

Interim Report
2008



建聯集團有限公司
Chinney Alliance Group Limited

(Incorporated in Bermuda with limited liability)

Stock Code : 385

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

James Sai-Wing WONG (*Chairman*)
Sek-Kee YU
Frank Kwok-Kit CHU
Yuen-Keung CHAN
Wai-Hong LING

Non-Executive Director

Herman Man-Hei FUNG

Independent Non-Executive Directors

David Chung-Shing WU
Sou-Tung CHAN
Anthony Ren-Da FAN

AUDIT COMMITTEE

David Chung-Shing WU
Sou-Tung CHAN
Anthony Ren-Da FAN
Herman Man-Hei FUNG

REMUNERATION COMMITTEE

David Chung-Shing WU
Sou-Tung CHAN
Anthony Ren-Da FAN
Herman Man-Hei FUNG

COMPANY SECRETARY

Yun-Sang LO

PRINCIPAL BANKERS

CITIC Ka Wah Bank Limited
DBS Bank (Hong Kong) Limited
Standard Chartered Bank (Hong Kong) Limited
The Hongkong and Shanghai Banking
Corporation Limited

AUDITORS

Ernst & Young

PRINCIPAL SHARE REGISTRARS AND TRANSFER OFFICE

The Bank of Bermuda Limited
6 Front Street
Hamilton HM 11
Bermuda

HONG KONG BRANCH SHARE REGISTRARS AND TRANSFER OFFICE

Tricor Tengis Limited
26th Floor, Tesbury Centre
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Wanchai
Hong Kong

REGISTERED OFFICE

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STOCK CODE

00385

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REVIEW OF OPERATIONS

RESULTS

Chinney Alliance Group Limited (the "Company", together with its subsidiaries, the "Group") recorded turnover of HK\$1,036 million for the six months ended 30 June 2008 (2007: HK\$762 million), an increase of 36.1% over last year. The profit for the period was HK\$23.6 million (2007: HK\$16.1 million), represented an increase of 46.4% over last year. The increase in turnover and profit were mainly attributable to the contribution from Chinney Construction Company, Limited ("CCCL") and Kin Wing Engineering Company Limited ("KWE"), which were acquired in October 2007.

The Group's profit for the current period included the fair value losses on equity investments of HK\$5.7 million (2007: gain of HK\$11.9 million) and realised gain of HK\$0.9 million on the disposal of equity investments. Should these fair value gains/losses and gain on disposal of equity investments be excluded in both periods, the Group would have profit of HK\$28.4 million for the period under review compared to the profit of HK\$4.2 million of same period of last year.

INTERIM DIVIDEND

The Board does not propose the payment of an interim dividend for the six months ended 30 June 2008 (2007: Nil).

BUSINESS REVIEW AND PROSPECTS

Trading of plastics and chemicals

DMT International Hong Kong Limited ("DMT") and Jacobson van den Berg (Hong Kong) Limited ("Jacobson") recorded aggregate turnover of HK\$372 million for the period under review (2007: HK\$373 million). The operating profit decreased to HK\$8.1 million (2007: HK\$10.9 million), mainly due to the decrease in gross margin under the persistently high resin prices and the increase in administrative expenses. The result is considered satisfactory given the business environment that oil price and cost of the plastic resin stayed high while customers were very cautious at placing purchase orders.

Trading of industrial products and equipment

Chinney Alliance Engineering Limited and its subsidiaries recorded turnover of HK\$22 million for the six months ended 30 June 2008 (2007: HK\$16 million). The loss for the period was reduced to HK\$0.6 million (2007: HK\$1.9 million). The improvement was mainly attributable to increase in product sales and further control on administrative expenses.

Building related contracting services

The building related contracting services businesses contributed turnover of HK\$229 million for the period (2007: HK\$373 million) with operating profit of HK\$5 million (2007: HK\$5.4 million). The turnover decreased as some new projects were not yet started in the period under review.

Foundation piling and building construction

The Group acquired Victory Leap Limited in October 2007. Its principal subsidiaries CCCL and KWE are engaged in the building construction and foundation piling respectively. During the period under review, CCCL and KWE recorded turnover of HK\$207 million and HK\$206 million, respectively, while the operating profits were HK\$10.2 million and HK\$20 million, respectively. According to the progress of the projects awarded in the second half of 2007 and the first half of 2008, these divisions' turnover and profits are expected to increase in the second half of the year.

FINANCIAL REVIEW

Liquidity and financial resources

Total interest-bearing debts of the Group amounted to HK\$354 million as at 30 June 2008 (31 December 2007: HK\$310 million), of which HK\$196 million (31 December 2007: HK\$131 million) were trust receipt loans. The increase in interest-bearing debts of the Group was mainly due to the increase in trust receipt loans for the purchase of trading stocks. Approximately 85% of the interest-bearing debts were due and repayable within one year. Current ratio of the Group at 30 June 2008, as measured by total current assets over total current liabilities, was 1.2 (31 December 2007: 1.18).

