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Interim  
Report 2004/2005



Chinney Investments, Limited



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## 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

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

## SECRETARY

Wendy Yuk-Ying Chan

## PRINCIPAL BANKERS

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  
Ground Floor  
Bank of East Asia Harbour View Centre  
56 Gloucester Road  
Wanchai  
Hong Kong

## REGISTERED OFFICE

18th Floor  
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77 Des Voeux Road Central  
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## STOCK CODE

SEHK 216

## CONSOLIDATED RESULTS

The Group's turnover for the period was approximately HK\$776 million (2003: HK\$753 million) and profit was approximately HK\$33 million (2003: HK\$3 million).

Hon Kwok Land Investment Company, Limited ("Hon Kwok") became a subsidiary of the Company in May 2003. The increase in sales activities of Hon Kwok accounted mainly for the growth in turnover.

The Group's core businesses reported a mixed performance during the period. The bottom line profit was enhanced by the release of negative goodwill amounting to HK\$29.8 million to the profit and loss account. The negative goodwill arose as a result of the Company acquiring the Hon Kwok shares at a price below its fair asset value in May 2003 and was amortized over a period of three years.

## DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30th September, 2004 (2003: nil).

## CORPORATE EVENT

As announced on 14th September, 2004, Hon Kwok and its subsidiary entered into an agreement to dispose the entire issued share capital of Global Success Holdings Inc. ("Global Success" and together with its subsidiary, the "Global Success Group") and assign related shareholder's loans to an independent third party for a cash consideration of approximately HK\$566 million. The sole asset held by the Global Success Group was a piece of vacant land situated at 97 Po Kong Village Road, Diamond Hill, Kowloon (formerly the Heung To Middle School). The transaction fell beyond the ordinary course of business of Hon Kwok Group and thus constituted a very substantial disposal transaction for the Company as well as Hon Kwok under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). Full details of the transaction are set out in the circular to the shareholders dated 30th September, 2004.

The disposal was conditional on approval from shareholders of the Company and Hon Kwok in general meeting and discharge of all liabilities of the Global Success Group. Following obtaining the relevant shareholders' approvals on 1st November, 2004, completion of the disposal took place on 15th November, 2004. The disposal produced cash inflows of HK\$566 million to the Group, of which HK\$166 million was applied to settle bank borrowings and other liabilities of the Global Success Group with the balance of HK\$400 million being retained for bank loan repayment and general working capital purposes. The capital gain of HK\$135 million attributable to the Group, net of the gain attributable to minority interests in Hon Kwok of HK\$98 million, would be recognised as profit in the second half of the financial year ending 31st March, 2005 in conformity with the date of completion of the transaction.

## REVIEW OF OPERATIONS

### Property

Hon Kwok, a 58% owned subsidiary of the Group, reported turnover of HK\$169 million (2003: HK\$67 million) in the period. Hon Kwok recorded a net profit of HK\$10 million (2003: net loss of HK\$29 million) as a result of the increase in sales activities and the rebound of the local property market in the fourth quarter of last year.

During the period, Hon Kwok took active steps to unload the unsold units of completed properties in Hong Kong. City Square (城市天地廣場), the residential project in Luo Hu District, Shenzhen, was launched to the market for presale in June 2004. Higher revenues were also recorded from Hon Kwok's investment properties, as occupancies improved after the end of the SARS epidemic last year and vacancies filled up on the recently acquired office premises.

### Construction

The Construction Division reported turnover of HK\$272 million (2003: HK\$358 million) with decreased profit to HK\$6.6 million (2003: HK\$15.1 million) in the period. The decrease in turnover and net profit was due to less construction jobs in both the private and public sector.

The Group has tightened operating costs and sought for job opportunities in Macau to combat the difficult operating environment. The benefit of an improved property market in Hong Kong has yet to flow through to the construction industry and the industry will remain very competitive in the meantime.

### Garment

The Garment Division reported turnover of HK\$335 million (2003: HK\$341 million) and a net loss of HK\$4.5 million (2003: net profit of HK\$10.2 million). The results included a 50% share of the profit of SGA Group amounting to HK\$3.5 million (2003: HK\$2.8 million).

The Indonesian management team continued their efforts to reorganise the garment operation in Indonesia. Workforce in the main factory in Jakarta was further scaled down with production shifted to factories not far away from Jakarta at lower wages and operating costs. Loss has been narrowed, as operational efficiency has improved. The garment industry will enter into a new era as quotas will be completely phased out on 1st January, 2005. It is generally believed that Mainland China will take away the apparel manufacturing business from other countries because of its lower production cost and skilled labor. But yet there will be room for survival of the fittest for apparel manufacturers elsewhere as buyers need to diversify their procurement requirements geographically. The recent threat of the US Government to impose new limits on Chinese garment imports already benefited our Indonesian operation with increased customers' orders.

