



# **TAI SANG LAND DEVELOPMENT LIMITED**

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**2004 INTERIM REPORT**

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### *Registrar and Transfer office*

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## Consolidated Profit and Loss Account

*For the six months ended 30th June 2004*

	<i>Note</i>	<b>Unaudited</b>	
		<b>For the six months ended 30th June</b>	
		<b>2004</b>	2003
		<b>HK\$'000</b>	<b>HK\$'000</b>
Turnover	3	<b>99,597</b>	99,077
Cost of sales		<b>(23,845)</b>	(25,717)
		<hr/>	<hr/>
Gross profit		<b>75,752</b>	73,360
Administrative expenses		<b>(17,545)</b>	(24,254)
Other operating expenses (net)		<b>(23,436)</b>	(14,384)
		<hr/>	<hr/>
Operating profit	4	<b>34,771</b>	34,722
Finance costs	5	<b>(8,426)</b>	(10,224)
		<hr/>	<hr/>
Profit before taxation		<b>26,345</b>	24,498
Taxation	6	<b>(4,290)</b>	(7,743)
		<hr/>	<hr/>
Profit after taxation		<b>22,055</b>	16,755
Minority interests		<b>(1,041)</b>	(1,373)
		<hr/>	<hr/>
Profit attributable to shareholders		<b>21,014</b>	15,382
		<hr/> <hr/>	<hr/> <hr/>
Interim dividend	7	<b>14,383</b>	12,945
		<hr/> <hr/>	<hr/> <hr/>
Interim dividend per share	7	<b>HK5.0 cents</b>	HK4.5 cents
		<hr/> <hr/>	<hr/> <hr/>
Earnings per share	8	<b>HK7.3 cents</b>	HK5.3 cents
		<hr/> <hr/>	<hr/> <hr/>

## Consolidated Balance Sheet

As at 30th June 2004

		<b>Unaudited As at 30th June 2004 HK\$'000</b>	Audited As at 31st December 2003 HK\$'000
<b>Non-current assets</b>			
Fixed assets	9	<b>2,189,392</b>	2,142,284
Deferred tax assets	14	<b>309</b>	323
Investment securities		<b>33,596</b>	30,823
		<u><b>2,223,297</b></u>	<u>2,173,430</u>
<b>Current assets</b>			
Land and buildings for resale, at cost		<b>110,598</b>	110,159
Inventories		<b>—</b>	7,090
Debtors and prepayments	10	<b>16,974</b>	16,237
Tax recoverable		<b>15</b>	30
Bank balances and cash		<b>25,366</b>	37,448
		<u><b>152,953</b></u>	<u>170,964</u>
<b>Current liabilities</b>			
Rental and other deposits		<b>26,346</b>	26,460
Creditors and accruals	11	<b>27,310</b>	26,997
Tax payable		<b>6,484</b>	4,534
Short term bank loans – secured	12	<b>12,000</b>	55,000
Short term bank loans – unsecured		<b>—</b>	4,000
Bank overdrafts – secured	12	<b>3,838</b>	4,922
Current portion of long term bank loans – secured	13	<b>211,086</b>	223,319
		<u><b>287,064</b></u>	<u>345,232</u>
Net current liabilities		<u><b>(134,111)</b></u>	<u>(174,268)</u>

**Consolidated Balance Sheet (Continued)***As at 30th June 2004*

		<b>Unaudited As at 30th June 2004 HK\$'000</b>	Audited As at 31st December 2003 HK\$'000
Total assets less current liabilities		<b>2,089,186</b>	1,999,162
Non-current liabilities			
Long term bank loans – secured	13	<b>(229,250)</b>	(191,500)
Deferred tax liabilities	14	<b>(38,102)</b>	(37,612)
Minority interests		<b>(70,712)</b>	(70,880)
Deferred gain		<b>(1,819)</b>	(1,819)
Net assets		<b>1,749,303</b>	1,697,351
Capital and reserves			
Share capital	15	<b>287,670</b>	287,670
Reserves		<b>1,447,250</b>	1,395,298
2003 proposed final dividend		—	14,383
2004 proposed interim dividend		<b>14,383</b>	—
Shareholders' funds		<b>1,749,303</b>	1,697,351

