



The Kwong Sang Hong International Limited

(Incorporated in Bermuda with limited liability)

**Interim Report
For The Six Months
Ended 31st May, 2003**

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INDEPENDENT REVIEW REPORT

TO THE BOARD OF DIRECTORS OF THE KWONG SANG HONG INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

Introduction

We have been instructed by The Kwong Sang Hong International Limited to review the interim financial report set out on pages 2 to 13.

Respective responsibilities of Directors and auditors

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") require the preparation of an interim financial report to be in compliance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the Directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Review work performed

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 31st May, 2003.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong, 18th August, 2003

RESULTS

The Board of Directors of The Kwong Sang Hong International Limited (the "Company") would like to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 31st May, 2003 together with the comparative figures for the corresponding period last year as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT For the six months ended 31st May, 2003

| | Six months ended | |
|-----------------------------------|---------------------|--------------|
| | 31st May, | |
| | 2003 | 2002 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| | | (Restated) |
| Turnover (Note 2) | 122,294 | 24,940 |
| Cost of sales | (124,130) | (15,622) |
| Gross (loss) profit | (1,836) | 9,318 |
| Other revenue | 3,079 | 5,106 |
| Selling and marketing expenses | (567) | (1,423) |
| Administrative expenses | (4,947) | (4,723) |
| Other operating expenses (Note 5) | (5,593) | (6,716) |
| (Loss) profit from operations | (9,864) | 1,562 |
| Finance costs (Note 6) | (4,395) | (805) |
| Investment (loss) income (Note 7) | (1) | 3,923 |
| Other losses (Note 8) | (87,788) | (3,869) |
| Share of results of associates | 1,134 | (1,572) |
| Loss before taxation | (100,914) | (761) |
| Taxation (Note 9) | 1,340 | (3,582) |
| Loss after taxation | (99,574) | (4,343) |
| Minority interests | 3,900 | 718 |
| Loss transfer to reserves | (95,674) | (3,625) |
| Loss per share (Note 10) | | |
| Basic | (9.97) cents | (0.38) cents |
| Interim dividend per share | - | - |

CONDENSED CONSOLIDATED BALANCE SHEET**At 31st May, 2003**

| | 31st May, 2003 | 30th November, 2002 |
|--|---------------------------|-------------------------|
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Audited) (Restated) |
| Non-current assets | | |
| Investment properties | 454,800 | 477,300 |
| Plant and equipment | 1,183 | 383 |
| Properties held for development | 149,135 | 149,000 |
| Negative goodwill | (2,391) | (2,459) |
| Interests in associates | 101,327 | 162,817 |
| Investments in securities | 12,649 | 13,455 |
| Amounts due from investee companies | 105,692 | 105,692 |
| Amounts due from minority shareholders | 698 | 698 |
| Loans receivable – due after one year | 28,381 | 18,549 |
| Deferred tax assets | 3,546 | 1,636 |
| | 855,020 | 927,071 |
| Current assets | | |
| Properties held for development | 970,654 | 898,843 |
| Properties held for sale | 61,006 | 62,943 |
| Inventories | 1,235 | 1,218 |
| Loans receivable – due within one year | 8,396 | 9,170 |
| Accounts receivable, deposits and prepayments (<i>Note 11</i>) | 13,557 | 8,018 |
| Cash in stakeholders' accounts held by solicitors | 15,898 | 414 |
| Bank balances and cash | 23,621 | 14,357 |
| | 1,094,367 | 994,963 |
| Current liabilities | | |
| Deposits received on sales of properties | 4,898 | 6,863 |
| Accounts payable, rental deposits received and accruals (<i>Note 12</i>) | 62,434 | 47,429 |
| Tax liabilities | 2,863 | 4,708 |
| Borrowings – due within one year | 51,136 | 97,192 |
| Provisions (<i>Note 16</i>) | 13,354 | 13,354 |
| | 134,685 | 169,546 |
| Net current assets | 959,682 | 825,417 |
| | 1,814,702 | 1,752,488 |
| Capital and reserves | | |
| Share capital (<i>Note 13</i>) | 383,960 | 383,960 |
| Reserves | 877,842 | 973,603 |
| | 1,261,802 | 1,357,563 |
| Minority interests | (9,421) | (5,521) |
| Non-current liabilities | | |
| Loan from ultimate holding company | 170,700 | 30,395 |
| Amounts due to minority shareholders | 146,772 | 147,999 |
| Amounts due to associates | 1,344 | 280 |
| Borrowings – due after one year | 219,662 | 200,329 |
| Deferred tax liabilities | 23,843 | 21,443 |
| | 562,321 | 400,446 |
| | 1,814,702 | 1,752,488 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31st May, 2003