JL Chinney Group with its production base in Mainland China achieved higher turnover and net profit compared to same period last year. SGA Group has successfully diversified into product range other than its core down jacket products. This paves the way for SGA Group's future growth beyond 2005 when quota system no longer exists generally.

### **Trading**

Chinney Alliance Group Limited ("Chinney Alliance"), a 29% owned associate of the Group, returned to profitability for the six months ended 30th June, 2004. The net profit was HK\$5 million (2003: net loss of HK\$31 million), against increased turnover to HK\$510 million in the period (2003: HK\$414 million).

The plastics and chemical business under Chinney Alliance is the main engine behind the revenue and profit growth. The business posted a 67% jump in operating profit to HK\$15 million, as turnover increased 31% to HK\$385 million in the period. The management efforts to expand the supplier and customer base in previous years translate into further success at time of rising oil prices. Looking forward, the plastic business will remain prosperous as Chinney Alliance continues to diversify its product base and gear up its efforts in the Mainland trade.

## **FINANCIAL REVIEW**

### **Liquidity and financial resources**

The total interest-bearing debts of the Group amounted to approximately HK\$1,821 million as at 30th September, 2004 (as at 31st March, 2004: HK\$1,870 million), of which approximately 28% of the debts were due and repayable within one year. Total cash on hand was approximately HK\$367 million as at 30th September, 2004 (as at 31st March, 2004: HK\$466 million).

In September 2004, Hon Kwok disposed Global Success for a cash consideration of approximately HK\$566 million (the "Transaction"). The Transaction produced cash inflow of approximately HK\$57 million by way of deposits in the first half of the financial year and approximately HK\$509 million in the second half of the financial year, as the Transaction received shareholders' approval and subsequently completed on 15th November, 2004. Interest-bearing debt of approximately HK\$164 million in the Global Success Group was also discharged in full upon completion of the Transaction.

Total shareholders' fund as at 30th September, 2004 was approximately HK\$962 million. Assuming completion of the Transaction took place on 30th September, 2004, the pro forma shareholders' fund as at 30th September, 2004 (as increased by the capital gain of approximately HK\$135 million) would be approximately HK\$1,097 million.

The gearing ratio of the Group, as measured by the net interest-bearing debts of approximately HK\$1,454 million over the shareholders' fund of approximately HK\$962 million, was 151% as at 30th September, 2004. The Group's apparent high gearing is primarily due to consolidating all debts of Hon Kwok, a 58% owned but separately listed subsidiary of the Group. Hon Kwok obtains financing on its own without financial assistance from the Company. 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 15%.

The Group's financial position has been further strengthened when the Transaction completed on 15th November, 2004. Assuming completion of the Transaction took place on 30th September, 2004, the pro forma gearing ratio of the Group, as measured by the pro forma net interest-bearing debts of approximately HK\$945 million over the pro forma shareholders' fund of approximately HK\$1,097 million, would be 86% as at 30th September, 2004. On the basis of equity accounting for Hon Kwok in the Group's financial statements, the adjusted pro forma gearing ratio would be 13%.

The Group had a total of HK\$770 million committed but undrawn banking facilities at period end available for its working capital purpose.

### **Funding and treasury policy**

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 dollar and United States dollar and bear interest at floating rates.

### **Pledge of assets**

Inventories, trade debts, bank balances, properties and shares of an associate with an aggregate book value of HK\$2,180 million as at 30th September, 2004 and shares in a subsidiary were pledged to secure certain banking facilities of the Group.



**Contingent liabilities**

As at 30th September, 2004, the Group was contingently liable for HK\$134 million in respect of guarantees provided for banking facilities utilised by jointly-controlled entities and HK\$5 million in respect of bills discounted with recourse.

The Group has been involved in certain legal proceedings or claims as part of its normal trade and disputes on certain tax assessments. Having regard to professional advices, the Group considers that the proceedings, claims and assessments are made without valid grounds and, accordingly, no provision has been made in the financial statements. There has been no further progress on such proceedings, claims and disputes since the date of publishing our last annual report.

**Employees and remuneration policies**

The Group, not including its associates and jointly-controlled entities, employed approximately 3,200 people as at 30th September, 2004. There have been no significant changes in the remuneration policies and benefits to the employees of the Group.

**OVERVIEW**

Since our annual report of 13th July, 2004, the recovery of the global economy has been slowed down by the macro tightening measures on the Mainland economy and higher oil prices. The Dow Jones and Nasdaq are currently trading around 10,600 and 2,100 respectively when compared with 10,400 and 2,000 in July this year. In November, Bush was elected as the US president for a second term of four years. The current problems now facing the Bush Administration are the worsening of the fiscal deficits, the record-high deficits in current account and the heavy reliance of economic growth on personal consumption and expenditure. A proper balance need to be struck between the investors' confidence on the US dollar and the impact of the Fed rate hike on personal consumption and spending in order that the US economy can remain healthy in the longer term. As US has the largest economy and is the largest importing country of the world, its development would significantly affect the economies of Asian countries including Mainland China and of course Hong Kong.