The non-pledged cash and bank balances as at 30 June 2008 were HK\$87 million (31 December 2007: HK\$84 million). As at 30 June 2008, the Group had a total of HK\$384 million committed but undrawn banking facilities at period-end available for its working capital purpose. The gearing ratio of the Group, as measured by the net interest-bearing debts of HK\$267 million over the equity attributable to the equity holders of the Company of HK\$317 million, was 84% as at 30 June 2008.

Funding and treasury policy

The Group maintains 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 and bear interest at floating rates. Forward contracts of non-speculative nature are entered to hedge the foreign currency trade purchase commitments of the Group whenever necessary.

Pledge of assets

Certain properties and plant and machinery having aggregate book value of HK\$80.7 million and HK\$70.1 million, respectively, as at 30 June 2008 were pledged to banks to secure certain bank loans and general banking facilities extended to the Group. In addition, time deposits of HK\$38.2 million were pledged to banks to secure the issue of performance bonds in favour of the Group's clients on contracting works.

Contingent liabilities

Details of the contingent liabilities of the Group as at 30 June 2008 are set out in note 14 to the interim financial statements.

Employees and remuneration policies

The Group employed approximately 660 staff in Hong Kong and other parts of the People's Republic of China as at 30 June 2008. Remuneration packages are reviewed annually and determined by reference to market pay and individual performance. In addition to salary payments and year-end discretionary bonuses, the Group also provides other employment benefits including medical insurance cover, provident fund and educational subsidies to eligible staff.

POST BALANCE SHEET DATE EVENT

Details of the post balance sheet date event are set out in note 17 to the interim financial statements.

OUTLOOK

The global economy outlook remains uncertain. While the recent financial tsunami resulted from the failure of financial institutions in the United States of America would have negative impact on the world economy, the US Government decided to take control of the insurance giant AIG to calm the market. However, the market is still worried about a domino effect on the finance sector, with no one sure who will fall next. The possibility of recession in the US seems now a foregone conclusion. On the other hand, the reduction of one-year lending rate and the reserve ratio of one percent for the smaller banks in China by the People's Bank of China would be an indication of the beginning of an easing cycle. In Hong Kong, the growth of the economy slowed down in the second quarter of 2008 and is expected to continue during the remainder of this year. The lowering of oil price and commodity prices recently would help to ease the pressure of inflation. Your Group's plastic trading business continues to develop engineering plastics products in its product mix which have higher margin and are less volatile to the fluctuation of the oil price. The foundation piling, building construction and building related contracting services businesses have been awarded more projects at better margin and will continue to explore new business opportunities in Hong Kong and Macau. Despite the financial crisis originated from Wall Street, the directors are optimistic about the results of the year 2008.

By Order of the Board
James Sai-Wing Wong
Chairman

Hong Kong, 22 September 2008

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Six months ended 30 June	
		2008	2007
		(Unaudited) HK\$'000	(Unaudited) HK\$'000
REVENUE	3	1,036,207	761,555
Cost of sales/services provided		<u>(915,187)</u>	<u>(709,241)</u>
Gross profit		121,020	52,314
Other income	3	3,345	4,982
Selling and distribution costs		(6,482)	(8,154)
Administrative expenses		(82,308)	(38,770)
Other operating income/(expenses), net		(2,377)	12,310
Finance costs	4	(6,634)	(5,557)
Share of loss of an associate		<u>(323)</u>	<u>(164)</u>
PROFIT BEFORE TAX	5	26,241	16,961
Tax	6	<u>(2,686)</u>	<u>(867)</u>
PROFIT FOR THE PERIOD		<u>23,555</u>	<u>16,094</u>
Attributable to:			
Equity holders of the Company		23,628	16,439
Minority interests		<u>(73)</u>	<u>(345)</u>
		<u>23,555</u>	<u>16,094</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	7		
Basic		<u>5.96 cents</u>	<u>4.15 cents</u>
Diluted		<u>N/A</u>	<u>N/A</u>

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		219,071	241,090
Investment properties		30,328	25,425
Interest in an associate		1,651	1,488
Interest in jointly-controlled entities		97	–
Goodwill		8,018	8,018
Deferred tax assets		635	635
Other assets		282	282
Retention monies receivables over one year		2,210	3,654
Total non-current assets		<u>262,292</u>	<u>280,592</u>
CURRENT ASSETS			
Inventories		71,164	60,591
Gross amount due from contract customers		130,017	121,714
Trade and bills receivables	8	349,508	295,243
Retention monies receivables		79,798	79,289
Amounts due from related companies	9	12,567	15,570
Amount due from a jointly-controlled entity		251	249
Prepayments, deposits and other receivables		58,203	55,240
Equity investments at fair value through profit or loss		9,107	16,834
Tax recoverable		1,528	2,609
Pledged time deposits		38,225	26,425
Cash and cash equivalents		87,303	84,315
Total current assets		<u>837,671</u>	<u>758,079</u>
CURRENT LIABILITIES			
Gross amount due to contract customers		126,186	105,025
Trade and bills payables	10	157,061	183,930
Trust receipt loans		196,336	130,950
Retention monies payables		42,258	34,766
Amounts due to related companies	9	20,859	11,548
Amount due to a jointly-controlled entity		97	–
Loan from a minority shareholder of a subsidiary	13(c)	2,512	5,980
Other payables and accruals		45,313	56,011
Tax payable		4,345	1,555
Obligations under finance leases		3,717	6,082
Interest-bearing bank borrowings		100,958	108,181
Total current liabilities		<u>699,642</u>	<u>644,028</u>
NET CURRENT ASSETS		<u>138,029</u>	<u>114,051</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>400,321</u>	<u>394,643</u>