| | Share capital <i>HK\$'000</i> | Share premium <i>HK\$'000</i> | Contributed surplus <i>HK\$'000</i> | Exchange reserve <i>HK\$'000</i> | Accumulated profits (losses) <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|---|-------------------------------------|-------------------------------------|---|--|---|--------------------------|
| At 1st December, 2001 | | | | | | |
| - as originally stated | 383,960 | 681,650 | 437,153 | 2,631 | 137,931 | 1,643,325 |
| - prior year adjustment | - | - | - | - | (28,494) | (28,494) |
| - as restated | 383,960 | 681,650 | 437,153 | 2,631 | 109,437 | 1,614,831 |
| Exchange adjustment, net of minority interests | - | - | - | (52) | - | (52) |
| Share of associates' reserves movement during the period | - | - | - | (589) | - | (589) |
| Net loss not recognised in the income statement | - | - | - | (641) | - | (641) |
| Loss for the period (restated) | - | - | - | - | (3,625) | (3,625) |
| At 31st May, 2002, | | | | | | |
| - as restated | 383,960 | 681,650 | 437,153 | 1,990 | 105,812 | 1,610,565 |
| Exchange adjustment, net of minority interests | - | - | - | (41) | - | (41) |
| Share of associates' reserves movement during the period | - | - | - | (279) | - | (279) |
| Net loss not recognised in the income statement | - | - | - | (320) | - | (320) |
| Loss for the period (restated) | - | - | - | - | (252,682) | (252,682) |
| At 30th November, 2002, | | | | | | |
| - as originally stated | | | | | (127,063) | 1,377,370 |
| - prior year adjustment | | | | | (19,807) | (19,807) |
| - as restated | 383,960 | 681,650 | 437,153 | 1,670 | (146,870) | 1,357,563 |
| Exchange adjustment, net of minority interests | - | - | - | (14) | - | (14) |
| Share of associates' reserves movement during the period | - | - | - | (73) | - | (73) |
| Net loss not recognised in the income statement | - | - | - | (87) | - | (87) |
| Loss for the period | - | - | - | - | (95,674) | (95,674) |
| At 31st May, 2003 | 383,960 | 681,650 | 437,153 | 1,583 | (242,544) | 1,261,802 |

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
For the six months ended 31st May, 2003

| | Six months ended | |
|--|-------------------------|---------------|
| | 31st May, | |
| | 2003 | 2002 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| Net cash from operating activities | 57,606 | 4,242 |
| Net cash used in investing activities | (155,287) | (2,441) |
| Net cash from (used in) financing activities | 117,480 | (44,841) |
| Net increase (decrease) in cash and cash equivalents | 19,799 | (43,040) |
| Cash and cash equivalents at beginning of the period | (38,806) | 83,816 |
| Effect of foreign exchange rate changes | (14) | (58) |
| Cash and cash equivalents at end of the period | <u>(19,021)</u> | <u>40,718</u> |
| Analysis of cash and cash equivalents | | |
| Bank balances and cash | 23,621 | 40,718 |
| Bank overdrafts | (42,642) | - |
| | <u>(19,021)</u> | <u>40,718</u> |

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 31st May, 2003

1. Basis of presentation and comparative figures

The condensed financial statements have been prepared in accordance with SSAP 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants and the applicable disclosure requirements of Appendix 16 to the Listing Rules.

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties and investments in securities. The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 30th November, 2002, except as described below.

During the period, the Group has adopted SSAP 12 (Revised) "Income taxes" in advance of its effective date. The principal effect of the implementation of the revised standard is in relation to deferred tax. It requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the condensed financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. This change in accounting policy has resulted in an increase in accumulated losses of HK\$19,807,000 as at 1st December, 2002 (a decrease in accumulated profits of HK\$28,494,000 as at 1st December, 2001).

2. Turnover

Turnover represents the aggregate of the amounts received and receivable from sales of properties, property rental income and cosmetics goods sold to outside customers less returns.