The deflationary cycle in Hong Kong came to an end in July 2004, thanks to the supportive measures from the Central Government. Overall sentiment is improving, as evidence from the recovery of the local property market and the revival of consumer spending. Unemployment rate further declined from 8.0% in October 2003 to 6.7% in October 2004. While uncertainties such as rising oil prices, interest rate hikes in the US and the China's austerity measures may cloud the global economic outlook, the road to recovery should continue as Hong Kong gets more integrated with the Mainland economy, which remains robust and provides tremendous business opportunities. Your Group now principally operates in Hong Kong and Mainland China and is therefore expected to benefit from the improved economy in the region.

Taking this opportunity, I would like to express my appreciation to my fellow directors for their advice and to all staff for their effort and contribution in the period.

**James Sai-Wing Wong**  
*Chairman*

Hong Kong, 14th December, 2004

**DIRECTORS' INTERESTS IN SECURITIES**

As at 30th September, 2004, 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 Companies (the "Model Code"), were as follows:

**(a) Directors' interests in the 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	1,902,285	0.35

All the interests stated above represent long positions.

**(b) Directors' interests 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	231,438,553	57.83
	2	Chinney Alliance	Corporate	1,153,957,982	29.10
	3	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	231,438,553	57.83
	2	Chinney Alliance	Corporate	1,153,957,982	29.10
	3	Chinney Holdings	Corporate	9,900,000	99.00
		Lucky Year	Personal	10,000	50.00
William Chung-Yue Fan	4	Wise Pacific Investment Limited	Corporate	2,000	20.00

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 8,000,000 shares in Chinney Alliance at an exercise price of HK\$0.07 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 or its subsidiary. By virtue of note 1, James Sai-Wing Wong and Madeline May-Lung Wong are deemed to be interested in these shares.*
3. *These shares are beneficially held by Lucky Year. By virtue of note 1, James Sai-Wing Wong and Madeline May-Lung Wong are deemed to be interested in these shares.*
4. *These shares are held by Gold Sound Enterprises Limited, of which William Chung-Yue Fan is both a director and a shareholder.*

Save as disclosed herein, as at 30th September, 2004, 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, 2004, 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:

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

**SUBSTANTIAL SHAREHOLDERS** (Continued)

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, 2004, 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, 2004, there were no purchases, sales or redemptions by the Company or any of its subsidiaries of the Company's shares.

**DISCLOSURE PURSUANT TO RULES 13.13 AND 13.16 OF THE LISTING RULES**

The following disclosure is made by the Company in compliance with the continuing disclosure requirements under Rules 13.13 and 13.16 of the Listing Rules:

**Advances to a jointly-controlled entity**

Details of the advance and guarantees made by a wholly-owned subsidiary of the Company engaged in the business of garment trading and manufacturing (the "Garment Subsidiary") and its subsidiaries (the "Garment Subsidiary Group"), without recourse to the Company, for the benefit of a jointly-controlled entity of the Garment Subsidiary which exceeded 8% of the market capitalisation of the Company and the consolidated total assets of the Group as at 30th September, 2004 were as follows:

Name of jointly-controlled entity	Note	Attributable interest held by the Group	Advance HK\$'000	Guarantees given HK\$'000	Banking facilities drawn under the guarantees HK\$'000	Total advance plus guarantees given HK\$'000
SGA Holdings Limited	1	50%	—	402,200	133,817	402,200

DISCLOSURE PURSUANT TO RULES 13.13 AND 13.16 OF THE LISTING RULES (Continued)

Financial assistance and guarantees to affiliated companies

Details of the advances made and guarantees given for the benefit of its affiliated companies which in aggregate exceeded 8% of the market capitalisation of the Company and the consolidated total assets of the Group as at 30th September, 2004 were as follows:

Name of affiliated companies	Notes	Attributable interest held by the Group	Advances HK\$'000	Guarantees given HK\$'000	Banking facilities drawn under the guarantees HK\$'000	Total advances plus guarantees given HK\$'000
Cleveland Investment Limited	2 & 3	28.9%	6,203	-	-	6,203
Guangzhou Li Du Property Development Co., Ltd.	2 & 3	28.3%	8,701	-	-	8,701
PT. Buana Prefash Jaya	3 & 4	50%	9,245	-	-	9,245
PT. Master Prefash International	3 & 4	20%	2,570	-	-	2,570
PT. Metro Gateway Concept	3 & 5	33%	4,633	-	-	4,633
SGA Holdings Limited	1	50%	-	402,200	133,817	402,200
			<u>31,352</u>	<u>402,200</u>		<u>433,552</u>