## Condensed Consolidated Cash Flow Statement

*For the six months ended 30th June 2004*

	<b>Unaudited</b>	
	<b>For the six months ended 30th June</b>	
	<b>2004</b>	2003
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Net cash inflow from operating activities	<b>22,968</b>	32,573
Net cash inflow/(outflow) from investing activities	<b>4,161</b>	(4,277)
Net cash outflow from financing activities	<b>(38,263)</b>	(31,023)
Decrease in cash and cash equivalents	<b>(11,134)</b>	(2,727)
Cash and cash equivalents at 1st January	<b>24,238</b>	30,965
Cash and cash equivalents at 30th June	<b>13,104</b>	28,238
Analysis of the balances of cash and cash equivalents		
Bank balances and cash		
Total balances	<b>25,366</b>	39,979
Balance held in trust	<b>(8,424)</b>	(7,843)
Bank overdrafts – secured	<b>16,942</b>	32,136
	<b>(3,838)</b>	(3,898)
	<b>13,104</b>	28,238

## Consolidated Statement of Changes in Equity

For the six months ended 30th June 2004

	Unaudited					
	Share capital	Share premium	Investment properties revaluation reserves	Exchange reserve	Retained profits	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1st January 2004	287,670	129,652	768,987	7,235	503,807	1,697,351
Net surplus on revaluation of investment properties less minority interests' share	—	—	45,391	—	—	45,391
Exchange translation differences arising on translation of the accounts of subsidiary companies	—	—	—	(70)	—	(70)
Profit for the period	—	—	—	—	21,014	21,014
2003 final dividend paid	—	—	—	—	(14,383)	(14,383)
At 30th June 2004	287,670	129,652	814,378	7,165	510,438	1,749,303
Representing:						
Retained profits					496,055	
2004 proposed interim dividend					14,383	
					510,438	

## Consolidated Statement of Changes in Equity (Continued)

For the six months ended 30th June 2004

	Unaudited					
	Share capital	Share premium	Investment properties revaluation reserves	Exchange reserve	Retained profits	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1st January 2003	287,670	129,652	897,393	6,939	488,655	1,810,309
Net deficit on revaluation of investment properties less minority interests' shares	—	—	(83,426)	—	—	(83,426)
Profit for the period	—	—	—	—	15,382	15,382
2002 final dividend paid	—	—	—	—	(14,384)	(14,384)
	<u>287,670</u>	<u>129,652</u>	<u>813,967</u>	<u>6,939</u>	<u>489,653</u>	<u>1,727,881</u>
At 30th June 2003	<u>287,670</u>	<u>129,652</u>	<u>813,967</u>	<u>6,939</u>	<u>489,653</u>	<u>1,727,881</u>
Representing:						
Retained profits					476,708	
2003 proposed interim dividend					12,945	
					<u>489,653</u>	



## Notes to the Condensed Accounts

### 1. Basis of preparation and accounting policies

These unaudited condensed consolidated accounts are prepared in accordance with Statement of Standard Accounting Practice 25, "Interim Financial Reporting", issued by the Hong Kong Institute of Certified Public Accountants (formerly known as Hong Kong Society of Accountants), and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. These condensed accounts should be read in conjunction with the 2003 annual report.

The accounting policies and methods of computation used in the preparation of these condensed accounts are consistent with those used in the annual accounts for the year ended 31st December 2003.

### 2. Discontinued operation of Montgomery Golf Corporation

On 21st June 2004, the Board of Directors of Tai Sang Land Development Limited ("the Company") passed a resolution approving the discontinuance of the business of Montgomery Golf Corporation ("MGC"), a wholly-owned subsidiary company of the Company, which incorporated in the United States of America. MGC's principal activity is trading of golf related products.

The board of directors of MGC has resolved on the same day that MGC will issue a notice of winding up to its creditors and suppliers as soon as practicable and in accordance with the applicable law and regulations of the relevant authority in California, the United States of America. The expected completion date for the winding up of MGC is 2006.