CONDENSED CONSOLIDATED BALANCE SHEET *(continued)*

		30 June	31 December
		2008	2007
		(Unaudited)	(Audited)
	<i>Notes</i>	HK\$'000	HK\$'000
NON-CURRENT LIABILITIES			
Obligations under finance leases		9,205	11,525
Interest-bearing bank borrowings		5,000	14,000
Promissory note		39,042	38,789
Deferred tax liabilities		29,188	30,113
		<hr/>	<hr/>
Total non-current liabilities		82,435	94,427
		<hr/>	<hr/>
Net assets		317,886	300,216
		<hr/>	<hr/>
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	11	39,660	39,660
Reserves		277,510	253,818
Proposed final dividend		–	5,949
		<hr/>	<hr/>
		317,170	299,427
		<hr/>	<hr/>
Minority interests		716	789
		<hr/>	<hr/>
Total equity		317,886	300,216
		<hr/>	<hr/>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company									
	Issued capital	Share premium account	Contributed surplus	Asset revaluation reserve	Exchange fluctuation reserve	Retained profits	Proposed final dividend	Total	Minority interests	Total equity
	(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
At 1 January 2008	39,660	33,005	120,946	5,443	36	94,388	5,949	299,427	789	300,216
Exchange realignment	-	-	-	-	64	-	-	64	-	64
Release of revaluation reserve on land and buildings to retained profits	-	-	-	(101)	-	101	-	-	-	-
Total income and expenses for the period recognized directly in equity	-	-	-	(101)	64	101	-	64	-	64
Profit/(loss) for the period	-	-	-	-	-	23,628	-	23,628	(73)	23,555
Total income and expenses for the period	-	-	-	(101)	64	23,729	-	23,692	(73)	23,619
2007 final dividend declared	-	-	-	-	-	-	(5,949)	(5,949)	-	(5,949)
At 30 June 2008	39,660	33,005*	120,946*	5,342*	100*	118,117*	-	317,170	716	317,886
At 1 January 2007	39,660	33,005	120,946	537	8	33,836	3,966	231,958	10,804	242,762
Exchange realignment	-	-	-	-	(367)	-	-	(367)	-	(367)
Depreciation on revalued properties	-	-	-	(22)	-	-	-	(22)	-	(22)
Total expenses for the period recognized directly in equity	-	-	-	(22)	(367)	-	-	(389)	-	(389)
Profit/(loss) for the period	-	-	-	-	-	16,439	-	16,439	(345)	16,094
Total income and expenses for the period	-	-	-	(22)	(367)	16,439	-	16,050	(345)	15,705
2006 final dividend declared	-	-	-	-	-	-	(3,966)	(3,966)	-	(3,966)
At 30 June 2007	39,660	33,005	120,946	515	(359)	50,275	-	244,042	10,459	254,501

* These reserve accounts comprise the consolidated reserves of HK\$277,510,000 in the condensed consolidated balance sheet.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June	
	2008	2007
	(Unaudited) <i>HK\$'000</i>	(Unaudited) <i>HK\$'000</i>
Net cash inflow/(outflow) from operating activities	(35,914)	6,051
Net cash inflow/(outflow) from investing activities	10,115	(12,345)
Net cash inflow/(outflow) from financing activities	38,433	(57,119)
Net increase/(decrease) in cash and cash equivalents	12,634	(63,413)
Cash and cash equivalents at beginning of period	23,134	170,457
Effect of foreign exchange rate changes, net	(423)	(367)
Cash and cash equivalents at end of period	35,345	106,677
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	56,488	35,235
Non-pledged time deposits with original maturity of less than three months when acquired	30,815	76,565
Time deposits with original maturity of less than three months when acquired, pledged as security for bank overdraft facilities	–	26,800
Bank overdrafts	(51,958)	(31,923)
	35,345	106,677

NOTES TO THE INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of preparation

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

The unaudited condensed interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2007.

Accounting policies

The accounting policies and methods of computation used in the preparation of this unaudited condensed interim financial statements are consistent with those adopted in the annual financial statements for the year ended 31 December 2007, except in relation to the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”, which also include HKASs and Interpretations) that are adopted for the first time for the current period’s financial information.

HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction

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

2. SEGMENT INFORMATION

The Group is principally engaged in the trading of plastics and chemical products, distribution and installation of building supplies, electrical and mechanical products, provision of engineering contracting services in the air-conditioning industry and provision of maintenance services, building related contracting services, superstructure contracting works as well as sub-structure and foundation piling works. An analysis of the Group's revenue and results by business segments and revenue by geographical segments is as follows:

(a) Business segments

	Plastic and chemical products		Building supplies, electrical and mechanical products		Building related contracting services		Foundation piling		Building construction		Total	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Segment revenue:												
Sales to external customers	372,164	372,570	21,959	16,333	229,046	372,652	205,861	-	207,177	-	1,036,207	761,555
Other revenue	1,303	1,058	433	380	8	26	-	-	25	-	1,769	1,464
Total	373,467	373,628	22,392	16,713	229,054	372,678	205,861	-	207,202	-	1,037,976	763,019
Segment results:	8,147	10,930	(639)	(1,951)	5,021	5,354	20,038	-	10,195	-	42,762	14,333
Interest income and unallocated gains											834	1,748
Unallocated expenses											(5,601)	(5,336)
Fair value gains/(losses) on equity investments at fair value through profit or loss, net											(5,656)	11,937
Gain on disposal of equity investments at fair value through profit or loss											859	-
Finance costs											(6,634)	(5,557)
Share of loss of an associate											(323)	(164)
Profit before tax											26,241	16,961
Tax											(2,686)	(867)
Profit for the period											23,555	16,094
Attributable to:												
Equity holders of the Company											23,628	16,439
Minority interests											(73)	(345)
											23,555	16,094

2. SEGMENT INFORMATION *(continued)*

(b) Geographical segments

	Hong Kong		Macau and Mainland China		Total	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2008	2007	2008	2007	2008	2007
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:						
Sales to external customers	902,146	608,385	134,061	153,170	1,036,207	761,555
Other revenue	1,336	1,084	433	380	1,769	1,464
Total	903,482	609,469	134,494	153,550	1,037,976	763,019

3. REVENUE AND OTHER INCOME

	Six months ended 30 June	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Revenue		
Sale of goods	405,991	421,455
Construction contracts	630,216	340,100
	1,036,207	761,555
Other income		
Interest income	764	3,012
Commission income	872	784
Dividend income from a listed investment	115	47
Gross rental income	598	560
Others	996	579
	3,345	4,982

4. FINANCE COSTS

	Six months ended 30 June	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts wholly repayable within five years	5,059	5,557
Interest on a promissory note	1,192	–
Interest on obligations under finance leases	383	–
	6,634	5,557

No interest was capitalised by the Group in both periods.

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Six months ended 30 June	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Depreciation	12,155	931
Employee benefits expense (including directors' emoluments)	46,543	27,666
Fair value losses/(gains) on equity investments at fair value through profit or loss, net*	5,656	(11,937)
Foreign exchange differences, net*	(723)	(285)
Gain on disposal of equity investments at fair value through profit or loss*	(859)	–
Gain on disposal of items of properties, plant and equipment*	(2,630)	(2)
Impairment of trade receivables*	1,086	136
Write-back of impairment of trade receivables*	(154)	(213)
Excess over the cost of business combination*	–	(182)

* These expenses/(income) are included in "Other operating income/(expenses), net" on the face of the condensed consolidated income statement.

6. TAX

	Six months ended 30 June	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Group:		
Current – Hong Kong	3,053	758
Current – Elsewhere:		
Charge for the period	475	109
Under provision in prior years	83	–
Deferred	(925)	–
	<hr/>	<hr/>
Total tax charge for the period	2,686	867

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the territories in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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

The calculation of the basic earnings per share is based on the profit for the period attributable to ordinary equity holders of the Company of HK\$23,628,000 (2007: HK\$16,439,000) and the weighted average number of 396,599,497 ordinary shares in issue during both periods.

Diluted earnings per share for the six months ended 30 June 2008 and 30 June 2007 have not been disclosed as the outstanding share options had an anti-dilutive effect on the basic earnings per share since their exercise prices were higher than the average market price of the Company's ordinary shares during both periods.

8. TRADE AND BILLS RECEIVABLES

	30 June	31 December
	2008	2007
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Trade receivables	365,066	313,330
Impairment	(15,558)	(19,947)
	<hr/>	<hr/>
Bills receivables	349,508	293,383
	<hr/>	<hr/>
	–	1,860
	<hr/>	<hr/>
	349,508	295,243

The Group grants a credit period to its customers ranging from cash on delivery to 60 days. A longer credit period may be allowed to customers with good business relationships. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

8. TRADE AND BILLS RECEIVABLES *(continued)*

An aged analysis of the trade and bills receivables as at the balance sheet date, based on the payment due date and net of provisions, is as follows:

	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Current to 30 days	286,259	205,155
31 to 60 days	28,406	43,179
61 to 90 days	6,356	23,098
Over 90 days	28,487	23,811
	349,508	295,243

9. AMOUNTS DUE FROM/TO RELATED COMPANIES

The amounts due from related companies, disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance, are as follows:

	<i>Notes</i>	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Hon Kwok Land Investment (Shenzhen) Co., Ltd.	<i>(i)</i>	25	1
Tinhawk Company Limited ("Tinhawk")	<i>(ii)</i>	2,071	5,499
Ever Billion Engineering Limited ("Ever Billion")	<i>(ii)</i>	7,528	7,669
Chinney Contractors Company Limited ("Chinney Contractors")	<i>(iii)</i>	2,943	2,284
Shenzhen Honkwok Huaye Development Co., Ltd.	<i>(i)</i>	–	117
		12,567	15,570