3. Segment information

Business segments

| | Property development | | Property leasing | | Cosmetics | | Other operations | | Consolidated | |
|--------------------------------|----------------------|----------------|------------------|---------------|------------------|----------------|------------------|--------------|------------------|----------------|
| | Six months ended | | Six months ended | | Six months ended | | Six months ended | | Six months ended | |
| | 31st May, | | 31st May, | | 31st May, | | 31st May, | | 31st May, | |
| | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 |
| HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | |
| | | | | | | | | | | (Restated) |
| Segment revenue | <u>105,963</u> | <u>9,183</u> | <u>13,929</u> | <u>12,629</u> | <u>2,402</u> | <u>3,128</u> | <u>-</u> | <u>-</u> | <u>122,294</u> | <u>24,940</u> |
| Segment result | <u>(12,235)</u> | <u>(2,578)</u> | <u>8,764</u> | <u>9,746</u> | <u>994</u> | <u>727</u> | <u>-</u> | <u>-</u> | <u>(2,477)</u> | <u>7,895</u> |
| Unallocated corporate expenses | | | | | | | | | <u>(7,387)</u> | <u>(6,333)</u> |
| (Loss) profit from operations | | | | | | | | | <u>(9,864)</u> | <u>1,562</u> |
| Finance costs | | | | | | | | | <u>(4,395)</u> | <u>(805)</u> |
| Investment (loss) income | | | | | | | | | <u>(1)</u> | <u>3,923</u> |
| Other losses | <u>(87,237)</u> | <u>(3,868)</u> | <u>(551)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(1)</u> | <u>(87,788)</u> | <u>(3,869)</u> |
| Share of results of associates | <u>(359)</u> | <u>(23)</u> | <u>930</u> | <u>-</u> | <u>(27)</u> | <u>(1,073)</u> | <u>590</u> | <u>(476)</u> | <u>1,134</u> | <u>(1,572)</u> |
| Loss before taxation | | | | | | | | | <u>(100,914)</u> | <u>(761)</u> |
| Taxation | | | | | | | | | <u>1,340</u> | <u>(3,582)</u> |
| Loss after taxation | | | | | | | | | <u>(99,574)</u> | <u>(4,343)</u> |

Geographical segments

| | Revenue by geographical markets | | Contribution to (loss) profit from operations | |
|---|---------------------------------|---------------|---|----------------|
| | Six months ended | | Six months ended | |
| | 31st May, | | 31st May, | |
| | 2003 | 2002 | 2003 | 2002 |
| HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | |
| Hong Kong | <u>111,902</u> | <u>16,514</u> | <u>(9,031)</u> | <u>1,008</u> |
| Elsewhere in the People's Republic of China ("PRC") | <u>10,392</u> | <u>8,426</u> | <u>6,554</u> | <u>6,887</u> |
| | <u>122,294</u> | <u>24,940</u> | <u>(2,477)</u> | <u>7,895</u> |
| Unallocated corporate expenses | | | <u>(7,387)</u> | <u>(6,333)</u> |
| (Loss) profit from operations | | | <u>(9,864)</u> | <u>1,562</u> |

4. Staff expenses and depreciation

| | Six months ended 31st May, | |
|----------------------------------|-------------------------------|----------------|
| | 2003 | 2002 |
| | HK\$'000 | HK\$'000 |
| Staff expenses | | |
| – Selling and marketing expenses | (34) | (130) |
| – Administrative expenses | (1,976) | (2,434) |
| – Directors' emoluments | (471) | (402) |
| | <u>(2,481)</u> | <u>(2,966)</u> |
| Depreciation | | |
| – Selling and marketing expenses | – | (48) |
| – Administrative expenses | (63) | (22) |
| | <u>(63)</u> | <u>(70)</u> |

5. Other operating expenses

| | Six months ended 31st May, | |
|---|-------------------------------|----------------|
| | 2003 | 2002 |
| | HK\$'000 | HK\$'000 |
| Allowances on receivables | (1,622) | (4,870) |
| Legal expenses in respect of lawsuits | (3,898) | (1,846) |
| Loss on disposal of investment properties | (73) | – |
| | <u>(5,593)</u> | <u>(6,716)</u> |

6. Finance costs

| | Six months ended 31st May, | |
|---|-------------------------------|--------------|
| | 2003 | 2002 |
| | HK\$'000 | HK\$'000 |
| Interest on: | | |
| Bank loans, overdrafts and other borrowings | | |
| – wholly repayable within five years | (6,460) | (1,233) |
| Less: amount capitalised | 2,065 | 428 |
| | <u>(4,395)</u> | <u>(805)</u> |

7. Investment (loss) income

| | Six months ended 31st May, | |
|--|-------------------------------|--------------|
| | 2003 | 2002 |
| | HK\$'000 | HK\$'000 |
| Unrealised holding (loss) gain on other investments | (806) | 1,408 |
| Interest income | 805 | 1,509 |
| Dividend income – unlisted investments | – | 1,006 |
| | <u>(1)</u> | <u>3,923</u> |

8. Other losses

| | Six months ended 31st May, | |
|---|-------------------------------|----------------|
| | 2003 | 2002 |
| | HK\$'000 | HK\$'000 |
| Impairment loss on interests in associates – amounts due from associates | <u>(87,788)</u> | <u>(3,869)</u> |

The impairment loss recognised during the period was mainly due to a loss recognised on write-down of a redevelopment project held by an associate.