The discontinuance of MGC's business is consistent with the Company's long-term strategy to focus on its core business and invest in profitable projects whenever arising in the future.

At 30th June 2004, the carrying amounts of the MGC's assets were HK\$1,205,000 and of its liabilities were HK\$46,318,000 (including an amount of HK\$42,780,000 due to a group company). During the period, MGC earned revenue of HK\$4,232,000, incurred expenses of HK\$16,064,000 and incurred an operating loss of HK\$11,832,000. During the period, MGC's net cash inflow from operating activities was HK\$33,000 and net cash outflow from investing activities was HK\$53,000.

## Notes to the Condensed Accounts (Continued)

### 3. Turnover, revenues and segment information

- (a) The Group is principally engaged in investment holding, property investment, property rental, property development, estate management and agency and sales of golf related products. Revenues recognised during the period are as follows:

	<b>For the six months ended 30th June</b>	
	<b>2004</b>	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover		
Continuing operations		
– Property rental	<b>79,397</b>	85,661
– Property related services	<b>4,662</b>	4,905
– Other investment	<b>11,306</b>	875
	<b>95,365</b>	91,441
Discontinued operation		
– Sale of golf related products	<b>4,232</b>	7,636
	<b>99,597</b>	99,077

- (b) Operating lease arrangement

The Group leases out investment properties and land and buildings for resale under lease terms generally in the range of two to ten years.

The future aggregate minimum lease receivables under non-cancellable operating leases are as follows:

	<b>As at 30th June 2004</b>	As at 31st December 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Not later than one year	<b>133,762</b>	135,366
Later than one year but not later than five years	<b>125,923</b>	130,130
Later than five years	<b>17,995</b>	19,865
	<b>277,680</b>	285,361

## Notes to the Condensed Accounts (Continued)

### 3. Turnover, revenues and segment information (Continued)

- (c) An analysis of the Group's revenues and results for the period by business and geographical segments is as follows:

Primary reporting format – business segments

	For the six months ended 30th June 2004				Group HK\$'000
	Continuing operations			Discontinued operation	
	Property rental HK\$'000	Property related services HK\$'000	Other investment HK\$'000	Sales of golf related products HK\$'000	
Turnover					
Total revenues	79,397	6,930	11,306	4,232	101,865
Inter-segment revenue	—	(2,268)	—	—	(2,268)
External revenues	79,397	4,662	11,306	4,232	99,597
Segment results	49,937	2,905	11,306	(11,832)	52,316
Unallocated costs					(17,545)
Operating profit					34,771
Finance costs					(8,426)
Profit before taxation					26,345
Taxation					(4,290)
Profit after taxation					22,055
Minority interests					(1,041)
Profit attributable to shareholders					21,014

## Notes to the Condensed Accounts (Continued)

### 3. Turnover, revenues and segment information (Continued)

Primary reporting format – business segments (Continued)

	For the six months ended 30th June 2003				
	Continuing operations			Discontinued operation	
	Property rental <i>HK\$'000</i>	Property related services <i>HK\$'000</i>	Other investment <i>HK\$'000</i>	Sales of golf related products <i>HK\$'000</i>	Group <i>HK\$'000</i>
Turnover					
Total revenues	85,661	6,568	875	7,636	100,740
Inter-segment revenue	—	(1,663)	—	—	(1,663)
External revenues	85,661	4,905	875	7,636	99,077
Segment results	57,062	2,911	875	(1,872)	58,976
Unallocated costs					(24,254)
Operating profit					34,722
Finance costs					(10,224)
Profit before taxation					24,498
Taxation					(7,743)
Profit after taxation					16,755
Minority interests					(1,373)
Profit attributable to shareholders					15,382

## Notes to the Condensed Accounts (Continued)

### 3. Turnover, revenues and segment information (Continued)

Secondary reporting format – geographical segments

	<b>For the six months ended 30th June</b>			
	<b>Turnover</b>		<b>Segment results</b>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong				
– continuing operations	<u>71,488</u>	65,244	<u>51,842</u>	<u>46,399</u>
North America				
– continuing operations	<b>23,877</b>	26,197	<b>12,306</b>	14,449
– discontinued operation	<b>4,232</b>	7,636	<b>(11,832)</b>	(1,872)
	<u>28,109</u>	<u>33,833</u>	<u>474</u>	<u>12,577</u>
	<u><b>99,597</b></u>	<u>99,077</u>	<u><b>52,316</b></u>	<u>58,976</u>

There are no sales between the geographical segments.

