



**The Kwong Sang Hong International Limited**

*(Incorporated in Bermuda with limited liability)*

**(Stock code: 189)**

**Interim Report  
For The Six Months  
Ended 31st May, 2004**

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## **CORPORATE INFORMATION**

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### *Executive Directors:*

Thomas Lau, Luen-hung (*Chairman*)  
Joseph Lau, Luen-hung  
Simon Lo, Lin-shing  
Wilson Cheng, Kam-biu

### *Non-executive Directors:*

Gerald To, Hin-tsun  
Loretta Lau, Suk-han

### *Independent Non-executive Directors:*

Alan Lam, Man-bun  
Phillis Loh, Lai-ping

### *Registered Office:*

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### *Principal Office:*

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**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 3 to 12.

**Respective responsibilities of Directors and auditors**

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Statement of Standard Accounting Practice 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, 2004.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*

Hong Kong, 18th August, 2004

## 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, 2004 together with the comparative figures for the corresponding period last year as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT For the six months ended 31st May, 2004

		Six months ended 31st May,	
	Notes	2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)
Turnover	2	20,367	122,294
Cost of sales		<u>(7,196)</u>	<u>(124,130)</u>
Gross profit (loss)		13,171	(1,836)
Other operating income	4	6,252	3,079
Selling and marketing expenses		(818)	(567)
Administrative expenses		(3,612)	(4,947)
Other operating expenses	6	<u>(6,554)</u>	<u>(5,593)</u>
Profit (loss) from operations		8,439	(9,864)
Finance costs	7	(2,384)	(4,395)
Investment income (loss)	8	2,771	(1)
Other gain (loss)	9	158	(87,788)
Share of results of associates		<u>(35)</u>	<u>1,134</u>
Profit (loss) before taxation		8,949	(100,914)
Taxation	10	<u>(2,738)</u>	<u>1,340</u>
Profit (loss) after taxation		6,211	(99,574)
Minority interests		<u>219</u>	<u>3,900</u>
Profit (loss) attributable to shareholders		<u>6,430</u>	<u>(95,674)</u>
Earnings (loss) per share	11		
Basic		<u>0.67 cents</u>	<u>(9.97) cents</u>
Interim dividend per share		<u>-</u>	<u>-</u>

**CONDENSED CONSOLIDATED BALANCE SHEET**  
**At 31st May, 2004**

	Notes	<b>31st May, 2004 HK\$'000 (Unaudited)</b>	30th November, 2003 HK\$'000 (Audited)
<b>Non-Current Assets</b>			
Investment properties	12	<b>499,900</b>	499,900
Other fixed assets		<b>1,101</b>	1,237
Properties held for development		<b>149,153</b>	149,148
Interests in associates		<b>42,495</b>	43,102
Investments in securities		<b>7,080</b>	7,485
Amounts due from investee companies		<b>113,115</b>	110,925
Amounts due from minority shareholders		<b>170</b>	170
Loans receivable – due after one year		<b>23,339</b>	27,369
Deferred tax assets		<b>4,770</b>	4,290
		<b>841,123</b>	843,626
<b>Current Assets</b>			
Properties under development for sale		<b>1,084,758</b>	1,002,862
Properties held for sale		<b>47,744</b>	49,728
Inventories		<b>1,752</b>	1,256
Loans receivable – due within one year		<b>8,461</b>	8,208
Accounts receivable, deposits and prepayments	13	<b>5,769</b>	4,725
Cash in stakeholders' accounts held by solicitors		<b>416</b>	438
Pledged deposits		<b>437</b>	335
Bank balances and cash		<b>14,215</b>	22,005
		<b>1,163,552</b>	1,089,557
<b>Current Liabilities</b>			
Accounts payable, deposits received and accruals	14	<b>69,328</b>	70,785
Tax liabilities		<b>2,798</b>	2,270
Borrowings – due within one year	15	<b>16,778</b>	17,492
Provisions	19	<b>16,820</b>	13,354
		<b>105,724</b>	103,901
<b>Net Current Assets</b>		<b>1,057,828</b>	985,656
		<b>1,898,951</b>	1,829,282
<b>Capital and Reserves</b>			
Share capital	16	<b>383,960</b>	383,960
Reserves		<b>905,921</b>	899,816
		<b>1,289,881</b>	1,283,776
<b>Minority Interests</b>		<b>(35,184)</b>	(34,965)
<b>Non-Current Liabilities</b>			
Loans from ultimate holding company		<b>152,650</b>	152,650
Amounts due to minority shareholders		<b>146,091</b>	146,200
Borrowings – due after one year	15	<b>300,555</b>	239,465
Deferred tax liabilities		<b>44,958</b>	42,156
		<b>644,254</b>	580,471
		<b>1,898,951</b>	1,829,282