9. Taxation

| | Six months ended 31st May, | |
|--------------------------------|-------------------------------|------------------------|
| | 2003 | 2002 |
| | HK\$'000 | HK\$'000 (Restated) |
| The credit (charge) comprises: | | |
| Deferred tax | <u>(490)</u> | <u>(2,696)</u> |
| Current tax | | |
| – Company and subsidiaries | | |
| – Hong Kong | | |
| current period | (578) | (796) |
| overprovision in prior years | 2,542 | 5 |
| | <u>1,964</u> | <u>(791)</u> |
| – Other than Hong Kong | <u>(93)</u> | <u>–</u> |
| | <u>1,871</u> | <u>(791)</u> |
| Associates | | |
| – Hong Kong | (103) | (80) |
| – Other than Hong Kong | 62 | (15) |
| | <u>(41)</u> | <u>(95)</u> |
| | <u>1,340</u> | <u>(3,582)</u> |

9. Taxation – continued

Hong Kong Profits Tax has been provided for at the rate of 17.5% (six months ended 31st May, 2002: 16%) on the estimated assessable profits for the period. Taxation on profits of subsidiaries and associates arising outside Hong Kong has been provided for in accordance with the relevant local jurisdictions.

Deferred tax has been provided for at the rate that is expected to apply in the period when the liability is settled or the asset is realised.

10. Loss per share

The calculation of the basic loss per share is based on the loss transfer to reserves for the period of HK\$95,674,000 (six months ended 31st May, 2002 (restated): HK\$3,625,000) and on 959,899,416 (at 31st May, 2002: 959,899,416) ordinary shares in issue throughout the period.

11. Accounts receivable, deposits and prepayments

The Group operates a controlled credit policy and allows an average credit period of 30 - 90 days to its trade customers who satisfy the credit evaluation. Included in accounts receivable, deposits and prepayments are trade receivables of HK\$7,747,000 (at 30th November, 2002: HK\$1,137,000).

The aged analysis of the trade receivables is as follows:

| | 31st May, 2003 | 30th November, 2002 |
|--------------|---------------------------|------------------------|
| | HK\$'000 | HK\$'000 |
| 0 – 30 days | 7,302 | 905 |
| 31 – 90 days | 236 | 162 |
| Over 90 days | 209 | 70 |
| | <u>7,747</u> | <u>1,137</u> |

12. Accounts payable, rental deposits received and accruals

Included in accounts payable, rental deposits received and accruals are trade payables of HK\$211,000 (at 30th November, 2002: HK\$509,000).

The aged analysis of the trade payables is as follows:

| | 31st May, 2003 | 30th November, 2002 |
|-------------|---------------------------|------------------------|
| | HK\$'000 | HK\$'000 |
| 0 – 90 days | <u>211</u> | <u>509</u> |

13. Share capital

| | Number of shares | Share capital HK\$'000 |
|---|-----------------------------|---------------------------------------|
| Ordinary shares of HK\$0.40 each | | |
| Authorised: | | |
| At 1st December, 2001, 30th November, 2002 and 31st May, 2003 | <u>3,000,000,000</u> | <u>1,200,000</u> |
| Issued and fully paid: | | |
| At 1st December, 2001, 30th November, 2002 and 31st May, 2003 | <u>959,899,416</u> | <u>383,960</u> |

14. Commitments and contingent liabilities

At the balance sheet date, the Group had the following commitments and contingent liabilities not provided for in the financial statements:

| | 31st May, 2003 HK\$'000 | 30th November, 2002 HK\$'000 |
|---|--|------------------------------------|
| (a) Commitments contracted but not provided for in respect of construction costs and architect's fee | <u>48,687</u> | <u>85,613</u> |
| (b) Guarantees given to banks and financial institutions for general facilities made available to an associate and an investee company | <u>60,550</u> | <u>62,305</u> |

15. Related party transactions

During the period, the following transactions were subsisting or entered into by the Group with related parties:

| | Six months ended 31st May, 2003 HK\$'000 | 2002 HK\$'000 |
|--|---|------------------|
| Interest paid/payable to ultimate holding company | <u>2,565</u> | – |
| Interest received/receivable from associates | <u>28</u> | <u>31</u> |

15. Related party transactions – continued

Chinese Estates, Limited (“CEL”), a wholly-owned subsidiary of Chinese Estates Holdings Limited (“Chinese Estates”), performed certain administrative services for the Group, for which a management fee of HK\$24,000 (six months ended 31st May, 2002: HK\$24,000) was charged, being an appropriate allocation of costs incurred by relevant administrative departments.