Notes:

- The guarantees were provided by the Garment Subsidiary Group in order to facilitate the trading activities of SGA Holdings Limited which requires substantial banking facilities to conduct its business. The banking facilities in the amount of HK\$402.2 million were jointly used by SGA Holdings Limited and the subsidiaries of the Garment Subsidiary. The guarantees were given in favour of the relevant banks as a condition under which the banking facilities were granted. They are provided wholly by the Garment Subsidiary Group without recourse to the Company. The consolidated net book value of the Garment Subsidiary as at 31st March, 2004 was approximately HK\$25 million.
- These advances were made by a non-wholly owned subsidiary of the Company to the affiliated companies as shareholders' loans pursuant to the respective shareholders' agreements.
- All these advances are unsecured, non-interest bearing, repayable on demand, have no fixed repayment terms nor maturity date.
- The advance was provided to facilitate the initial set-up of the affiliated company.
- The amount was in respect of advance to finance penetration of the retail market in Indonesia and sales of fixed assets and other assets to the affiliated company.

**DISCLOSURE PURSUANT TO RULES 13.13 AND 13.16 OF THE LISTING RULES** (Continued)**Financial assistance and guarantees to affiliated companies** (Continued)

A pro forma combined balance sheet of the abovenamed affiliated companies and the Group's attributable interest in these affiliated companies as at 30th September, 2004 are presented below:

	<b>Pro forma combined balance sheet</b> <i>HK\$ million</i>	<b>The Group's attributable interest</b> <i>HK\$ million</i>
Non-current assets	35	16
Current assets	198	97
Current liabilities	(196)	(94)
Non-current liabilities	(19)	(9)
	<hr/>	<hr/>
Net assets	<u>18</u>	<u>10</u>

**COMPLIANCE WITH THE CODE OF BEST PRACTICE**

None of the directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30th September, 2004, in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules, except that the non-executive directors of the Company are not appointed for a specific term as they are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's articles of association.

**COMPLIANCE WITH THE MODEL CODE**

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 of all directors, the directors have complied with the required standard set out in the Model Code during the six months ended 30th September, 2004.

## **AUDIT COMMITTEE**

The Company has established an audit committee comprising William Chung-Yue Fan, Clement Kwok-Hung Young, Johnny Chung-Ah Wong 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 controls. The Company's interim results for the six months ended 30th September, 2004 are unaudited, but have been reviewed by the audit committee with management.



# CONDENSED CONSOLIDATED INCOME STATEMENT

	<i>Notes</i>	<b>Six months ended</b>	
		<b>2004</b>	<b>2003</b>
		<b>(Unaudited)</b>	<b>(Unaudited)</b>
		<b>HK\$'000</b>	<b>HK\$'000</b>
Turnover	2	<b>775,847</b>	753,265
Cost of sales		<b>(645,653)</b>	(626,345)
Gross profit		<b>130,194</b>	126,920
Other operating income		<b>13,817</b>	13,326
Selling and distribution costs		<b>(37,187)</b>	(27,724)
Administrative expenses		<b>(91,347)</b>	(81,704)
Other operating expenses		<b>–</b>	(11,342)
Profit from operations	2 & 3	<b>15,477</b>	19,476
Finance costs	4	<b>(14,038)</b>	(17,771)
Release of negative goodwill of a subsidiary		<b>29,754</b>	5,573
Share of results of associates		<b>2,841</b>	(9,391)
Share of results of jointly-controlled entities	5	<b>7,563</b>	3,150
Write off of debt due from a jointly-controlled entity		<b>(3,873)</b>	–
Profit before taxation		<b>37,724</b>	1,037
Taxation charge	6	<b>(68)</b>	(7,119)
Profit/(loss) before minority interests		<b>37,656</b>	(6,082)
Minority interests		<b>(5,023)</b>	9,332
Net profit for the period		<b>32,633</b>	3,250
Earnings per share	7		
Basic		<b>5.92 cents</b>	0.59 cent

# CONDENSED CONSOLIDATED BALANCE SHEET

	<b>As at 30th September, 2004 (Unaudited) HK\$'000</b>	<b>As at 31st March, 2004 (Audited) HK\$'000</b>
<i>Notes</i>		
<b>ASSETS AND LIABILITIES</b>		
<b>Non-current assets</b>		
Property, plant and equipment	292,984	296,774
Properties under development	494,622	488,773
Investment properties	1,267,575	1,267,575
Interests in associates	57,934	55,682
Interests in jointly-controlled entities	6,882	6,376
Negative goodwill	(99,179)	(128,933)
Deferred taxation assets	7,775	2,900
Investments in securities	1,510	1,510
Retention monies receivable after one year	9,809	6,676
	<b>2,039,912</b>	<b>1,997,333</b>
<b>Current assets</b>		
Inventories	80,116	86,741
Properties held for sale	979,001	960,378
Amounts due from customers for contract work	46,284	43,407
Retention monies receivable within one year	43,602	42,394
Debtors and prepayments	8 382,665	315,873
Amounts due from associates	16,448	16,347
Amounts due from jointly-controlled entities	–	668
Taxation recoverable	5,618	4,309
Investments in securities	748	762
Pledged bank balances	61,929	137,874
Bank balances and cash	304,920	328,508
	<b>1,921,331</b>	<b>1,937,261</b>

CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

		As at 30th September, 2004 (Unaudited) HK\$'000	As at 31st March, 2004 (Audited) HK\$'000
	Notes		
<b>Current liabilities</b>			
Creditors and accrued charges	9	231,449	216,650
Customers' deposits		12,662	12,219
Sales deposits received		124,675	53,819
Amounts due to customers for contract work		55,124	85,934
Amounts due to jointly-controlled entities		54	487
Taxation payable		4,692	1,891
Obligations under hire purchase contracts			
– due within one year		978	1,457
Bank borrowings – due within one year		507,533	535,476
		<u>937,167</u>	<u>907,933</u>
<b>Net current assets</b>		<u>984,164</u>	<u>1,029,328</u>
<b>Total assets less current liabilities</b>		<u>3,024,076</u>	<u>3,026,661</u>
<b>Non-current liabilities</b>			
Obligations under hire purchase contracts			
– due after one year		482	960
Bank borrowings – due after one year		1,312,105	1,331,833
Deferred tax liabilities		57,750	58,525
Amounts due to minority shareholders of subsidiaries		73,944	70,477
		<u>1,444,281</u>	<u>1,461,795</u>
<b>Minority interests</b>		<u>617,334</u>	<u>622,920</u>
		<u>962,461</u>	<u>941,946</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	10	137,842	137,842
Reserves	11	824,619	804,104
		<u>962,461</u>	<u>941,946</u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	<b>Six months ended</b>	
	<b>30th September,</b>	
	<b>2004</b>	<b>2003</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Total shareholders' equity as at 1st April	<b>941,946</b>	925,865
Exchange differences arising on translation of financial statements denominated in foreign currencies	<b>(1,096)</b>	8,301
Share of exchange reserve of associates attributable to the Group	<b>5</b>	(282)
Net (loss)/gain not recognised in the consolidated income statement	<b>(1,091)</b>	8,019
Transfer of capital reserve arising from the acquisition of an associate in prior years to negative goodwill	–	(4,581)
Net profit for the period	<b>32,633</b>	3,250
Elimination of exchange reserve upon winding up of a subsidiary	–	881
Share of capital reserve of associates attributable to the Group	–	4,779
Final dividend in respect of previous financial year	<b>(11,027)</b>	(11,027)
Total shareholders' equity as at 30th September	<b><u>962,461</u></b>	<b><u>927,186</u></b>

# CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	<b>Six months ended</b>	
	<b>30th September,</b>	
	<b>2004</b>	<b>2003</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Net cash inflow from operating activities	<b>7,158</b>	4,073
Net cash outflow from investing activities	<b>(14,496)</b>	(13,109)
Net cash inflow from financing activities	<b>2,205</b>	51,525
Increase/(decrease) in cash and cash equivalents	<b>(5,133)</b>	42,489
Cash and cash equivalents at beginning of the period	<b>287,913</b>	169,169
Cash and cash equivalents at end of the period	<b><u>282,780</u></b>	<b><u>211,658</u></b>
Analysis of balances of cash and cash equivalents		
Bank balances and cash	<b>304,920</b>	231,300
Bank overdrafts	<b>(22,140)</b>	(19,642)
	<b><u>282,780</u></b>	<b><u>211,658</u></b>

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

The unaudited condensed consolidated interim financial statements have been prepared in accordance with the requirements of Appendix 16 of the Listing Rules and the Statement of Standard Accounting Practice No. 25 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

The condensed consolidated interim financial statements should be read in conjunction with the 2003/2004 annual financial statements.

The accounting policies and basis of preparation used in the preparation of the interim financial statements are consistent with those used in the annual financial statements for the year ended 31st March, 2004.