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**For the six months ended 31st May, 2004**

	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Exchange reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1st December, 2002	383,960	681,650	437,153	1,670	(146,870)	1,357,563
Exchange adjustment, net of minority interests	-	-	-	(14)	-	(14)
Share of associates' reserve 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
Exchange released to the income statement on disposal of an associate	-	-	-	159	-	159
Exchange adjustment, net of minority interests	-	-	-	256	-	256
Share of associates' reserve movement during the period	-	-	-	(503)	-	(503)
Net loss not recognised in the income statement	-	-	-	(247)	-	(247)
Profit for the period	-	-	-	-	22,062	22,062
At 30th November, 2003	383,960	681,650	437,153	1,495	(220,482)	1,283,776
Exchange adjustment	-	-	-	(327)	-	(327)
Share of associates' reserve movement during the period	-	-	-	2	-	2
Net loss not recognised in the income statement	-	-	-	(325)	-	(325)
Profit for the period	-	-	-	-	6,430	6,430
<b>At 31st May, 2004</b>	<b><u>383,960</u></b>	<b><u>681,650</u></b>	<b><u>437,153</u></b>	<b><u>1,170</u></b>	<b><u>(214,052)</u></b>	<b><u>1,289,881</u></b>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**  
**For the six months ended 31st May, 2004**

	<b>Six months ended</b>	
	<b>31st May,</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
Net cash (used in) from operating activities	<b>(68,915)</b>	57,606
Net cash from (used in) investing activities	<b>3,061</b>	(155,287)
Net cash from financing activities	<b>58,557</b>	117,480
Net (decrease) increase in cash and cash equivalents	<b>(7,297)</b>	19,799
Cash and cash equivalents at the beginning of the period	<b>22,005</b>	(38,806)
Effect of exchange rate changes	<b>(493)</b>	(14)
Cash and cash equivalents at the end of the period	<b>14,215</b>	(19,021)
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	<b>14,215</b>	23,621
Bank overdrafts	<b>–</b>	(42,642)
	<b>14,215</b>	(19,021)



**NOTES TO THE CONDENSED FINANCIAL STATEMENTS**  
**For the six months ended 31st May, 2004**

**1. Basis of presentation and principal accounting policies**

The condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain 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, 2003.

**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*

	<b>Property development</b>		<b>Property leasing</b>		<b>Cosmetics</b>		<b>Other operations</b>		<b>Consolidated</b>	
	<b>Six months ended</b>		<b>Six months ended</b>		<b>Six months ended</b>		<b>Six months ended</b>		<b>Six months ended</b>	
	<b>31st May,</b>		<b>31st May,</b>		<b>31st May,</b>		<b>31st May,</b>		<b>31st May,</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	<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>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment turnover	<u>2,136</u>	105,963	<u>16,075</u>	13,929	<u>2,156</u>	2,402	-	-	<u>20,367</u>	122,294
Segment result	<u>(1,667)</u>	(12,235)	<u>13,134</u>	8,764	<u>584</u>	994	-	-	<u>12,051</u>	(2,477)
Unallocated corporate expenses									<u>(3,612)</u>	(7,387)
Profit (loss) from operations									<u>8,439</u>	(9,864)
Finance costs									<u>(2,384)</u>	(4,395)
Investment income (loss)									<u>2,771</u>	(1)
Other gain (loss)	<u>158</u>	(87,237)	-	(551)	-	-	-	-	<u>158</u>	(87,788)
Share of results of associates	<u>(614)</u>	(359)	-	930	<u>(25)</u>	(27)	<u>604</u>	590	<u>(35)</u>	1,134
Profit (loss) before taxation									<u>8,949</u>	(100,914)
Taxation									<u>(2,738)</u>	1,340
Profit (loss) after taxation									<u>6,211</u>	(99,574)