Shanghai Golden Sea Building Limited, a subsidiary of the Company, leased to Evergo Holdings (China) Company Limited, a wholly-owned subsidiary of Chinese Estates, B1 Unit 03 of Peregrine Plaza, Shanghai, the PRC by a tenancy agreement for a period of two years commencing from 1st July, 2001 to 30th June, 2003 at a monthly rental of US\$702.

The House of Kwong Sang Hong Limited (“HKSH”), a wholly-owned subsidiary of the Company, entered into a licence agreement with Hillsborough Holdings Limited (“Hillsborough”), a wholly-owned subsidiary of Chinese Estates, pursuant to which Hillsborough agreed to lease to HKSH Shop No.3 on the Mezzanine Floor of Causeway Place, Hong Kong Mansion, Causeway Bay, Hong Kong commencing from 27th September, 2002 at 35% of gross revenue of the shop per month. The licence is of monthly basis and will be renewed automatically from month to month, until and unless such licence to be terminated by either party with one month's prior notice at any time.

Polyco Development Limited, a 80% owned subsidiary of the Company, leased to CEL Workshops Nos. 01-08 on the 18th to 20th Floors of Kwong Kin Trade Centre, Tuen Mun, New Territories, Hong Kong by a tenancy agreement for a period of two years commencing from 1st June, 2002 to 31st May, 2004 at a monthly rental and management fee of HK\$27,684 and HK\$32,094 respectively.

The Kwong Sang Hong Limited, a wholly-owned subsidiary of the Company, sub-leased from CEL Room 102 on the 1st Floor of MassMutual Tower, Wanchai, Hong Kong by a sub-lease agreement for a period of two years commencing from 1st March, 2002 to 29th February, 2004 at a monthly rental of HK\$16,000.

16. Litigation

A legal action against the Group was taken by a Chinese joint venture partner. On 17th May, 1996, Hubei Provincial High Court ("Hubei Court") imposed a judgment against the Group in favour of the Chinese joint venture partner in relation to the former joint development of Shuohu Court in Wuhan (the "Development"). The judgment, which the Group has appealed against, in effect nullified the joint development agreement for the Development. On 28th May, 1998, the Supreme People's Court of the PRC (the "Supreme Court") dismissed the appeal of the Group but, inter alia, reduced the amount of the judgment sum of the Hubei Court issued on 17th May, 1996. Based on the judgment, the judgment sum of HK\$13.4 million which includes unpaid contract sums, damages, legal costs and interest charges, would have to be paid. However, the Group disputes the quantification and has lodged an appeal for re-trial. The appeal was accepted and hearings were twice conducted on 23rd May and 14th June, 2002. At present, the Group is waiting for the judgment to be delivered by the Supreme Court on re-trial.

Based on legal advice, a total provision of HK\$64.8 million was made in 1998 of which HK\$51.4 million was made against the investment cost paid. The remaining HK\$13.4 million was provided against damages, legal costs and interest charges up to 1998. The Directors believe that no further provision is required at this stage.

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the period (2002: Nil).

BUSINESS REVIEW

Turnover for the six months ended 31st May, 2003, which was derived from cosmetic trading, property rental and property trading, amounted to HK\$122.3 million, representing a 391.2% increase as compared with the same period last year. The increase was mainly attributable to the property trading, which included the sales of Greenville Residence in Yuen Long with over 90% units sold and several units in Tin Wan Court in Aberdeen. A total sales proceeds of HK\$104.9 million was recorded. Gross rental income for the six months ended 31st May, 2003 amounted to HK\$15.0 million, comprising rental from investment properties and properties held for sale of HK\$13.9 million and HK\$1.1 million respectively. The rental revenue was generated mainly from Hing Wai Centre in Aberdeen and Peregrine Plaza in Shanghai, contributing over 80% of the total gross rental income. In times of the Severe Acute Respiratory Syndrome (SARS) outbreak, the sale of cosmetic trading decreased by 22.6% to HK\$2.4 million as compared with HK\$3.1 million for the same period last year.

Despite an increase in turnover, the Group recorded HK\$9.9 million loss from operations as compared to HK\$1.6 million profit from operations for the same period last year. This was mainly attributable to the loss on sales of properties amounted to HK\$12.3 million during the current period. Other revenue for the six months ended 31st May, 2003 decreased by HK\$2.0 million to HK\$3.1 million.

The Group recorded interest income of HK\$0.8 million and a loss from investments in securities of HK\$0.8 million for the six months ended 31st May, 2003. For the same period last year, interest income of HK\$1.5 million and profit from investments in securities of HK\$1.4 million, together with dividend of HK\$1.0 million were recorded.