### 4. Operating profit

Operating profit is stated after crediting and charging the following:

	<b>For the six months</b>	
	<b>ended 30th June</b>	
	<b>2004</b>	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Crediting		
Gross rental income		
– investment properties	<b>73,433</b>	76,377
– land and buildings for resale	<b>5,964</b>	9,284
Dividend from		
– listed investments	<b>506</b>	661
– unlisted investment	<b>10,800</b>	—
Gain on disposal of other fixed assets	—	89
Interest income	<b>48</b>	213
	<u>          </u>	<u>          </u>

**Notes to the Condensed Accounts** (Continued)

**4. Operating profit** (Continued)

	<b>For the six months ended 30th June</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	<b>HK\$'000</b>
Charging		
Amortisation of goodwill		
– discontinued operation	—	808
Cost of goods sold		
– discontinued operation	<b>2,257</b>	4,518
Depreciation		
– continuing operations	<b>2,594</b>	2,617
– discontinued operation	<b>146</b>	183
Impairment of other fixed assets		
– discontinued operation	<b>939</b>	—
Loss on disposal of other fixed assets	<b>157</b>	—
Write-down of inventories		
– discontinued operation	<b>6,790</b>	—
Operating lease rental for land and buildings		
– continuing operations	<b>445</b>	445
– discontinued operation	<b>985</b>	651
Outgoings in respect of		
– investment properties	<b>15,547</b>	16,259
– land and building for resale	<b>2,113</b>	2,101
Provisions for doubtful debts		
– continuing operations	<b>9</b>	77
– discontinued operation	<b>397</b>	—
Staff costs (including directors' emoluments and retirement benefit costs)		
– continuing operations	<b>15,161</b>	16,155
– discontinued operation	<b>985</b>	4,390
	<b>985</b>	4,390

**Notes to the Condensed Accounts** (Continued)

**5. Finance costs**

	<b>For the six months ended 30th June</b>	
	<b>2004</b>	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest expense		
– bank loans and overdrafts wholly repayable within five years	<b>6,909</b>	9,061
– bank loans not wholly repayable within five years	<b>946</b>	1,127
Other incidental borrowing costs	<b>834</b>	490
	<hr/>	<hr/>
	<b>8,689</b>	10,678
Amount capitalised in properties under development	<b>(263)</b>	(454)
	<hr/>	<hr/>
	<b>8,426</b>	10,224
	<hr/> <hr/>	<hr/> <hr/>

**6. Taxation**

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit for the period. No overseas taxation has been provided as there is no estimated taxable profit of the overseas subsidiary companies for the period (2003: Nil).

The amount of taxation charged to the consolidated profit and loss account represents:

	<b>For the six months ended 30th June</b>	
	<b>2004</b>	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current taxation		
– Hong Kong profits tax	<b>3,786</b>	3,674
Deferred taxation relating to the origination and reversal of temporary differences	<b>504</b>	1,113
Deferred taxation resulting from an increase in tax rate	—	2,956
	<hr/>	<hr/>
	<b>4,290</b>	7,743
	<hr/> <hr/>	<hr/> <hr/>

## Notes to the Condensed Accounts (Continued)

### 7. Interim dividend

	<b>For the six months ended 30th June</b>	
	<b>2004</b>	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interim, proposed, of HK 5.0 cents (2003: HK4.5 cents) per ordinary share	<b>14,383</b>	12,945

At a meeting held on 10th September 2004 the directors declared an interim dividend of HK 5.0 cents per share for the year ending 31st December 2004. This proposed dividend is not reflected as a dividend payable in these condensed accounts, but will be reflected as an appropriation of retained profits for the year ending 31st December 2004.