*Geographical segments*

	<b>Turnover by geographical market</b>		<b>Contribution to profit (loss) from operations</b>	
	<b>Six months ended</b>		<b>Six months ended</b>	
	<b>31st May,</b>		<b>31st May,</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	<u>7,232</u>	111,902	<u>4,560</u>	(9,031)
Elsewhere in the People's Republic of China ("PRC")	<u>13,135</u>	10,392	<u>7,491</u>	6,554
	<u>20,367</u>	122,294	<u>12,051</u>	(2,477)
Unallocated corporate expenses			<u>(3,612)</u>	(7,387)
Profit (loss) from operations			<u>8,439</u>	(9,864)

#### 4. Other operating income

	Six months ended 31st May,	
	2004	2003
	HK\$'000	HK\$'000
Included in other operating income:		
Settlement received in respect of a lawsuit	5,000	–
Forfeiture of sales deposits received	<u>30</u>	<u>2,231</u>

#### 5. Staff expenses and depreciation

	Six months ended 31st May,	
	2004	2003
	HK\$'000	HK\$'000
Staff expenses		
– Directors' emoluments	500	471
– Other staff expenses	1,657	1,950
– Provident fund scheme contributions	<u>5</u>	<u>60</u>
	<u>2,162</u>	<u>2,481</u>
Depreciation	<u>148</u>	<u>63</u>

#### 6. Other operating expenses

	Six months ended 31st May,	
	2004	2003
	HK\$'000	HK\$'000
Provision for litigation claims	3,466	–
Allowance for loans receivable	2,371	1,622
Legal expenses in respect of lawsuits	717	3,898
Loss on disposal of investment properties	<u>–</u>	<u>73</u>
	<u>6,554</u>	<u>5,593</u>

#### 7. Finance costs

	Six months ended 31st May,	
	2004	2003
	HK\$'000	HK\$'000
Interest on bank borrowings, overdrafts and other borrowings		
– wholly repayable within five years	3,355	6,451
– wholly repayable after five years	33	–
Other borrowing costs	<u>695</u>	<u>9</u>
	<u>4,083</u>	<u>6,460</u>
Less: Amount capitalised	<u>(1,699)</u>	<u>(2,065)</u>
	<u>2,384</u>	<u>4,395</u>

## 8. Investment income (loss)

	Six months ended 31st May,	
	2004	2003
	HK\$'000	HK\$'000
Write-back of allowance for amounts due from an investee company	2,094	–
Interest income	699	805
Dividend income – unlisted investments	382	–
Unrealised holding loss on other investments	(404)	(806)
	<u>2,771</u>	<u>(1)</u>

## 9. Other gain (loss)

	Six months ended 31st May,	
	2004	2003
	HK\$'000	HK\$'000
Impairment loss written-back (recognised) on amounts due from associates	158	(87,788)

## 10. Taxation

	Six months ended 31st May,	
	2004	2003
	HK\$'000	HK\$'000
The (charge) credit comprises:		
<i>Current tax</i>		
The Company and subsidiaries		
– Hong Kong		
current period	(188)	(578)
prior periods	7	2,542
– Other than Hong Kong	(124)	(93)
	<u>(305)</u>	<u>1,871</u>
Associates		
– Hong Kong	(111)	(103)
– Other than Hong Kong	–	62
	<u>(111)</u>	<u>(41)</u>
	<u>(416)</u>	<u>1,830</u>
<i>Deferred tax</i>		
The Company and subsidiaries		
– Hong Kong		
current period	629	1,725
attributable to change in tax rate	–	124
– Other than Hong Kong	(2,951)	(2,339)
	<u>(2,322)</u>	<u>(490)</u>
	<u>(2,738)</u>	<u>1,340</u>

## 10. Taxation (continued)

Hong Kong Profits Tax has been provided for at the rate of 17.5% (six months ended 31st May, 2003: 17.5%) 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 rates that are expected to be applied in the period when the liability is settled or the asset is realised.

## 11. Basic earnings (loss) per share

The calculation of the basic earnings (loss) per share is based on the profit attributable to shareholders for the six months ended 31st May, 2004 of HK\$6,430,000 (six months ended 31st May, 2003: loss attributable to shareholders of HK\$95,674,000) and on 959,899,416 (six months ended 31st May, 2003: 959,899,416) ordinary shares in issue throughout the period.

## 12. Investment properties

The Directors considered that the carrying amount of the Group's investment properties at 31st May, 2004 did not differ significantly from the revalued amount at 30th November, 2003. Consequently, no revaluation surplus or deficit was recognised in the current period.