The Group recognised impairment loss on amounts due from associates of HK\$87.8 million for the six months ended 31st May, 2003 as compared to HK\$3.9 million for the same period last year. The impairment loss was mainly due to a loss recognised on write-down of a redevelopment project at Tai Yuen Street/Wanchai Road held by an associate.

NET ASSET VALUE

The Group's total net assets as at 31st May, 2003 amounted to HK\$1,261.8 million, a decrease of HK\$95.8 million or 7.1% as compared with the value of HK\$1,357.6 million (restated) as at 30th November, 2002. Total net asset value per share was HK\$1.31 (30th November, 2002 (restated): HK\$1.41). The decrease mainly reflected the loss of HK\$95.7 million sustained for the six months ended 31st May, 2003.

DEBT AND GEARING

As at 31st May, 2003, the Group's bank and other borrowings increased to HK\$441.5 million (30th November, 2002: HK\$327.9 million), of which HK\$51.1 million was payable within one year and HK\$390.4 million was payable after one year. HK\$269.7 million of the borrowings was secured while the remaining HK\$171.8 million was unsecured. Bank balances and cash amounted to HK\$23.6 million (30th November, 2002: HK\$14.4 million), resulting in net borrowings of HK\$417.9 million (30th November, 2002: HK\$313.5 million).

Total debt to equity ratio was 35% (30th November, 2002 (restated): 24.2%), which is expressed as a percentage of bank and other borrowings over the total net assets of HK\$1,261.8 million (30th November, 2002 (restated): HK\$1,357.6 million). The net debt to equity ratio was 33.1% (30th November, 2002 (restated): 23.1%), being a percentage of net borrowings over the total net assets. The increase in debt was due to the increase in borrowings for financing of development projects.

As at 31st May, 2003, the Group's borrowings were wholly denominated in Hong Kong Dollars and carried at interest rates calculated with reference to prime rate and Hong Kong Interbank Offered Rate. The Group did not have any financial instruments used for hedging purpose.

Nearly all of the Group's income were denominated in Hong Kong or United States Dollars, RMB net income was minimal. No hedging for non-Hong Kong Dollars asset or investment was made.

PLEDGE OF ASSETS

As at 31st May, 2003, the Group's investment properties and properties held for development with an aggregate book value of HK\$963.4 million (30th November, 2002: HK\$1,018.6 million) were pledged to secure general banking facilities of the Group. The contingent liabilities of the Group in respect of guarantees given to banks and financial institutions for general facilities made available to an associate and an investee company as at 31st May, 2003 were HK\$60.6 million (30th November, 2002: HK\$62.3 million).

FINANCIAL AND INTEREST INCOME/EXPENSES

Interest income for the six months ended 31st May, 2003 decreased by 46.7% to HK\$0.8 million over HK\$1.5 million for the same period last year. This was mainly due to the decrease in bank interest income earned. Interest capitalised for the six months ended 31st May, 2003 was HK\$2.1 million as compared to HK\$0.4 million for the same period last year. Interest expenses charged to the income statement increased to HK\$4.4 million from HK\$0.8 million for the same period last year. The Group accordingly recorded a net interest expense in the amount of HK\$3.6 million for the six months ended 31st May, 2003 as compared to a net interest income of HK\$0.7 million for the same period last year.

REMUNERATION POLICIES AND SHARE OPTION SCHEME

During the period under review, the Group employed a total of 17 staff. Remuneration packages comprised salary and year-end bonus based on individual merits. Details of the share option scheme will be disclosed in the Group's annual report for the year ending 30th November, 2003.

PROPERTY

Hong Kong

Despite the outbreak of the SARS during the period under review, the Group managed to achieve encouraging sales results in the residential property market. As of 31st May, 2003, 60 flats and 54 car parking spaces in **Greenville Residence** in Yuen Long were sold, leaving 4 flats and 42 car parking spaces remain unsold. This project generated sales proceeds of HK\$96.7 million. Sales performance of **Tin Wan Court** in Aberdeen was satisfactory, for the six months ended 31st May, 2003, revenue of HK\$8.2 million was recorded, 3 residential units remain unsold.

Demand for office space is still weak. However, the Group was able to dispose of 14,087 square feet of office space in **Star House** in Tsimshatsui this January, generating sales proceeds of HK\$22.5 million.

The Group was pleased to achieve a moderate rise in rental income in the industrial properties, though the market remained generally sluggish throughout the period. Gross rental income of **Hing Wai Centre** in Aberdeen increased by 7.5% compared to the same period last year.

Foundation works of the Group's wholly-owned redevelopment project comprising 960 serviced apartment units at **Yeung Uk Road**, Tsuen Wan are in progress and expected to be completed by the third quarter of 2003. The whole development is scheduled for completion in the last quarter of 2005.