## 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, 2004		Six months ended 30th September, 2003		Six months ended 30th September, 2004		Six months ended 30th September, 2003		Six months ended 30th September, 2004		Six months ended 30th September, 2003	
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	271,936	357,902	334,820	341,256	130,476	33,065	34,712	18,113	3,903	2,929	775,847	753,265
Segment results	3,349	22,230	(3,737)	11,907	(7,523)	(27,485)	21,245	8,120	2,910	3,364	16,244	18,136
Net income from investments											2,502	2,494
Unallocated corporate expenses											(3,269)	(1,154)
Profit from operations											15,477	19,476
Finance costs											(14,038)	(17,771)
Release of negative goodwill of a subsidiary											29,754	5,573
Share of results of associates	-	-	741	94	-	-	-	-	2,100	(9,485)	2,841	(9,391)
Share of results of jointly-controlled entities	-	-	3,510	2,837	3,873	313	-	-	180	-	7,563	3,150
Write off of debt due from a jointly-controlled entity	-	-	-	-	(3,873)	-	-	-	-	-	(3,873)	-
Profit before taxation											37,724	1,037
Taxation charge											(68)	(7,119)
Profit/(loss) before minority interests											37,656	(6,082)
Minority interests											(5,023)	9,332
Net profit for the period											32,633	3,250



2. Segment information (Continued)

*Geographical segments*

	Turnover	
	Six months ended 30th September,	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Hong Kong	375,348	412,442
North America	189,575	226,461
Europe	125,906	107,124
The People's Republic of China (other than Hong Kong)	62,273	1,441
Others	22,745	5,797
	<u>775,847</u>	<u>753,265</u>

**3. Profit from operations**

Profit from operations is arrived at after charging/(crediting):

	<b>Six months ended</b>	
	<b>30th September,</b>	
	<b>2004</b>	<b>2003</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Depreciation of property, plant and equipment		
Owned assets	<b>23,724</b>	23,371
Assets held under hire purchase contracts	<b>242</b>	752
	<b>23,966</b>	24,123
Less: Amount capitalised in contract costs	<b>2,134</b>	1,818
	<b>21,832</b>	22,305
Staff costs (including directors' emoluments)	<b>97,139</b>	97,407
Less: Amount capitalised in contract costs	<b>31,351</b>	32,941
	<b>65,788</b>	64,466
Impairment loss of properties under development	–	10,654
Loss on winding up of a subsidiary	–	687
Unrealised loss/(gain) on investments in securities	<b>15</b>	(109)
Interest income from unlisted investments in securities	–	(666)
Bank interest income	<b>(2,189)</b>	(1,124)
Other interest income	–	(1,722)

4. Finance costs

	Six months ended 30th September,	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Interest on:		
Bank borrowings wholly repayable within five years	25,067	22,043
Bank borrowings wholly repayable after five years	773	834
Hire purchase contracts	38	151
	<u>25,878</u>	<u>23,028</u>
Less: Amounts capitalised under property development projects	11,840	5,257
	<u>14,038</u>	<u>17,771</u>

5. Share of results of jointly-controlled entities

	Six months ended 30th September,	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Operating profit, net	3,690	3,150
Waiver of debts	3,873	–
	<u>7,563</u>	<u>3,150</u>

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

**6. Taxation charge**

	<b>Six months ended</b>	
	<b>30th September,</b>	
	<b>2004</b>	<b>2003</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Hong Kong profits tax		
Current period	<b>1,389</b>	6,561
Overprovision in prior year	<b>(45)</b>	(115)
	<b>1,344</b>	6,446
Other jurisdictions	<b>3,601</b>	893
	<b>4,945</b>	7,339
Deferred taxation credit	<b>(5,665)</b>	(729)
	<b>(720)</b>	6,610
Share of taxation of associates	<b>595</b>	484
Share of taxation of jointly-controlled entities	<b>193</b>	25
	<b>68</b>	7,119

Hong Kong profits tax is calculated at 17.5% (2003: 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.

**7. Earnings per share**

The calculation of basic earnings per share is based on the net profit for the period of HK\$32,633,000 (2003: HK\$3,250,000) and on 551,368,153 (2003: 551,368,153) shares in issue during the period.

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

No disclosure of diluted earnings per share for the period ended 30th September, 2003 is presented as the exercise of the outstanding share options of an associate of the Group would only serve to increase the earnings per share from the continuing ordinary activities.

## 8. Debtors and prepayments

Included in debtors and prepayments are trade debtors of approximately HK\$141,741,000 (as at 31st March, 2004: HK\$242,364,000). The ageing analysis of trade debtors is as follows:

	<b>As at 30th September, 2004 (Unaudited) HK\$'000</b>	<b>As at 31st March, 2004 (Audited) HK\$'000</b>
Current to 30 days	<b>109,896</b>	192,407
31 to 60 days	<b>14,348</b>	39,043
61 to 90 days	<b>6,376</b>	2,412
Over 90 days	<b>11,121</b>	8,502
Total	<b><u>141,741</u></b>	<b><u>242,364</u></b>

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

## 9. Creditors and accrued charges

Included in creditors and accrued charges are trade creditors of approximately HK\$103,668,000 (as at 31st March, 2004: HK\$118,771,000). The ageing analysis of trade creditors is as follows:

	<b>As at 30th September, 2004 (Unaudited) HK\$'000</b>	<b>As at 31st March, 2004 (Audited) HK\$'000</b>
Current to 30 days	<b>68,425</b>	71,912
31 to 60 days	<b>12,794</b>	26,228
61 to 90 days	<b>7,226</b>	13,929
Over 90 days	<b>15,223</b>	6,702
Total	<b><u>103,668</u></b>	<b><u>118,771</u></b>

## 10. Share capital

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

**11. Reserves**

	Share premium (Unaudited) HK\$'000	Exchange reserve (Unaudited) HK\$'000	Capital/ (goodwill) reserve (Unaudited) HK\$'000	Dividend reserve (Unaudited) HK\$'000	Investment property revaluation reserve (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1st April, 2003	267,569	(44,387)	(6,779)	11,027	-	560,593	788,023
Share of reserves of associates attributable to the Group	-	(282)	4,779	-	-	-	4,497
Exchange differences arising on translation of financial statements denominated in foreign currencies	-	8,301	-	-	-	-	8,301
Transfer of capital reserve arising from the acquisition of an associate in prior years to negative goodwill	-	-	(4,581)	-	-	-	(4,581)
Elimination on winding up of a subsidiary	-	881	-	-	-	-	881
Net profit for the period	-	-	-	-	-	3,250	3,250
Final dividend in respect of previous financial year	-	-	-	(11,027)	-	-	(11,027)
At 30th September, 2003	<u>267,569</u>	<u>(35,487)</u>	<u>(6,581)</u>	<u>-</u>	<u>-</u>	<u>563,843</u>	<u>789,344</u>
At 1st April, 2004	267,569	(35,893)	(6,580)	11,027	4,459	563,522	804,104
Share of reserves of associates attributable to the Group	-	5	-	-	-	-	5
Exchange differences arising on translation of financial statements denominated in foreign currencies	-	(1,096)	-	-	-	-	(1,096)
Net profit for the period	-	-	-	-	-	32,633	32,633
Final dividend in respect of previous financial year	-	-	-	(11,027)	-	-	(11,027)
At 30th September, 2004	<u>267,569</u>	<u>(36,984)</u>	<u>(6,580)</u>	<u>-</u>	<u>4,459</u>	<u>596,155</u>	<u>824,619</u>

## 12. Acquisitions of subsidiaries

The subsidiaries acquired during the six months ended 30th September, 2003 have the following effect on the Group's net assets:

	2003 (Unaudited) HK\$'000
Net assets acquired	699,585
Less: Negative goodwill on acquisition	<u>150,463</u>
	<u>549,122</u>
Discharged by:	
Cash consideration	27,210
Disposal of interests in associates	<u>521,912</u>
	<u>549,122</u>
Analysis of net inflow of cash and cash equivalents in respect of the acquisitions:	
Cash consideration paid	(27,210)
Cash and cash equivalents acquired	<u>133,916</u>
	<u>106,706</u>

## 13. Commitments

### (a) Capital Commitments

As at 30th September, 2004, the Group had authorised and contracted capital commitments in respect of leasehold improvement and property development expenditure amounting to approximately HK\$311,347,000 (as at 31st March, 2004: HK\$309,325,000).



13. Commitments (Continued)

(b) Operating lease commitments

At 30th September, 2004, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings which fall due as follows:

	<b>As at 30th September, 2004 (Unaudited) HK\$'000</b>	<b>As at 31st March, 2004 (Audited) HK\$'000</b>
Within one year	<b>3,583</b>	3,164
In the second to fifth year inclusive	<b>4,265</b>	2,134
Beyond five years	<b>1,579</b>	–
	<b><u>9,427</u></b>	<b><u>5,298</u></b>

As 30th September, 2004, 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\$1,095,000 (as at 31st March, 2004: HK\$1,212,000) and HK\$2,731,000 (as at 31st March, 2004: HK\$3,217,000), respectively. The Group's share of these operating lease commitments amounted to approximately HK\$547,000 (as at 31st March, 2004: HK\$606,000) and HK\$1,365,000 (as at 31st March, 2004: HK\$1,609,000), respectively.

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

**14. Related party transactions**

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

	Notes	Six months ended 30th September,	
		2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Interest received on convertible guaranteed bonds of a former associate	(i)	–	1,811
Net interest received from jointly-controlled entities	(ii)	–	415
Commissions paid to the ultimate holding company	(iii)	1,313	438
Legal and professional fees paid to a firm to which a director of the Company is a consultant	(iv)	<u>119</u>	<u>249</u>

Notes:

- (i) The amount represented interest at a fixed coupon rate of 10% per annum relating to the 10% convertible guaranteed bonds issued by a wholly-owned subsidiary of Hon Kwok. The bonds were repaid in full upon completion of the Hon Kwok's rights issue in May 2003.
- (ii) The amounts due from certain jointly-controlled entities after netting off amounts due to those jointly-controlled entities was nil for the period ended 30th September, 2004 (as at 31st March, 2004: HK\$668,000). The amounts due from the jointly-controlled entities were unsecured, interest-bearing at prevailing market rates and were repayable on demand.
- (iii) The amount represented payment by Hon Kwok as a subsidiary of the Company to Lucky Year for the provision of cash security for certain bank loans granted to Hon Kwok. The commissions were agreed and charged on bases taking into consideration the average borrowing costs of Hon Kwok and its subsidiaries.
- (iv) The directors consider that the provision of legal and professional services was made according to the standard prices and conditions similar to those offered to their clients of the firm.