## 13. Accounts receivable, deposits and prepayments

The Group operates a controlled credit policy and allows an average credit period of 30 to 90 days to its trade customers who satisfy the credit evaluation. Included in accounts receivable, deposits and prepayments is trade receivable of HK\$1,161,000 (30th November, 2003: HK\$1,054,000).

The aged analysis of the trade receivable is as follows:

	<b>31st May, 2004</b>	30th November, 2003
	<b>HK\$'000</b>	HK\$'000
0 – 30 days	<b>596</b>	498
31 – 90 days	<b>151</b>	226
Over 90 days	<b>414</b>	330
	<b><u>1,161</u></b>	<u>1,054</u>

## 14. Accounts payable, deposits received and accruals

Included in accounts payable, deposits received and accruals is trade payable of HK\$173,000 (30th November, 2003: HK\$117,000).

The aged analysis of the trade payable is as follows:

	<b>31st May, 2004</b>	30th November, 2003
	<b>HK\$'000</b>	HK\$'000
0 – 90 days	<b><u>173</u></b>	<u>117</u>

## 15. Borrowings

	<b>31st May, 2004</b> <b>HK\$'000</b>	30th November, 2003 <i>HK\$'000</i>
Bank borrowings	<b>316,241</b>	255,865
Other borrowings	<b>1,092</b>	1,092
	<b>317,333</b>	256,957
Less: Amount due within one year and shown under current liabilities	<b>(16,778)</b>	(17,492)
Amount due after one year	<b>300,555</b>	239,465

## 16. Share capital

	<b>Number of shares</b>	<b>Share capital</b> <b>HK\$'000</b>
Ordinary shares of HK\$0.40 each		
<b>Authorised:</b>		
At 1st December, 2002, 30th November, 2003 and 31st May, 2004	<u>3,000,000,000</u>	<u>1,200,000</u>
<b>Issued and fully paid:</b>		
At 1st December, 2002, 30th November, 2003 and 31st May, 2004	<u>959,899,416</u>	<u>383,960</u>

## 17. 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:

	<b>31st May, 2004</b> <b>HK\$'000</b>	30th November, 2003 <i>HK\$'000</i>
(a) Commitments contracted but not provided for in respect of properties development	<b>629,588</b>	703,537
(b) Guarantees given to banks and financial institutions for general facilities made available to associates and an investee company	<b>342,349</b>	344,595

## 18. Related party transactions

During the period, the Group entered into the following transactions with related parties:

	<b>Six months ended</b> <b>31st May,</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	<i>HK\$'000</i>
Interest paid/payable to ultimate holding company	<b>2,181</b>	2,565
Interest receivable from an associate	<b>27</b>	28

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, 2003: HK\$24,000) was charged for the current period, being an appropriate allocation of costs incurred by relevant administrative departments.

## **18. Related party transactions** *(continued)*

Shanghai Golden Sea Building Limited ("SGS"), a wholly-owned subsidiary of the Company, entered into a tenancy agreement with Evergo Holdings (China) Company Limited ("Evergo BVI"), a wholly-owned subsidiary of Chinese Estates, pursuant to which SGS agreed to lease to Evergo BVI B1 Unit 03 of Peregrine Plaza, Shanghai, the PRC for a period of two years commencing from 1st July, 2003 to 30th June, 2005 at a monthly rental of US\$502.

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.

HKSH entered into a licence agreement with Great King Limited ("Great King"), a 57.56% owned subsidiary of Chinese Estates, pursuant to which Great King agreed to lease to HKSH Shop No. 147 on the 1st Floor of Yuen Long New Place, Golden Hall Building, Yuen Long, New Territories, Hong Kong commencing from 23rd July, 2003 at 10% of gross revenue of the shop per month. The licence was terminated on 31st May, 2004.

HKSH also entered into a licence agreement with East Step Limited, currently known as Chinese Estates (Tung Ying Building) Limited ("CETY"), a wholly-owned subsidiary of Chinese Estates, pursuant to which CETY agreed to lease to HKSH a Promotion Space on the Lower Ground Floor of Tung Ying Building, Tsim Sha Tsui, Kowloon, Hong Kong commencing from 1st February, 2004 at 20% of gross revenue of the promotion counter per month. The licence is of monthly basis and will be renewed automatically from month to month, until such licence to be terminated by either party with seven days' prior notice at any time.

