

## Chairman's Statement

### OVERVIEW

Following the business strategy announced in the past two years, the Group actively continued to dispose properties where growth potential could not be perceived, and to seek further investments to replenish its property portfolio in Asia Pacific markets during the period under review.

Agreements for sale of 5 properties in Auckland were signed for a total of HK\$1,293.8 million, of which 1 was settled prior to 30th June, 2004, 3 are unconditional and 1 is still conditional as of today. At the same time, the Group has purchased 3 property assets in Hong Kong and 1 in Auckland totaling HK\$886.1 million.

The dispositions will have a negative impact to the Group's year end profit, however, the net cash inflow will support newly acquired investment and development properties for higher return to the Group in future.

### RESULTS

The Group's unaudited consolidated profits attributed to the shareholders for the financial period ended 30th June, 2004 was HK\$66.5 million compared to HK\$59.5 million for the previous corresponding period. Disposal of properties led to a drop of 38.3% in rental receipts but was compensated by net surplus from sales activities in investment and development properties. Net profits after taxation attributable to shareholders was improved by 11.7% as a result of lower finance costs due to reduction of bank loans, and gain from disposition of investment properties.

### DIVIDEND

The Board has declared an interim dividend of HK4 cents (2003: HK4 cents) per share for the year ending 31st December, 2004 payable on 4th October, 2004 to the shareholders of the Company whose names appear in the Register of Members on 30th September, 2004. Total dividends payable are HK\$20,453,000 and will be increased by HK\$5,958,000 as a result of ordinary shares being issued upon the exercise of all the outstanding warrants and share options' subscription rights.

### MANAGEMENT DISCUSSION AND ANALYSIS

#### BUSINESS REVIEW

##### Property Investments and Developments

###### *Hong Kong*

Over 70% of the tenancies were renewed in 2003, resulting in a lowering of annual rental income by more than 30% due to SARS impact. Average occupancy rate was maintained at satisfactory level throughout the period. With the accelerating economy, the Group expects to have a better rental return for new tenancies negotiated after the financial period.

The negotiation on land premium for the Sheung Shui project, in which the Group owns 55%, for a change of plot ratio from 3.3 to 5 times, has been concluded and settled. The Group planned to build one additional residential tower of 39 storeys. Finance for the development has been arranged. Depending on market conditions, earliest time plan for sales of the Phase I and II development may be by end of 2004.

The Group has completed the acquisition of a piece of land with site area of 446 sq.m. at 6-12 Leighton Road. This site will complement the adjoining site the Group presently owned. Development potentials including hotels development for the enlarged site is now being re-considered and evaluated in order to give maximum benefit to the Group.

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The Group through its 61.31% owned subsidiary, Trans Tasman Properties Limited ("TTP") has acquired a Sha Tin Lot of 2 hectares and completed in July 2004. Internal cash is utilized to support the acquisition. The site overlooks the Sha Tin race course and is connected to the major Fo Tan KCR railway station. TTP intends to develop it into a residential and commercial composite. A development time frame of 4-6 years is expected. TTP also acquired a shop in Causeway Bay for investment in March 2004. Finance for the purchase has been arranged with a local bank. Satisfactory rental yield is generated.

### *China*

In Guangzhou, Westmin Plaza, Phase II development comprises of 4 towers of residential blocks and one office block on top of the commercial podium was progressed on schedule. Main contract was awarded after the financial period. The whole development will take 18 months to complete.

The Group has reactivated the development of Overseas Exchange Square in Chengdu in December 2003. The project is about 90,000 sq.m. in size, comprising of two office towers on top of the commercial podium. The whole development will be completed by second quarter of 2005.

The Group has actively marketed for lease for New Century Plaza in Chengdu.

### *New Zealand and Australia*

TTP announced its combined results attributable to its shareholders for the financial period under review a surplus of NZ\$12.2 million, compared to NZ\$7.2 million for the previous corresponding period. Net assets value per share as at 30th June, 2004 was NZ64.2 cents compared to NZ63.5 cents as at 31st December, 2003.