Notes:

- (i) Hon Kwok Land Investment (Shenzhen) Co., Ltd. and Shenzhen Honkwok Huaye Development Co., Ltd. are wholly-owned subsidiaries of Hon Kwok Land Investment Company, Limited ("Hon Kwok"), which is a subsidiary of Chinney Investments, Limited ("Chinney Investments") of which Dr. James Sai-Wing Wong, a director of the Company, is also a director and has a beneficial interest. Mr. Herman Man-Hei Fung, a director of the Company, is also a director of Chinney Investments and Hon Kwok. The maximum amount due from Hon Kwok Land Investment (Shenzhen) Co., Ltd. during the period was HK\$111,000.
- (ii) Mr. Sek-Kee Yu and Mr. Yuen-Keung Chan are common directors of the Company, Tinhawk and Ever Billion.
- (iii) Chinney Investments and Mr. Yuen-Keung Chan, a director of the Company, had beneficial interests of 86.05% and 13.95% in Chinney Contractors, respectively. The maximum amount due from Chinney Contractors during the period was HK\$2,943,000.

9. AMOUNTS DUE FROM/TO RELATED COMPANIES *(continued)*

Except for the balance due from Tinhawk of HK\$902,000 as at 30 June 2008 which was unsecured, interest-bearing at prevailing market rate and repayable on demand, the balances with the related companies are unsecured, interest-free and repayable on demand.

The carrying amounts of these balances with related companies approximate to their fair values.

10. TRADE AND BILLS PAYABLES

	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Trade payables	139,021	163,563
Bills payables	18,040	20,367
	157,061	183,930

An aged analysis of the trade payables as at the balance sheet date, based on the invoice date, is as follows:

	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Current to 30 days	116,048	104,764
31 to 60 days	15,177	33,336
61 to 90 days	3,044	16,253
Over 90 days	4,752	9,210
	139,021	163,563

11. SHARE CAPITAL**Shares**

	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Authorised:		
2,500,000,000 ordinary shares of HK\$0.10 each	250,000	250,000
Issued and fully paid:		
396,599,497 ordinary shares of HK\$0.10 each	39,660	39,660

11. SHARE CAPITAL (continued)**Share options**

	Outstanding share options with an exercise price of HK\$0.70 per share
At 1 January 2008	4,000,000
Lapse of share options*	<u>(400,000)</u>
At 30 June 2008	<u>3,600,000</u>

* All share options granted to an employee lapsed upon his resignation from all his directorships in certain subsidiaries of the Company on 6 March 2008.

The exercise in full of the outstanding share options would result in the issue of 3,600,000 additional ordinary shares for an aggregate amount of approximately HK\$2.52 million.

Details of the share options outstanding as at 30 June 2008 are disclosed under the "Share Option Scheme" section.

12. BUSINESS COMBINATION

On 1 June 2007, the Group acquired the entire issued share capital of Apex Curtain Wall and Windows Company Limited ("Apex") at a cash consideration of approximately HK\$298,000. The purchase consideration for the acquisition was in the form of cash and was fully paid on the date of acquisition. The fair values of the identifiable assets and liabilities of Apex as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Six months ended 30 June 2007	
	Fair value recognised on acquisition (Unaudited) HK\$'000	Carrying amount (Unaudited) HK\$'000
Net assets acquired :		
Property, plant and equipment	1,473	1,140
Retention monies receivables over one year	5,111	5,111
Gross amount due from contract customers	8,466	8,466
Trade receivables	3,390	3,390
Retention monies receivables	1,401	1,401
Prepayments, deposits and other receivables	146	146
Pledged time deposits	2,031	2,031
Cash and cash equivalents	28	28
Gross amount due to contract customers	(2,018)	(2,018)
Trade and bills payables	(1,551)	(1,551)
Trust receipt loans	(3,818)	(3,818)
Amounts due to related companies	(10)	(10)
Retention monies payables	(2,181)	(2,181)
Other payables and accruals	(372)	(372)
Bank overdrafts	(11,581)	(11,581)
Deferred tax liabilities	<u>(35)</u>	<u>-</u>
	480	<u>182</u>
Excess over the cost of business combination recognized in the condensed consolidated income statement	<u>(182)</u>	
	<u>298</u>	
Satisfied by:		
Cash consideration	<u>298</u>	

12. BUSINESS COMBINATION (continued)

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	Six months ended 30 June 2007 (Unaudited) HK\$'000
Cash consideration paid	(298)
Cash and cash equivalents acquired	28
Bank overdrafts acquired	<u>(11,581)</u>
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	<u>(11,851)</u>

Apex had contributed HK\$7 million to the Group's turnover and accounted for HK\$188,000 of the consolidated profit since its acquisition for the six months ended 30 June 2007.