In March 2003, the Group acquired a site at Lot No.1861 in **D.D. No.100** in Sheung Shui. The site will be developed into a residential villa complex comprising 78 houses with a total gross floor area of about 153,860 square feet. Approval was obtained in May 2003 for the master layout plan and the building plan. Construction works are scheduled to commence in the third quarter of 2003. It is expected that the project will be completed in the last quarter of 2004.

As for the redevelopment project undertaken with the Urban Renewal Authority at **Tai Yuen Street/Wanchai Road**, in which the Group holds a 25% interest, basement works at Site A of Phase 1 is in progress. The basement works is expected to be completed in November 2003 and superstructure works will commence in December 2003. For Site B of Phase 1, superstructure works has commenced in August 2003. Site A of Phase 1 will consist of 480 residential units in two towers, while Site B will consist of one tower of 172 residential units. Phase 1 is scheduled for completion in mid-2005. Following the agreement reached with the Lands Department in March 2003, land grant documents were executed in June 2003. Phase 2 will be a high-rise office building and is scheduled for completion in 2008.

Mainland China

Peregrine Plaza (90.3% interest) in Shanghai continues to generate stable and recurrent income to the Group. Located in one of the most prestigious commercial districts in Shanghai, namely, Huaihai Zhong Road, this 23-storey office/shopping complex comprises 15,330 square metres gross floor area of office space, 6,815 square metres gross floor area of retail shop space and 72 car parking spaces giving a total gross floor area of 24,812 square metres. Out of the total gross floor area, 313 square metres of office space had been sold. As at June 2003, occupancy rates of the office and retail shop space were pleasingly improved to 95% and 93% respectively.

For the dispute arising from the investment in **Shuohu Court** (75% interest) in Wuhan, the Group dissents from the judgment delivered by the Supreme Court on 28th May, 1998 and has lodged an appeal for re-trial. Hearings were twice conducted on 23rd May and 14th June, 2002. At present, the Group is waiting for the judgment to be delivered by the Supreme Court on re-trial.

Asian Region

Somerset Chancellor Court (13.4% interest) in Ho Chi Minh City, comprising offices and serviced apartments, was satisfactorily rented out.

COSMETICS

Given the difficult business environment as a result of the SARS outbreak, our sales turnover decreased by 22.6% for the six months under review as compared to the corresponding period last year.

The drop in sales was mainly due to the decline in export sales, recorded a drop of approximately 55%. Local wholesale was satisfactory, attributable to the seasonal promotions held in April. Our sales in shops, though recorded a 38% decrease compared with that of last year, increased in May 2003 by 18% in comparison with April 2003. Our concerted effort has contributed to our improving sales, indicative of gradual recovery after the containment of SARS.

Starting from June, a series of promotional campaigns have been launched, such as MTR stations and magazines advertisements. The plan to launch new toiletry products is ongoing. In the coming few months, our target is to increase more sales locations to better serve our customers and to boost sales. Some department stores have already joined as our new sales outlets. In July 2003, a new shop in Yuen Long and a promotion counter in Tsimshatsui were opened. In the long run, we plan to develop a new tailor-made skin care products line to meet increasing customers' needs.

PROSPECTS

The signing of the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) in June 2003 will facilitate trade and investment between Hong Kong and the Mainland. We expect that with CEPA the recovery of Hong Kong economy will be speeded up and the Group will be benefited in the near future. Looking ahead, the Group will continue to focus on completing the development projects on hand and consolidate its strength for future development and investment.

DIRECTORS' INTERESTS

As at 31st May, 2003, the interests and short positions of the directors and chief executives of the Company 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 kept by the Company pursuant to section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

The Company

| Name of Director | Number of Ordinary Shares | Capacity and Nature of Interest | Percentage of Issued Share Capital |
|---------------------------|----------------------------------|--|---|
| Mr. Joseph Lau, Luen-hung | 586,672,047 | Corporate Interest (Note) | 61.12% |

Note: All the interests stated above represent long positions. Mr. Joseph Lau, Luen-hung, by virtue of his 63.30% deemed interest in the issued share capital of Chinese Estates, is deemed to be interested in the said shares of the Company as to 513,746,047 shares held by Power Jade Capital Limited (Corporate name: Power Jade Limited) (a company 50% indirectly held by Chinese Estates) and as to 72,926,000 shares by Good System Investment Limited (a wholly-owned subsidiary of Chinese Estates) under the provisions of the SFO.

Save as disclosed above, none of the other directors or chief executives of the Company had or were deemed under the SFO to have any interest or short position 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) as at 31st May, 2003.

