxation charge

| | Six months ended | |
|--------------------------------------|-------------------------|--------------------|
| | 30th September, | |
| | 2006 | 2005 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| <hr/> | | |
| The charge for the period comprises: | | |
| Hong Kong profits tax | | |
| Current period | 3,576 | 1,080 |
| Over provision in prior periods | — | (39) |
| | <hr/> | <hr/> |
| | 3,576 | 1,041 |
| Other jurisdictions | 12,206 | 18,893 |
| | <hr/> | <hr/> |
| | 15,782 | 19,934 |
| Deferred taxation charge/(credit) | 17,671 | (5,290) |
| | <hr/> | <hr/> |
| | 33,453 | 14,644 |
| | <hr/> <hr/> | <hr/> <hr/> |

Hong Kong profits tax is calculated at 17.5% (2005: 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.

6. Earnings per share

The calculation of basic earnings per share is based on the profit attributable to the equity holders of the parent of HK\$53,917,000 (2005: HK\$39,111,000) and on 551,368,153 (2005: 551,368,153) shares in issue during the period.

The calculation of diluted earnings per share for the six months ended 30th September, 2006 is based on the following data:

| | Six months ended | |
|--|---------------------------|---------------------------|
| | 30th September, | |
| | 2006 | 2005 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| <hr/> | | |
| Earnings: | | |
| Earnings for the purpose of calculating the basic earnings per share | 53,917 | 39,111 |
| Adjustment to earnings based on dilution effect of the earnings per share of subsidiaries | (5,606) | — |
| | <hr/> | <hr/> |
| Earnings for the purpose of calculating the diluted earnings per share | <u>48,311</u> | <u>39,111</u> |
| Number of shares: | | |
| Number of shares in issue during the six months ended 30th September, 2006 for the purpose of calculating the diluted earnings per share | <u>551,368,153</u> | <u>551,368,153</u> |

The calculation of diluted earnings per share amounts is based on the net profit for the period attributable to ordinary equity holders of the parent, adjusted to reflect the after tax effect of both effective interest on the liability component of convertible bonds and bond issue expenses written off in the subsidiary and the weighted average number of ordinary shares in the subsidiary assumed to have been issued at no consideration on the conversion of the convertible bonds into ordinary shares of the subsidiary.

No diluted earnings per share for the six months ended 30th September, 2005 was calculated, as there was no dilutive event in existence during that period.

7. Property, plant and equipment

During the six months ended 30th September 2006, the Group acquired property, plant and equipment amounting to HK\$7,811,000 (2005: HK\$6,894,000) and disposed property, plant and equipment amounting to HK\$1,185,000 (2005: HK\$242,000), being the net book values at disposal.

8. Debtors and prepayments

Included in debtors and prepayments are trade debtors of HK\$166,156,000 (as at 31st March, 2006: HK\$255,059,000). The aging analysis of trade debtors is as follows:

| | As at 30th September, 2006 (Unaudited) HK\$'000 | As at 31st March, 2006 (Audited) HK\$'000 |
|--------------------|--|--|
| Current to 30 days | 107,923 | 217,385 |
| 31 to 60 days | 33,449 | 8,791 |
| 61 to 90 days | 11,859 | 10,554 |
| Over 90 days | 12,925 | 18,329 |
| Total | <u>166,156</u> | <u>255,059</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.

9. Creditors and accrued charges

Included in creditors and accrued charges are trade creditors of HK\$131,002,000 (as at 31st March, 2006: HK\$91,464,000). The aging analysis of trade creditors is as follows:

| | As at 30th September, 2006 (Unaudited) HK\$'000 | As at 31st March, 2006 (Audited) HK\$'000 |
|--------------------|--|--|
| Current to 30 days | 54,176 | 55,478 |
| 31 to 60 days | 33,193 | 18,879 |
| 61 to 90 days | 24,850 | 6,026 |
| Over 90 days | 18,783 | 11,081 |
| Total | <u>131,002</u> | <u>91,464</u> |

10. Convertible bonds

On 27th June, 2006, a wholly-owned subsidiary of Hon Kwok issued convertible bonds due June 2011 at par for a principal sum of HK\$280 million (the "Bonds"). The Bonds are guaranteed by Hon Kwok and bear interest at the rate of 3.5% per annum, payable semi-annually in arrears. The bondholders have the rights, at any time on or after 27th July, 2006 up to and including the seventh business date prior to 27th June, 2011 to convert the Bonds into equity shares of Hon Kwok with a nominal value of HK\$1.00 each at an initial conversion price of HK\$4.00 per share, subject to adjustments in certain events. There was no movement in the number of Bonds during the period. Any Bonds not converted will be redeemed at 124.5481% of their principal amount upon maturity on 27th June, 2011. Upon full conversion, the Bonds shall be converted into 70 million ordinary shares of Hon Kwok.