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

The Kwong Sang Hong Estate Agents Limited ("KSHEA"), a wholly-owned subsidiary of the Company, entered into a sub-lease agreement with CEL, pursuant to which CEL agreed to sub-lease to KSHEA Room 102 on the 1st Floor of MassMutual Tower, Wanchai, Hong Kong for a period of two years commencing from 1st March, 2004 to 28th February, 2006 at a monthly rental of HK\$10,312.

Polyco Development Limited ("Polyco"), a 80% owned subsidiary of the Company, entered into a tenancy agreement with CEL, pursuant to which Polyco agreed to lease to CEL Workshops Nos. 1-8 on the 18th to 20th Floors of Kwong Kin Trade Centre, Tuen Mun, New Territories, Hong Kong 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.

## **19. Litigation**

A legal action against the Group was taken by a Chinese joint venture partner. On 17th May, 1996, Hubei Provincial High Court (the "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 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. However, the Group disputed the quantification and had lodged an appeal for re-trial. The appeal was formally accepted on 14th March, 2002 and hearing was twice conducted on 23rd May, 2002 and 14th June, 2002. At present, the Group is still waiting for the judgment to be delivered from the Supreme Court on the re-trial.

As a result of the foregoing, a total provision of HK\$68.2 million (30th November, 2003: HK\$64.8 million) was made, of which HK\$51.4 million (30th November, 2003: HK\$51.4 million) was made against the investment cost paid. The remaining HK\$16.8 million (30th November, 2003: HK\$13.4 million) was provided against damages, legal costs and interest charged. The Directors believe that no further provision is required at this stage.

## **INTERIM DIVIDEND**

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The Board has resolved not to declare any interim dividend for the period (2003: nil).

## **BUSINESS REVIEW**

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### *RESULTS*

Profit attributable to shareholders for the six months ended 31st May, 2004 amounted to HK\$6.4 million as compared with loss attributable to shareholders of HK\$95.7 million for the corresponding period last year. Earnings per share for the six months ended 31st May, 2004 was HK0.67 cents as compared with loss per share of HK9.97 cents for the same period last year.

### *TURNOVER*

Turnover for the six months ended 31st May, 2004, which was derived from cosmetic trading, property rental and property trading, amounted to HK\$20.4 million (six months ended 31st May, 2003: HK\$122.3 million), representing a decrease of 83.3% as compared with the same period last year. The decline was mainly attributable to the substantial decrease in sales of properties. During the current period, 1 unit with 1 car parking space of Greenville Residence in Yuen Long and 1 workshop of Kwong Kin Trade Centre in Tuen Mun were sold and a total of HK\$1.5 million sales proceeds was recorded. Whereas during the same period last year, 60 units with 54 car parking spaces of Greenville Residence as well as 4 units and 5 shops of Tin Wan Court in Aberdeen were sold with sales proceeds of HK\$104.9 million. The gross rental income for the six months ended 31st May, 2004 increased by HK\$1.7 million to HK\$16.7 million (six months ended 31st May, 2003: HK\$15.0 million). The gross rental income from investment properties and properties held for sale were HK\$16.1 million and HK\$0.6 million respectively for the current period as compared to HK\$13.9 million and HK\$1.1 million respectively for the same period last year. The rental income mainly generated from Hing Wai Centre in Aberdeen, Shun Hing Square in Shenzhen and Peregrine Plaza in Shanghai, contributing over 90% of the gross rental income. The sales of cosmetic trading decreased by 8.3% to HK\$2.2 million for the six months ended 31st May, 2004 (six months ended 31st May, 2003: HK\$2.4 million).

### *PROFIT (LOSS) FROM OPERATIONS*

Despite the decrease in turnover, the Group recorded HK\$8.4 million profit from operations as compared to HK\$9.9 million loss from operations for the same period last year. The turnaround was primarily attributable to the decrease in loss on sales of properties. The Group incurred loss on sales of properties of HK\$0.6 million for the six months ended 31st May, 2004 over HK\$12.3 million for the same period last year. In addition, a settlement of HK\$5 million received in relation to a lawsuit was included in the profit from operations for the current period.

### *INVESTMENT INCOME (LOSS)*

Investment income, which mainly comprised dividend income, interest income and gain from investments in securities, reached HK\$2.8 million for the six months ended 31st May, 2004. It mainly included dividend income of HK\$0.4 million and write-back of allowance for amounts due from an investee company of HK\$2.1 million.