13. RELATED PARTY TRANSACTIONS

(a) *The Group had the following material transactions with related parties during the period:*

		Six months ended 30 June	
		2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
	Notes		
Management fee to a major shareholder	(i)	1,000	1,000
Share of rental and office expenses with a related company	(ii)	310	450
Subcontracting fees to related companies	(iii)	30,583	37,283
Subcontracting fees to a minority shareholder of a subsidiary	(iv)	1	635
Interest expenses on a promissory note to a related company	(v)	1,192	–
Interest income from a related company	(vi)	30	48
Commission income from a related company	(vii)	8	–
Rental income from a related company	(viii)	25	–
Rental expenses paid to a related company	(ix)	–	450
Construction contract income from a related company	(x)	<u>–</u>	<u>618</u>

Notes:

- (i) The management fee was charged by Chinney Investments based on the time involvement of the personnel providing services. Dr. James Sai-Wing Wong, a director of the Company, is also a director of and has a beneficial interest in Chinney Investments. Mr. Herman Man-Hei Fung is a director of the Company and Chinney Investments.
- (ii) The rental and office expenses were charged by Hon Kwok, a subsidiary of Chinney Investments, on an actual basis. Dr. James Sai-Wing Wong is a director of and has a beneficial interest in Hon Kwok. Mr. Herman Man-Hei Fung is a director of the Company and Hon Kwok.

13. RELATED PARTY TRANSACTIONS *(continued)***(a) The Group had the following material transactions with related parties during the period:** *(continued)**Notes: (continued)*

- (iii) The subcontracting fees were paid to Tinhawk and Ever Billion for the completion of work orders of certain building maintenance contracts for the Group. Mr. Sek-Kee Yu and Mr. Yuen-Keung Chan are common directors of the Company, Tinhawk and Ever Billion.
- (iv) The subcontracting charges were paid to a 49.9% minority shareholder of Shun Wing Construction & Engineering Limited, a subsidiary of the Company, for the completion of work orders of a building maintenance contract.
- (v) The interest was paid to Chinney Contractors and charged at the rate of 5% per annum. Chinney Investments and Mr. Yuen-Keung Chan, a director of the Company, had beneficial interests of 86.05% and 13.95% in Chinney Contractors, respectively.
- (vi) The interest income received from Tinhawk based on the prevailing market rate. Mr. Yuen-Keung Chan and Mr. Sek-Kee Yu are common directors of the Company and Tinhawk.
- (vii) Commission income from Tinhawk was charged at the rates agreed by both parties.
- (viii) The rental income was paid by Ever Billion at rates agreed by both parties. Mr. Yuen-Keung Chan and Mr. Sek-Kee Yu are common directors of the Company and Ever Billion.
- (ix) In the prior period, a subsidiary of the Company leased certain properties from Jackson Mercantile Trading Company Limited ("Jackson Mercantile"), a then subsidiary of Chinney Investments, and paid rent at rates agreed by both parties. Dr. James Sai-Wing Wong, a director of the Company, was also the director of and had beneficial interest in Chinney Investments. Mr. Sek-Kee Yu was a director of the Company and Jackson Mercantile. Mr. Yuen-Keung Chan, a director of the Company, was a director of and had 13.95% beneficial interest in Jackson Mercantile. Jackson Mercantile became a wholly-owned subsidiary of the Company on 26 October 2007.
- (x) The construction contract income represented the value of building maintenance work and building services installation work certified during the period from CCCL, a then subsidiary of Chinney Investments of which Dr. James Sai-Wing Wong, a director of the Company, is also a director and has a beneficial interest. Mr. Yuen-Keung Chan, a director of the Company, is also a director of and had a 13.95% beneficial interest in CCCL. Mr. Sek-Kee Yu is a director of the Company and CCCL. CCCL became a wholly-owned subsidiary of the Company on 26 October 2007.

(b) Other transactions with related parties:

On 22 May 2007, Shun Cheong Investments Limited ("SCIL", a wholly-owned subsidiary of the Company, as purchaser), the Company (as purchaser's guarantor), CCCL (a then 86.05% owned subsidiary of Chinney Investments, as vendor) and Chinney Contractors (an 86.05% owned subsidiary of Chinney Investments, as vendor's guarantor) entered into a sale and purchase agreement for the acquisition of the entire issued share capital of Apex for a cash consideration of approximately HK\$298,000. The transaction constituted a discloseable and connected transaction of the Company, which was subject to the announcement and reporting requirements and was exempt from the approval by the independent shareholders of the Company pursuant to Rule 14A.32 of the Listing Rules. The transaction was completed on 1 June 2007. Details of the transaction have been included in a circular dated 15 June 2007 to the shareholders of the Company.

13. RELATED PARTY TRANSACTIONS (continued)**(c) Outstanding balances with related parties:**

- (i) Details of the Group's outstanding balances with related companies as at the balance sheet date are disclosed in note 9 to the interim financial statements.
- (ii) As disclosed in the condensed consolidated balance sheet, the Group had an outstanding loan due to a minority shareholder of a subsidiary of HK\$2,512,000 as at the balance sheet date. The balance is unsecured, interest-free and repayable by twelve monthly instalments.