During the six months ended 31st May, 2003, none of the directors or chief executives of the Company nor their spouses or children under 18 years of age were granted or had exercised any right to subscribe for any securities of the Company or any of its associated corporations.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31st May, 2003, so far as are known to the directors, the following parties (other than a director or chief executive of the Company) were recorded in the register kept by the Company under section 336 of the SFO as being directly or indirectly interested in 5% or more of the issued share capital of the Company:

| Name | Number of Shares | Note | Percentage of Issued Share Capital |
|--|-------------------------|-------------|---|
| Power Jade Capital Limited | 513,746,047 | 1 | 53.52% |
| Gold Castle Capital Ltd. | 513,746,047 | 1 & 2 | 53.52% |
| Good System Investment Limited | 72,926,000 | 1 | 7.60% |
| Chinese Estates | 586,672,047 | 3 & 6 | 61.12% |
| Global King Ltd. | 586,672,047 | 4 & 6 | 61.12% |
| Credit Suisse Trust Limited as trustee | 586,672,047 | 4 & 6 | 61.12% |
| Solar Chain Limited | 513,746,047 | 1 & 2 | 53.52% |
| Ms. Anita Shum, Yuk-ming | 513,746,047 | 1 & 5 | 53.52% |

Notes:

- These shares form part of the same parcel of shares referred to in "corporate interest" of Mr. Joseph Lau, Luen-hung under heading of "Directors' Interests".*
- Power Jade Capital Limited ("Power Jade") is owned as to 50% by Gold Castle Capital Ltd. (Corporate name: Gold Castle Ltd.) and as to 50% by Solar Chain Limited. Gold Castle Capital Ltd. and Solar Chain Limited were deemed to be interested in the same parcel of 513,746,047 shares held by Power Jade.*
- Chinese Estates, which is a publicly listed company in Hong Kong, is the holding company of Gold Castle Capital Ltd. and Good System Investment Limited. The 586,672,047 shares included the 513,746,047 shares and 72,926,000 shares stated against Gold Castle Capital Ltd. and Good System Investment Limited respectively.*
- Credit Suisse Trust Limited as trustee is the holding company of Global King Ltd. which is entitled to exercise more than one-third of the voting power at general meetings of Chinese Estates. Global King Ltd. and Credit Suisse Trust Limited as trustee were deemed to be interested in the same parcel of 586,672,047 shares stated against Chinese Estates.*
- Solar Chain Limited is wholly owned by Ms. Anita Shum, Yuk-ming who was deemed to be interested in the same parcel of 513,746,047 shares stated against Solar Chain Limited.*
- The 586,672,047 shares are the same parcel of shares referred to in "corporate interest" of Mr. Joseph Lau, Luen-hung under heading of "Directors' Interests".*

All the interests stated above represent long positions. As at 31st May, 2003, no short positions were recorded in the register kept by the Company under section 336 of the SFO.

AFFILIATED COMPANIES

An unaudited proforma combined balance sheet of the affiliated companies of the Group and its attributable interest as at 30th June, 2003 (the latest practicable date) are:

| | Combined Total HK\$ million | Interest attributable to the Group HK\$ million |
|---|--|--|
| | | <i>(Note 1)</i> |
| Non-current assets | | |
| Investment properties and other fixed assets | 380 | 61 |
| Properties held for development | 399 | 100 |
| Interests in associates | 5 | – |
| Mortgage loan receivable | 3 | 1 |
| Current assets | | |
| Deposit paid | 59 | 15 |
| Other current assets | 174 | 38 |
| Current liabilities | (230) | (41) |
| Net current assets | 3 | 12 |
| Non-current liabilities | | |
| Bank loan <i>(Note 2)</i> | (466) | (109) |
| Amounts due to shareholders | (1,701) | (388) |
| Amounts due to related companies | (51) | – |
| Minority interests | (28) | (6) |
| Net liabilities | (1,456) | (329) |
| Contingent liabilities | – | – |
| Capital commitments | 116 | 29 |

Notes:

1. Consolidated adjustments relating to interests in affiliated companies were included to conform with the Group's accounting policies.
2. The guarantees given by the Group to the banks for the bank loan facilities granted to the associates amounted to HK\$323.3 million.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 31st May, 2003, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

CODE OF BEST PRACTICE

None of the Directors of the Company 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 31st May, 2003, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules except that the Non-executive Directors are not appointed for any specific terms as they are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Bye-laws of the Company.

APPRECIATION

I take this opportunity to thank our shareholders for their support and my fellow directors and our staff for their hard work during the period.

On behalf of the Board
Thomas Lau, Luen-hung
Chairman

Hong Kong, 18th August, 2003