### *OTHER GAIN (LOSS)*

The Group had written back impairment loss on amounts due from associates of HK\$0.2 million during the six months ended 31st May, 2004. Contrasting to this, the Group recognised impairment loss on amounts due from associates of HK\$87.8 million for the same period last year which was primarily due to a loss recognised on write-down of a redevelopment project at Tai Yuen Street/Wanchai Road held by an associate.

## *FINANCIAL AND INTEREST INCOME/EXPENSES*

Interest income for the six months ended 31st May, 2004 decreased to HK\$0.7 million from HK\$0.8 million for the same period last year. This was due to the decrease in bank interest earned at the low level of bank interest rates offered. Finance costs capitalised for the six months ended 31st May, 2004 was HK\$1.7 million over HK\$2.1 million for the same period last year. Interest expenses charged to the income statement decreased to HK\$2.4 million from HK\$4.4 million for the same period last year. The Group accordingly recorded net interest expenses in the amount of HK\$1.7 million for the six months ended 31st May, 2004 as compared with HK\$3.6 million for the same period last year. The decrease in interest expenses was mainly attributable to the lower interest costs on the new borrowings as well as the low-interest environment sustained during the current period.

## *DEBT AND GEARING*

As at 31st May, 2004, the Group's bank and other borrowings increased to HK\$470.0 million (30th November, 2003: HK\$409.6 million), of which HK\$16.8 million was payable within one year and HK\$453.2 million was payable after one year. HK\$316.3 million of the borrowings was secured while the remaining HK\$153.7 million was unsecured. Bank balances and cash amounted to HK\$14.2 million (30th November, 2003: HK\$22.0 million), resulting in net borrowings of HK\$455.8 million (30th November, 2003: HK\$387.6 million).

Total debt to equity ratio was 36.4% (30th November, 2003: 31.9%), being a percentage of bank and other borrowings over the total net assets of HK\$1,289.9 million (30th November, 2003: HK\$1,283.8 million). The net debt to equity ratio was 35.3% (30th November, 2003: 30.2%), 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, 2004, the Group's borrowings were wholly denominated in Hong Kong dollars and carried at interest rates calculated with reference to Hong Kong Interbank Offered Rate. The Group did not have any financial instruments used for hedging purpose.

The Group's income were mainly denominated in Hong Kong or United States Dollars and partly in Renminbi. No hedging for non-Hong Kong Dollars assets or investments was made.

## *PLEDGE OF ASSETS AND CONTINGENT LIABILITIES*

As at 31st May, 2004, the Group's pledged deposits of HK\$0.4 million (30th November, 2003: HK\$0.3 million), investment properties and properties under development for sale with an aggregate book value of HK\$1,029.4 million (30th November, 2003: HK\$985.5 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 associates and an investee company as at 31st May, 2004 were HK\$342.3 million (30th November, 2003: HK\$344.6 million).

## *NET ASSET VALUE*

The Group's total net assets as at 31st May, 2004 amounted to HK\$1,289.9 million, an increase of HK\$6.1 million as compared with the value of HK\$1,283.8 million as at 30th November, 2003. The increase mainly reflected the profit of HK\$6.4 million sustained for the six months ended 31st May, 2004. Total net asset value per share was HK\$1.34 (30th November, 2003: HK\$1.34).

## *REMUNERATION POLICIES*

During the period under review, the Group employed a total of 15 staff. Remuneration packages comprised salaries and year-end bonuses based on individual merits.



## PROPERTY

### Hong Kong

During the period, 1 unit with 1 car parking space of Greenville Residence were sold with 2 units and 38 car parking spaces in Greenville Residence remaining to be sold. Together with the sale of 1 workshop of Kwong Kin Trade Centre, a total sales proceeds of HK\$1.5 million was recorded.

The development project at Lot No. 1861 in D.D. 100 in Sheung Shui, which was wholly owned by the Group, will be developed into a residential villa complex comprising 78 3-storey detached/semi-detached town houses with a total gross floor area of approximately 153,860 square feet. Foundation works were completed and the superstructure works are in progress. The development is expected to be completed in the fourth quarter of 2004. The Group plans to launch the pre-sale of the project in the fourth quarter of 2004.