(d) Compensation of key management personnel of the Group:

	Six months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Short-term employee benefits	8,806	4,436
Post-employment benefits	427	247
Total compensation paid to key management personnel	9,233	4,683

14. CONTINGENT LIABILITIES

- (a) The Group provided corporate guarantees and indemnities to certain banks and a financial institution of an aggregate amount of approximately HK\$111,889,000 for the issue of performance bonds in favour of the Group's clients on contracting works in its ordinary course of business.
- (b) An indirect wholly-owned subsidiary of the Company was involved in legal proceedings and claims against it in the ordinary course of its business. The aggregate amount for outstanding value for sub-contract works claimed by a subcontractor resulting from such contingent liabilities was approximately HK\$13,579,000 as at 30 June 2008. After taking into account legal advices obtained, the directors of the Company consider that no provision needs to be made since the subsidiary has a valid defence against the claims and counter-claims have been made against the subcontractor of approximately HK\$16,578,000 for purchase costs of equipment and materials paid on behalf of and advances made to the subcontractor.

Save as disclosed above, the Group had no material contingent liabilities as at 30 June 2008.

15. OPERATING LEASE ARRANGEMENTS**(a) As lessor**

During the period, the Group leases certain of its investment properties under operating lease arrangements, with leases negotiated for terms of three years. The terms of the leases generally also require the tenants to pay security deposits.

	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Within one year	1,284	911
In the second to fifth years, inclusive	1,194	1,442
	2,478	2,353

15. OPERATING LEASE ARRANGEMENTS *(continued)***(b) As lessee**

The Group leases certain of its office properties under operation lease arrangements. Leases for properties are negotiated for terms ranging from one year to three years.

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Within one year	5,297	1,761
In the second to fifth years, inclusive	1,748	701
	7,045	2,462

16. COMMITMENT

In addition to the operating lease commitments detailed in note 15 above, the Group had the following capital commitment at the balance sheet date:

	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Contracted, but not provided for:		
Land and buildings	-	4,275

17. POST BALANCE SHEET DATE EVENT

On 20 August 2008, the Company entered into an underwriting agreement with Enhancement Investments Limited ("EIL", as underwriter) to implement an open offer on the basis of one offer share for every two existing shares at a subscription price of HK\$0.25 per share to raise approximately HK\$49.6 million before expenses (the "Open Offer") for general working capital of the Group. EIL is beneficially wholly-owned by Dr. James Sai-Wing Wong, the Chairman, and a substantial shareholder of the Company. Prospectus for the Open Offer as well as the application form and excess application form in respect of the offer shares were despatched to the qualifying shareholders of the Company on 16 September 2008. Based on the expected timetable, the latest time for the acceptance and payment for the application and excess application of the offer shares is 4:00 p.m. on Tuesday, 30 September 2008. Further details of the Open Offer have been included in an announcement dated 21 August 2008 and the prospectus for the Open Offer dated 16 September 2008.

OTHER INFORMATION

CORPORATE GOVERNANCE

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuer (the "Model Code") set out in Appendix 10 of the Listing Rules. On specific enquiries made, all directors of the Company have confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2008.

Compliance with the Code on Corporate Governance Practices

In the opinion of the directors, the Company has complied with the applicable code provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Listing Rules throughout the interim period, except that:

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

The Company has not appointed a chief executive officer while Mr. Frank Kwok-Kit Chu is the managing director of DMT and Jacobson. Mr. Sek-Kee Yu is the managing director of KWE, CCCL and SCIL. DMT, Jacobson, KWE, CCCL and SCIL already comprise a substantial portion of the Group's business. Dr. James Sai-Wing Wong, Chairman of the Company, is responsible for the management of the Board. In view of the size of the Group, it is considered unnecessary to appoint a chief executive officer of the Company.

2. Code provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election and that code provision A.4.2 stipulates that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

The existing non-executive directors of the Company do not have a specific term of appointment but are subject to retirement by rotation and re-election at the Company's annual general meeting under the Bye-laws of the Company. As such, the Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code.

According to the provisions of the Company's Bye-laws, at each annual general meeting one-third of the directors for the time being (or, if their number is not a multiple of three, the number nearest to but not greater than one-third) shall retire from office by rotation save that the Chairman and/or the Managing Director of the Company shall not be subject to retirement by rotation or be taken into account in determining the number of directors to retire in each year.

Dr. James Sai-Wing Wong, the beneficial owner of Chinney Investments, EIL and Chinney Capital Limited, which collectively holds approximately 58.3% interest in the Company, is the Chairman of the Board to safeguard their investments in the Company. As a result, the Board concurred that the Chairman of the Board need not be subject to retirement by rotation. The Company currently has no Managing Director.

3. 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 has adopted the terms of reference of the Remuneration Committee on 20 September 2005, which was subsequently amended in the way that the Remuneration Committee should “review” as opposed to “determine” the specific remuneration packages of all executive directors.

The Chairman of the Board receives no remuneration and determines the remuneration of all other executive directors, taking reference to market pay, individual performance and a bonus scheme, which has been in place prior to the establishment of the Remuneration Committee. A Remuneration Committee meeting was held once during the year, during which the remuneration packages of all executive directors for the year have been reviewed individually.