### 8. Earnings per share

The calculation of earnings per share is based on profit attributable to shareholders of HK\$21,014,000 (2003: HK\$15,382,000) and on 287,669,676 (2003: 287,669,676) ordinary shares in issue during the period.

### 9. Fixed assets

	Leasehold land and buildings in Hong Kong			Overseas freehold land and buildings		Other fixed assets	Total
	Investment properties	Properties under development	Other properties	Investment properties	Other fixed assets		
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net book value or valuation							
At 1st January 2004	1,476,735	258,232	76,803	312,000	18,514	2,142,284	
Additions	—	369	—	2,020	2,107	4,496	
Depreciation charge	—	—	(1,151)	—	(1,589)	(2,740)	
Disposals	—	—	—	—	(289)	(289)	
Impairment charge	—	—	—	—	(939)	(939)	
Revaluation surplus	21,300	—	—	25,280	—	46,580	
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 30th June 2004	1,498,035	258,601	75,652	339,300	17,804	2,189,392	



## Notes to the Condensed Accounts (Continued)

### 10. Debtors and prepayments

Included in debtors and prepayments are trade debtors and their ageing analysis is as follows:

	As at <b>30th June</b> <b>2004</b> <i>HK\$'000</i>	As at 31st December 2003 <i>HK\$'000</i>
Current	<b>632</b>	925
31-60 days	<b>742</b>	671
61-90 days	<b>431</b>	54
Over 90 days	<b>143</b>	278
	<hr/> <b>1,948</b> <hr/>	<hr/> 1,928 <hr/>

The trade debtors represent rental and management fee receivables and receivables on sales of golf related products. Sales are made on open account terms and the Group normally does not grant credit period to trade debtors.

### 11. Creditors and accruals

Included in creditors and accruals are trade creditors and their ageing analysis is as follows:

	As at <b>30th June</b> <b>2004</b> <i>HK\$'000</i>	As at 31st December 2003 <i>HK\$'000</i>
Current	<b>1,048</b>	2,553
31-60 days	<b>350</b>	43
61-90 days	<b>399</b>	27
Over 90 days	<b>1,042</b>	980
	<hr/> <b>2,839</b> <hr/>	<hr/> 3,603 <hr/>

### 12. Short term bank loans and bank overdrafts – secured

Short term bank loans and bank overdrafts of the Group are secured by certain investment properties and rental income thereon.

**Notes to the Condensed Accounts** (Continued)

**13. Long term bank loans – secured**

	<b>As at 30th June 2004 HK\$'000</b>	As at 31st December 2003 HK\$'000
Bank loans		
– wholly repayable within five years	<b>272,336</b>	414,819
– not wholly repayable within five years	<b>168,000</b>	—
	<b>440,336</b>	414,819
Amount due within one year included under current liabilities	<b>(211,086)</b>	(223,319)
	<b>229,250</b>	191,500

The maturity of the Group's long term bank loans is as follows:

	<b>As at 30th June 2004 HK\$'000</b>	As at 31st December 2003 HK\$'000
Within one year	<b>211,086</b>	223,319
In the second year	<b>24,500</b>	32,500
In the third to fifth years inclusive	<b>104,750</b>	159,000
After the fifth year	<b>100,000</b>	—
	<b>440,336</b>	414,819

The Group's long term bank loans are secured on certain properties and rental income thereon.

## Notes to the Condensed Accounts (Continued)

### 14. Deferred taxation

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2003:17.5%).