Yeung Uk Road redevelopment project was wholly owned by the Group. This 56-storey development will comprise 960 service apartment units with restaurants, shops, car parking spaces, and full clubhouse facilities with swimming pool. The total gross floor area of the whole development is about 585,600 square feet. Foundation works were completed. Superstructure works are in progress and are targeted for completion in the fourth quarter of 2005. The Group plans to launch the pre-sale of the project in the fourth quarter of 2004.

As for the Tai Yuen Street/Wanchai Road redevelopment project undertaken with the Urban Renewal Authority in which the Group holds 25% interest, superstructure works at Site A and Site B of Phase 1 are in progress. Upon completion, Phase 1 of the project will comprise three high-rise residential towers with about 652 residential units and a total gross floor area of about 510,752 square feet. In February 2004, planning approval was obtained to change the use of Phase 2 from office to residential. Under the residential scheme, there will be a high-rise residential tower with about 252 residential units and a total gross floor area of about 159,727 square feet. Phase 1 is scheduled for completion in the second half of 2005. It is planned that Phase 1 will be offered for pre-sale by the end of 2004.

Rental income contributed from Hing Wai Centre and Kwong Kin Trade Centre remained stable, generating a total gross rental of HK\$3.4 million for the six months ended 31st May, 2004 (six months ended 31st May, 2003: HK\$3.7 million).

### Mainland China

Peregrine Plaza (100% interest) continues to perform well in rental contribution. Located in one of the most prestigious commercial districts in Shanghai, 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. Apart from 313 square metres of office space sold, the remaining portion of the property is for leasing purpose as a long-term investment for the Group. As at 31st May, 2004, occupancy rates of the office and retail spaces stood high at 99% and 91% respectively.

The Group holds 100% interest of the 50th Floor of Shun Hing Square. It is a commercial property located in one of the prime commercial districts in Shenzhen with a total gross floor area of 2,161 square metres. As at 31st May, 2004, the property was fully let.

For the dispute of the investment in Shuohu Court (75% interest) in Wuhan, the Group disputed the judgment delivered by the Supreme Court on 28th May, 1998 and had lodged an appeal for re-trial. The appeal was formally accepted on 14th March, 2002 and hearing was twice conducted on 23rd May, 2002 and 14th June, 2002. At present, the Group is still waiting for the judgment to be delivered from the Supreme Court on the re-trial.

## Asian Region

Somerset Chancellor Court in Ho Chi Minh City of Vietnam in which the Group has 13.4% interest, comprising offices and serviced apartments, was satisfactorily rented out.

## COSMETICS

The Group's sales turnover of cosmetic trading for the six months ended 31st May, 2004 decreased by 8.3% as compared to the same period last year. Demand from wholesale customers declined in the first half of 2004.

New series of makeup products were introduced in the market this summer and customer responses are encouraging. Other new products including skincare series will be marketed in the coming fall and winter, offering a more comprehensive range of products to our customers. Starting from this summer, the Group has been active in conducting a series of advertising campaigns to showcase the "Two Girls" products through television programme sponsorship and magazine advertisements. We are benefited from the improved local retail market due to the influx of individual travellers from the Mainland China. The Group will further expand sales counters in prime shopping zones, department stores and beauty centers. Apart from focusing on the revenue growth through developing new products, the Group will also continue to strengthen cost control measures.

## PROSPECTS

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The property development projects of the Group are progressing well as scheduled, with all the projects are targeted for pre-sale in the fourth quarter of 2004. It is expected that the Group will be benefited with the significant contributions arising from the sales proceeds of these property development projects. Accompanied with the stable and recurrent rental generated from Hong Kong and the PRC properties, the Group will be able to deliver a steady and strong performance. The Group will continue to streamline the operation with strict cost control and to capture investment opportunities for further development.

## DIRECTORS' INTERESTS AND SHORT POSITIONS

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As at 31st May, 2004, 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 The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to the Model Code ("Model Code") for Securities Transactions by Directors of Listed Companies were as follows:

### The Company

<b>Name of Director</b>	<b>Number of ordinary shares</b>	<b>Capacity and nature of interest</b>	<b>Percentage of issued share capital</b>
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 60.65% 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 directors or chief executives of the Company nor their associate had 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, 2004.

## **DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER THE SFO**

At 31st May, 2004, 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:

<b>Name</b>	<b>Number of shares</b>	<b>Note</b>	<b>Percentage of issued share capital</b>
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:*

1. 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 and short positions".
2. 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.
3. 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. Pursuant to SFO, Chinese Estates was deemed to be interested in the 513,746,047 shares and 72,926,000 shares stated against Gold Castle Capital Ltd. and Good System Investment Limited respectively.
4. 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.
5. 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.
6. 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 and short positions".