The Bonds, net of issue expenses, were split into liability and equity components of HK\$247,645,000 and HK\$24,826,000, respectively upon initial recognition by recognising the liability component at its fair value using an equivalent market interest rate for a similar bond without conversion option and attributing to the equity component the residual amount. The liability component is subsequently carried at amortised cost and the equity component is recognised in the other reserve.

11. Share capital

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

12. Commitments**(a) Capital commitments**

As at 30th September, 2006, the Group had authorised and contracted capital commitments in respect of leasehold improvement and property development expenditure amounting to approximately HK\$265,743,000 (as at 31st March, 2006: HK\$209,672,000).

(b) Operating lease commitments

At 30th September, 2006, 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:

| | As at 30th September, 2006 (Unaudited) HK\$'000 | As at 31st March, 2006 (Audited) HK\$'000 |
|---------------------------------------|--|--|
| Within one year | 4,984 | 4,185 |
| In the second to fifth year inclusive | 10,220 | 5,451 |
| Beyond five years | – | 1,256 |
| | <u>15,204</u> | <u>10,892</u> |

At 30th September, 2006, 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\$1,785,000 (as at 31st March, 2006: HK\$1,073,000) and HK\$2,070,000 (as at 31st March, 2006: HK\$1,546,000) respectively. The Group's share of these operating lease commitments amounted to approximately HK\$892,000 (as at 31st March, 2006: HK\$536,500) and HK\$1,035,000 (as at 31st March, 2006: HK\$773,000) 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.

13. 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:

| | Six months ended | |
|--|-------------------------|--------------------|
| | 30th September, | |
| | 2006 | 2005 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| 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 | 30 | 337 |

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

| | As at | As at |
|-------------------------------------|------------------------|--------------------|
| | 30th September, | 31st March, |
| | 2006 | 2006 |
| | (Unaudited) | (Audited) |
| | HK\$'000 | HK\$'000 |
| Due from related parties: | | |
| – A related company | 685 | 670 |
| Due to related parties: | | |
| – A related company | 10,000 | – |
| – A subsidiary of a related company | 23 | 2,478 |

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

| | Six months ended | |
|---|-------------------------|--------------------|
| | 30th September, | |
| | 2006 | 2005 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Salaries and other short-term employee benefits | 1,180 | 1,180 |

13. Related party transactions (Continued)

- (d) In June 2006, Lucky Year further extended the cash security arrangement in favour of Hon Kwok for a 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) On 24th July, 2006, the Group entered into an agreement to dispose of the entire issued share capital of Gateway Group Holdings Limited and Royal Treasure Limited and assign the shareholder's loan for an aggregate cash consideration of HK\$8,600,000. The purchaser is a connected person of the Company by virtue of the fact that it is a company beneficially owned and controlled by James Sai-Wing Wong, director and substantial shareholder of the Company. Accordingly, the disposal constitutes a connected and discloseable transaction for the Company under the Listing Rules. The transaction was completed on 24th October, 2006. Details of this disposal have been disclosed in the Company's circular to shareholders dated 15th August, 2006.
- (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.

14. Post balance sheet event

On 15th November, 2006, Hon Kwok entered into a top-up placement arrangement for an issue of 80,047,700 new shares of Hon Kwok at a price of HK\$4.05 each. The top-up placement was completed on 29th November, 2006, generating net proceeds of about HK\$315 million to Hon Kwok for general working capital use. The Company's shareholding in Hon Kwok was diluted to 52.44% following completion of the top-up placement.

15. Approval of the interim financial statements

These condensed consolidated interim financial statements were approved and authorised for issue by the board of directors on 19th December, 2006.