The movement on the net deferred tax liabilities is as follows:

	<b>Six months ended</b>	Year ended
	<b>30th June</b>	31st December
	<b>2004</b>	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
At the beginning of the period/year	(37,289)	(31,528)
Charged to profit and loss account	(504)	(5,761)
	<b>(37,793)</b>	<b>(37,289)</b>
	<b>(37,793)</b>	<b>(37,289)</b>
Representing:		
	<b>As at</b>	<b>As at</b>
	<b>30th June</b>	31st December
	<b>2004</b>	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Deferred tax assets	<b>309</b>	323
Deferred tax liabilities	(38,102)	(37,612)
	<b>(37,793)</b>	<b>(37,289)</b>
	<b>(37,793)</b>	<b>(37,289)</b>

### 15. Share capital

	<b>As at</b>	As at
	<b>30th June</b>	31st December
	<b>2004</b>	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Authorised:		
400,000,000 ordinary shares of HK\$1 each	<b>400,000</b>	400,000
	<b>400,000</b>	<b>400,000</b>
Issued and fully paid:		
287,669,676 ordinary shares of HK\$1 each	<b>287,670</b>	287,670
	<b>287,670</b>	<b>287,670</b>
	<b>287,670</b>	<b>287,670</b>

**Notes to the Condensed Accounts** *(Continued)*

**16. Commitments**

(a) **Capital commitments for fixed assets**

	<b>As at 30th June 2004 <i>HK\$'000</i></b>	<b>As at 31st December 2003 <i>HK\$'000</i></b>
Contracted but not provided for		
– properties under development	<b>4,303</b>	4,437
– other fixed assets	<b>—</b>	222
	<b>4,303</b>	4,659

(b) **Commitments under operating leases**

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	<b>As at 30th June 2004 <i>HK\$'000</i></b>	<b>As at 31st December 2003 <i>HK\$'000</i></b>
Land and buildings		
Not later than one year	<b>955</b>	1,897
Later than one year but not later than five years	<b>47</b>	2,416
	<b>1,002</b>	4,313

## **Notes to the Condensed Accounts** *(Continued)*

### **17. Contingent liability**

At 30th June 2004, there was a claim against MGC by a service provider for lost of income of approximately HK\$3,120,000 (US\$400,000) under an outsourcing services agreement entered into between the two parties. After taking into consideration of legal counsel's evaluation of the case, the directors are of the opinion that the likelihood of loss to MGC is remote and not probable. Hence, no provision for such claim has been made in these condensed accounts.

### **Interim Dividend and Record Date**

The Board of Directors has resolved to declare an interim dividend of HK 5.0 cents (2003: HK4.5 cents) per share, payable on 8th October 2004 to shareholders whose names standing on the register of members at the close of business on 30th September 2004 (the "Record Date"). In order to qualify for the interim dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Registrars, Computershare Hong Kong Investor Services Limited at 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:00 p.m. on Thursday, 30th September 2004.

## Management Discussion and Analysis

### a) Business review and prospects

For the first half of 2004, the Group achieved a profit before taxation of HK\$26.3 million as compared to HK\$24.5 million for the same period last year. The Group received a dividend of HK\$10.8 million from its unlisted investment on Yangtze Ventures Limited during the period, and therefore maintained a stable result as compared to the same period last year, despite the operating loss together with the provision on cessation of the golf business amounting to HK\$11.8 million for the period.

In Hong Kong, the rental income decreased by 7% to HK\$55.5 million mainly due to the sluggish warehouse market. With the impact of the loss of rent from Tai Sang Container and Godown Centre located at Tsing Yi Island (“Tsing Yi Godown”) as hereinafter explained, the rental income for the second half of 2004 will continue to subside. The situation is however alleviated by improvement in rental income in the retail and residential sectors.

As announced on 13th July 2004, certain parts of the exterior balconies of Tsing Yi Godown collapsed and a closure order of the godown was issued. Notices on the expiry of the said closure order have been received in mid August and the operation of the godown is now back to normal. The loss of rent was estimated to be in the region of HK\$4 million. The cost incurred for the emergency repair works including fee for professional architect and engineer was in the region of HK\$4.5 million. Further improvement and structural modification works will be carried out subject to the approval by the Building Authority.

The property occupancy rates of Montgomery Plaza in the USA, dropped further to 86% and the average office rent per square feet decreased 6.5% from US\$40.03 (as of year end 2003) to US\$37.42 (as of mid-year 2004). The rental income from Montgomery Plaza therefore decreased by 8.2% to HK\$23.9 million as compared to the same period last year. The lease renewal of Montgomery Plaza will likely be at a competitive rate. The rental income of Montgomery Plaza for the second half of 2004 will therefore drop further.