**14. Related party transactions** (Continued)

- (b) On 12th February, 2003, the Company entered into an underwriting agreement (the “Underwriting Agreement”) with Hon Kwok in respect of a rights issue of 200,123,100 rights shares of Hon Kwok at a subscription price of HK\$1 per rights share. Pursuant to the Underwriting Agreement, the Company has irrevocably undertaken to subscribe 94,842,711 rights shares of Hon Kwok provisionally allotted to the Company in respect of its beneficial shareholding in Hon Kwok. The Company also agreed to underwrite the remaining 105,280,389 rights shares. Hon Kwok would pay a commission at 2.5% of the total subscription monies of the rights shares underwritten by the Company.
- (c) On 12th February, 2003, the Company, Hon Kwok and Hon Kwok Land Treasury II Limited entered into deeds for payment arrangement of the subscription monies payable by the Company in respect of the rights issue of Hon Kwok and the repayment of the principal sum of HK\$141 million (the “Redemption Monies”) convertible guaranteed bonds issued by Hon Kwok Land Treasury II Limited (the “Payment Arrangement Deed”). Pursuant to the deed, the Company, Hon Kwok and Hon Kwok Land Treasury II Limited agreed that the Redemption Monies shall be deferred and applied towards the payment of part of or the whole of the subscription monies payable by the Company in respect of the rights issue of Hon Kwok. Subsequently, the Company, Hon Kwok and Hon Kwok Land Treasury II Limited entered into another deed to amend the Payment Arrangement Deed.
- (d) On 21st May, 2003, the rights issue of Hon Kwok was completed. Hon Kwok announced that they have received total valid applications for 126,755,733 rights shares (including 94,842,711 rights shares taken up by the Company). The Company performed its obligation under the Underwriting Agreement to subscribe for the rest of 73,367,367 rights shares of Hon Kwok. The Company satisfied the subscription monies of approximately HK\$168.2 million by the set-off of the Redemption Monies of HK\$141 million, the set-off of underwriting commission payable by Hon Kwok of approximately HK\$2.6 million and cash payment of approximately HK\$24.6 million. Upon completion of the rights issue, the Company’s shareholding in Hon Kwok increased from 47.39% to 69.39%. Hon Kwok then became a subsidiary of the Company.
- (e) On 31st March, 2003, Hon Kwok entered into an agreement for a bridging facility with the Company whereby the Company agreed to provide financing to Hon Kwok to partly finance the redemption of convertible guaranteed bonds.

**14. Related party transactions** (Continued)

- (f) On 26th August, 2003, a subsidiary of Chinney Alliance entered into an agreement with a wholly-owned subsidiary of Hon Kwok, to dispose its carpark assets and a property in the PRC for a cash consideration of HK\$15,000,000. The disposal was effected by the sale of the entire issued share capital of China Parking (BVI) Limited, a wholly-owned subsidiary of Chinney Alliance, and assignment of related shareholders' loans, taking reference to the fair value of the property assets as assessed by an independent property valuer.
- (g) In December 2003, Lucky Year extended cash security arrangement in favour of Hon Kwok for a further period of 30 months. Pursuant to the arrangement, Lucky Year pledged its deposits with certain banks in relation to bank loans of HK\$150 million granted by the banks to Hon Kwok. In consideration for the provision of cash security, Hon Kwok agreed to counter-indemnify Lucky Year and pay a commission of 1.75% per annum on the average principal amount of the cash security outstanding during the terms of the bank loans to Lucky Year. Hon Kwok provides no security to Lucky Year or other connected persons in connection with the arrangement.
- (h) 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.

**15. Subsequent event**

As announced on 14th September, 2004, Hon Kwok and its subsidiary entered into an agreement to dispose the entire issued share capital of Global Success and assign related shareholder's loans for a cash consideration of HK\$565,725,000. The transaction was approved by the shareholders of the Company and Hon Kwok on 1st November, 2004 and completed on 15th November, 2004.

**16. Comparative figures**

Certain comparative figures have been reclassified to conform with current period's presentation.

**17. Approval of the interim financial statements**

These condensed interim financial statements were approved and authorised for issue by the board of directors on 14th December, 2004.