The above deviations from the code provisions were discussed in the corporate governance report included in the Company's 2007 annual report.

Audit Committee

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

SHARE OPTION SCHEME

The Company adopted an Executive Share Option Scheme (the “Scheme”) on 24 September 1993, under which options may be granted to selected employees (including any director) of the Group. The Scheme, having a term of ten years, expired on 23 September 2003.

The holders of the outstanding share options have the right to convert the options into ordinary shares of the Company in whole or in part from the date of grant to the end of the exercisable period, which is ten years from the date of grant, at the pre-determined exercise prices.

Details of the share options outstanding as at 30 June 2008 which were granted to directors and employees under the Scheme are as follows:

	Number of shares subject to the outstanding share options as at 1 January 2008	Number of shares subject to the outstanding share options lapsed during the period	Number of shares subject to the outstanding share options as at 30 June 2008	Exercise price per share	Date of grant	Exercisable from	Exercisable until
				HK\$			
Share options to directors							
Sek-Kee Yu	1,200,000		1,200,000	0.70	16 July 1999	16 July 1999	15 July 2009
Frank Kwok-Kit Chu	800,000		800,000	0.70	13 July 1999	13 July 1999	12 July 2009
Herman Man-Hei Fung	<u>800,000</u>		<u>800,000</u>	0.70	13 July 1999	13 July 1999	12 July 2009
Sub-total	<u>2,800,000</u>		<u>2,800,000</u>				
Share options to employees							
In aggregate	400,000		400,000	0.70	16 July 1999	16 July 1999	15 July 2009
	400,000		400,000	0.70	19 July 1999	19 July 1999	18 July 2009
	<u>400,000</u>	(400,000)*	<u>–</u>	0.70	12 July 1999	12 July 1999	11 July 2009
Sub-total	<u>1,200,000</u>		<u>800,000</u>				
Total	<u>4,000,000</u>	<u>(400,000)</u>	<u>3,600,000</u>				

* All share options granted to an employee lapsed upon his resignation from all his directorships in certain subsidiaries of the Company on 6 March 2008.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2008, the interests and short positions of the directors in the shares, underlying shares and debentures of the Company and 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 by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code in the Listing Rules, were as follows:

Long positions in ordinary shares of the Company

Name of Directors	Number of shares held, capacity and nature of interest			Total	Percentage of the Company's issued share capital
	Personal interests	Family interests	Corporate interests		
James Sai-Wing Wong	–	–	231,200,283 (Note)	231,200,283	58.30%
Frank Kwok-Kit Chu	48,240	47,840	–	96,080	0.02%

Note: Among these shares, 13,062,000 shares are held by Chinney Capital Limited, 115,395,797 shares are held by Multi-Investment Group Limited and 102,742,486 shares are held by EIL, all of which Dr. James Sai-Wing Wong is a director and has beneficial interests.

The interests of the directors in the share options of the Company are separately disclosed under the "Share Option Scheme" section.

Save as disclosed above and in the "Share Option Scheme" section, as at 30 June 2008, none of the directors had registered an interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the "Share Option Scheme" section of this report, at no time during the six-month period ended 30 June 2008 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company; or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2008, the interests and short positions of those persons in the shares and underlying shares of the Company as recorded in the register of interests required to be kept by the Company under Section 336 of the SFO were as follows:

Long positions in ordinary shares of the Company

Name	<i>Notes</i>	Capacity and nature of interest	Number of ordinary shares held	Percentage of the issued share capital
James Sai-Wing Wong	1, 2 & 3	Interest through controlled corporations	231,200,283	58.30%
Madeline May-Lung Wong	1	Interest through a controlled corporation	115,395,797	29.10%
Lucky Year Finance Limited	1	Interest through a controlled corporation	115,395,797	29.10%
Chinney Holdings Limited	1	Interest through a controlled corporation	115,395,797	29.10%
Chinney Investments	1	Interest through a controlled corporation	115,395,797	29.10%
Newsworthy Resources Limited	1	Interest through a controlled corporation	115,395,797	29.10%
Multi-Investment Group Limited	1	Beneficial owner	115,395,797	29.10%
EIL	2	Beneficial owner	102,742,486	25.90%

Notes:

1. Dr. James Sai-Wing Wong, Ms. Madeline May-Lung Wong, Lucky Year Finance Limited, Chinney Holdings Limited, Chinney Investments, Newsworthy Resources Limited and Multi-Investment Group Limited are deemed to be interested in the same parcel of 115,395,797 shares by virtue of Section 316 of the SFO.
2. EIL is beneficially owned by Dr. James Sai-Wing Wong solely.
3. 13,062,000 shares are held by Chinney Capital Limited which is beneficially wholly owned by Dr. James Sai-Wing Wong.

No share options of the Company were held by the above shareholders as at 30 June 2008.

Save as disclosed above, as at 30 June 2008, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares, underlying shares and debentures" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

During the six months ended 30 June 2008, the Company had not redeemed, and neither the Company nor any of its subsidiaries had purchased or sold any of the Company's listed shares.