## Management Discussion and Analysis (Continued)

### b) The Group's liquidity and financial resources

During the relevant period, the Group's total bank borrowings decreased by HK\$22.6 million to HK\$456 million. The shareholders' funds increased by HK\$52 million to HK\$1,749 million and long term bank loans outstanding as at 30th June 2004 amounted HK\$440 million (at 31st December 2003: HK\$415 million). The debt to equity ratio was 26% (at 31st December 2003: 28%). The banking facilities available are sufficient for the Group's working capital. The Group's financial flexibility remains healthy.

### c) Capital structure of the Group

The capital structure of the Group had not changed materially from the last annual report. The Group borrowings are primarily denominated in Hong Kong and United States dollars. The Group therefore has no significant exposure to foreign exchange fluctuation.

The maturity of the Group's long term bank loans is as follows:

	<b>As at 30th June 2004 HK\$'000</b>	As at 31st December 2003 HK\$'000
Within one year	<b>211,086</b>	223,319
In the second year	<b>24,500</b>	32,500
In the third to fifth years inclusive	<b>104,750</b>	159,000
After the fifth year	<b>100,000</b>	—
	<hr/> <b>440,336</b> <hr/>	<hr/> 414,819 <hr/>

The Group's total bank borrowings are secured by certain properties with an aggregate net book value of HK\$1,498 million (at 31st December 2003: HK\$1,452 million) and rental income thereon.

## Management Discussion and Analysis (Continued)

d) Significant investment held and their performance and future prospects

The construction main contract for the development of the prime residential property at No. 1 Barker Road, The Peak, Hong Kong, has been awarded in April this year. The development will be completed in Year 2005.

The Group holds 12% equity interest in The Yangtze Ventures Limited and The Yangtze Ventures II Limited (collectively “Yangtze”). Yangtze has made seven direct investments so far, and in April 2004, one of its investments, Solomon Systech (International) Limited (“SSL”) (Stock Code: 2878) was successfully listed on the Main Board of the Hong Kong Stock Exchange. Following the disposal of one-third of its shareholdings in SSL during the initial public offering, Yangtze declared and paid a dividend to the Group of HK\$10.8 million in May 2004. More fruitful return is expected in the next half year and the coming year as one of the investments held by Yangtze has a stake in China Infrastructure Group which operates two container ports in Zhapu and Wuhan in China. Disposal of the container port in Zhapu and listing of the container port in Wuhan are now under process. Another Yangtze’s investment which engaged in the development and manufacturing of nutrition products for enhancing productivity and immunity of livestock, will also be listed in a year’s time.

e) Details of number and remuneration of employees

Including the directors of the Group as at 30th June 2004, the Group employed a total of 170 full-time employees. In addition to salary payment, other benefits include discretionary bonus, insurance, medical schemes and mandatory provident fund schemes.

f) Details of future plans for material investments

In continuous pursuit of a conservative and prudent business policy, the Group will consider to invest in profitable projects wherever arising in the future.



## Directors' and Chief Executive's Interests in Shares

At 30th June 2004, the interests and short positions of each director and chief executive in the shares or underlying shares of the Company, as recorded in the register maintained by the Company under Section 352 of the Securities and Futures Ordinance ("SFO") or as notified to the Company were as follows:

### Ordinary shares of HK\$1 each

	Capacity			Total	Percentage
	Beneficial interests (personal)	Corporate interests	Joint interests		
	<i>(notes (a) &amp; (b))</i>		<i>(note (c))</i>		
Directors:					
William Ma Ching Wai	3,644,013	158,246,458	38,115	161,928,586	56.2898
Alfred Ma Ching Kuen	7,200	—	—	7,200	0.0025
Amy Ma Ching Sau	20,570	—	—	20,570	0.0072
Katy Ma Ching Man	97,767	—	—	97,767	0.0340
Ruth Ma Ching Keung	2,772	—	—	2,772	0.0010
Patrick Ma Ching Hang	261	8,732,013	38,115	8,770,389	3.0488
Ida Ma Ching Kwai	19,712	—	—	19,712	0.0069
Philip Ma Ching Yeung	3,157,522	—	—	3,157,522	1.0976
Edward Cheung Wing Yui	—	—	—	—	—
Kevin Chau Kwok Fun	—	—	—	—	—
Chief Executive:					
Ted Mok Tat Hung	—	—	—	—	—