All the interests stated above represent long positions. As at 31st May, 2004, no short positions were recorded in the register kept by the Company under section 336 of SFO.

## **AFFILIATED COMPANIES**

An unaudited proforma combined balance sheet of the affiliated companies of the Group and the interest attributable to the Group as at 30th June, 2004 (the latest practicable date) are as follows:

	<b>Combined total HK\$ million</b>	<i>(Notes)</i> <b>Interest attributable to the Group HK\$ million</b>
Non-Current Assets		
Investment properties and other fixed assets	231	46
Interests in associates	4	1
Mortgage loans receivable	3	1
Current Assets		
Properties under development for sale	534	134
Other current assets	93	21
Current Liabilities		
Bank borrowings – due within one year	(136)	(27)
Other current liabilities	(219)	(45)
Net Current Assets	272	83
Non-Current Liabilities		
Bank borrowings – due after one year	(411)	(103)
Other non-current liabilities	(1,521)	(393)
Minority Interests	(46)	(9)
Net Liabilities	(1,468)	(374)

*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 to secure bank loan facilities granted to the affiliated companies amounted to HK\$317.1 million.

## ADVANCES TO ENTITIES

In accordance with Rule 13.20 of the Listing Rules, the Directors of the Company reported on details of advances made by the Group to and guarantees given for the benefit of the following entities as at 31st May, 2004, which for each of the following entities exceeded 8% of the market capitalization of the Company as at 31st May, 2004, as follows:

Name of entities	Attributable interest held by the Group	(Note 1)	(Note 2)	Guaranteed bank loans drawn	Bank loans interests rates	Bank loans maturity dates	Total advances plus guarantees given as at 31st May, 2004 (A+B)
		Advances as at 31st May, 2004 (A)	Guarantees given (B)				
Investee companies							
Diamond String Limited	10%	93,260	24,000	240,000	HIBOR+ 1.375% p.a.	30th September, 2004	117,260
Associates							
Dollar Union Limited	25%	336,125	287,500	408,713	HIBOR+ 0.59% p.a.	30th September, 2005	623,625

### Notes:

- The advances have been made by the Group to the abovenamed entities as shareholders' loans pursuant to the respective shareholders' agreements. The advances are unsecured, interest-free, with no specific maturity dates nor specific repayment terms and are repayable on demand.
- The guarantees given represent the relevant amounts of guarantee given by the Group relating to the secured bank loan facilities granted to the abovenamed entities.
- Market capitalization of the Company as at 31st May, 2004 amounting to HK\$614,335,626 based on the total number of 959,899,416 shares of the Company in issue on 31st May, 2004 and the average closing price of HK\$0.64 for the five business days immediately preceding 31st May, 2004.
- The total assets of the Group as at 31st May, 2004 amounted to HK\$2,004,675,000 based on the unaudited consolidated balance sheet of the Company as at 31st May, 2004. The advances to Dollar Union Limited therefore also exceeded 8% of the total assets of the Group as at 31st May, 2004.

## SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 5th June, 1995. Details of the Scheme are set out in the published annual report of the Company for the year ended 30th November, 2003. There were no outstanding options at the beginning and at the end of the period. No options were granted, exercised, cancelled or lapsed during the six months ended 31st May, 2004.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 31st May, 2004, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

## **CORPORATE GOVERNANCE**

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The Group's interim report for the six months ended 31st May, 2004 was unaudited, but has been reviewed by the Audit Committee and the external auditors of the Company.

Throughout the period, the Company complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, except that Non-executive Directors and Independent Non-executive Directors were not appointed for any specific terms, as they are subject to retirement by rotation at the Company's annual general meeting in accordance with the Bye-laws of the Company.

The Company has adopted Model Code as set out in Appendix 10 of the Listing Rules as the code of conduct regarding Directors' securities transactions. The Company has made specific enquiry of all Directors whether the Directors have complied with the required standard set out in the Model Code during the six months ended 31st May, 2004 and all Directors confirmed that they have complied with the Model Code.

## **APPRECIATION**

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I take this opportunity to thank our shareholders for their continued support and my fellow directors and our staff for their contributions to the Group.

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

Hong Kong, 18th August, 2004