#### Notes:

- (a) Kam Chan & Company, Limited and its associates, and Holston Investment Limited directly or indirectly owned 137,108,221 and 21,138,237 ordinary shares in the Company respectively. Mr. William Ma Ching Wai is a substantial shareholder of these companies.
- (b) Tai Sang International Limited directly owned 8,732,013 ordinary shares in the Company. Mr. Patrick Ma Ching Hang is a substantial shareholder of this company.
- (c) Mr. William Ma Ching Wai and Mr. Patrick Ma Ching Hang jointly held 38,115 ordinary shares in the Company.
- (d) Mr. Alfred Ma Ching Kuen beneficially held 9,886 shares (or 0.1765%) in the issued share capital of a subsidiary company, Tai Sang Cold Storage & Godown Company Limited.

## Directors' and Chief Executive's Interests in Shares *(Continued)*

- (e) Mr. Patrick Ma Ching Hang and Ms. Katy Ma Ching Man jointly and beneficially held 47 shares (or 0.94%) and Mr. Alfred Ma Ching Kuen and Ms. Ida Ma Ching Kwai each beneficially held 23 shares (or 0.46%) in the issued share capital of a subsidiary company, Kam Hang Company Limited.
- (f) In addition, certain directors of the Company held non-beneficial interests in subsidiary companies in trust to the absolute benefit of the Company, the details of which are available for inspection at the Company's registered office.
- (g) Other than as stated above, no directors or chief executive of the Company had any interest or short position in the shares or underlying shares of the Company or any of its associated corporation.
- (h) At no time during the year was the Company or any of its subsidiary companies a party to any arrangements to enable the directors and the chief executive of the Company (including their spouse and children under 18 year of age) to acquire benefits by the acquisition of shares, or underlying shares of, the Company or its associated corporations.

## Substantial Shareholders

At 30th June 2004, the interest and short position of substantial shareholders in the shares or underlying shares of the Company, as recorded in the register maintained by the Company under Section 336 of the SFO or as notified to the Company were as follows:

### Ordinary shares of HK\$1 each

	Capacity		Total	Percentage
	Beneficial owner	Corporate interests		
		<i>(note)</i>		
Substantial Shareholders:				
Kam Chan & Company, Limited	112,248,758	24,859,463	137,108,221	47.6617
Holston Investment Limited	21,138,237	—	21,138,237	7.3481
Gold Fortune Investment Co. Ltd	15,488,636	—	15,488,636	5.3842

*Note:* Gold Fortune Investment Co. Ltd, Suremark Limited (beneficially interested in 3,964,405 shares in the Company) and Montgomery Securities Limited (beneficially interested in 5,406,422 shares in the Company) are the wholly-owned subsidiary companies of Kam Chan & Company, Limited. The aggregate shareholdings of these three companies are deemed to be the corporate interest of Kam Chan & Company, Limited in the ordinary shares in the Company.

### **Purchase, Sale or Redemption of Shares**

The Company has not redeemed any of its shares during the period. Neither the Company nor any of its subsidiary companies has purchased or sold any of the Company's issued shares during the period.

### **Compliance with the Code of Best Practice**

Throughout the period, the Company was in compliance with the Code of Best Practice as set out in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited 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 Annual General Meeting of the Company in accordance with the Company's Articles of Association.

### **Audit Committee**

Mr. Kevin Chau Kwok Fun and Mr. Tan Soo Kiu, both of whom are independent non-executive directors and Mr. Edward Cheung Wing Yui, non-executive director, have been appointed as committee members of the Audit Committee. The Audit Committee has reviewed the unaudited interim financial report of the Company for the six months ended 30th June 2004.

On behalf of the Board

**William Ma Ching Wai**  
*Chairman*

Hong Kong, 10th September 2004