TTP followed its stated business strategies announced in 2003, and sold the following properties in Auckland, New Zealand:

- Fletcher Complex – completed before 30th June, 2004;
- Citibank Centre – completed in August 2004;
- Auckland Club Tower – will be completed in September 2004;
- 1-7 The Strand, Takapuna – will be completed in September 2004;
- Finance Centre – a conditional sale subject to due diligence period up to 14th September, 2004 to be satisfied by the Purchaser.

The remaining investment property held in Sydney, is currently being strata titled and progressively sold.

To replenish its investment portfolio, TTP has bought the following properties:

- As mentioned above, a shop in Causeway Bay, Hong Kong in March 2004;
- As mentioned above, a 2 hectare development site in Sha Tin Town in July 2004;
- 132 Halsey Street, Viaduct Harbour, Auckland in August 2004;
- 8-14 Madden Street, Viaduct Harbour, Auckland in September 2004.

Subsequent to the financial period end, TTP has acquired a 34% interest in the Clearwater Resort residential and commercial development in Christchurch.

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On the development front, TTP has completed the development of Airpark 1 and successfully sold all sites with 3 lots being retained within its investment portfolio. Stage 1 of Airpark 2 was offered to the market during 2004, with all 12 lots unconditionally sold at prices in line with feasibility. In addition, the development of TTP's land at Auckland Viaduct Western Reclamation is underway. In August 2004, construction of a two building 19,745 sq.m. design-build commercial office complex for Air New Zealand's new head office to be located at the western end of the site was commenced.

Global Property Fund, in which TTP has 64% interest, had finally resolved all litigation against the former Trustee and Manager of the fund. The winding up of the funds will now proceed. TTP expects a cash distribution of approximately A\$9.2 million in September 2004.

The Group's interest in Jacks Point land in Queenstown, New Zealand was reduced from 60.0% to 26.1% after the financial period. The Group realized a total gain of approximately NZ\$11.6 million from the disposition. A gain of approximately NZ\$6.8 million will be recognized in 2004 and the remaining portion will be deferred until Jacks Point Limited sells the developed residential sites. The land will be developed into a resort with a golf course, hotel and residential properties.

### Garment Trading

Similar level of income was generated from garment business, but the Group expects a substantial drop in income of approximately HK\$23.0 million due to abolition of quota system in 2005.

### Supply Chain Management

The performance of Professional Services Brokers Limited ("PSB"), in which the Group owns 43.4%, is satisfactory and contributed a positive return to the Group. PSB continued to operate one of the few remaining electronic portals and is expanding its business operations to Australasia by receiving outsourcing contracts from other marketplaces.

### GENERAL OFFER FOR THE SHARES IN TTP NOT OWNED BY SEA

An offer by SEA for the remaining 40.0% interest in TTP it did not own was made. The offer price was NZ\$0.40 as compared to net assets value per share of NZ\$0.63 as at 31st December, 2003. The Group has increased its interest in TTP from 59.97% to 61.31% as a result of this offer, at a cost of NZ\$3.2 million. As the acquisition cost was below the net assets value per TTP share, it contributes positive surplus to shareholders over the years.

### FINANCIAL REVIEW

Key 2004 financial data, policies and capital events relating to the Group and its major subsidiaries were as follows:

#### Financial Resources and Liquidity

At 30th June, 2004, the Group had HK\$1,720.0 million (HK\$1,881.0 million at 31st December, 2003) cash and unutilized facilities of HK\$1,042.0 million (HK\$964.0 million at 31st December, 2003) to meet its commitments and working capital. The current (working capital) ratio reduced from 4.46 at 31st December, 2003 to 4.07 at 30th June, 2004 was mainly due to the increase of borrowings due within one year.

At 30th June, 2004, shareholders' funds of the Group amounted to HK\$2,639.5 million (HK\$2,678.1 million at 31st December, 2003) representing a decrease of 1.4% that was mainly attributable to exchange translation loss for the net assets of subsidiaries in New Zealand and Australia that was partially offset by the net profit for the period from the Group.

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Bank borrowings of TTP group and other subsidiaries in Australia, denominated in NZ\$ and A\$, has drawn down bank loans equivalent to NZ\$258.0 million (HK\$1,266.9 million) and A\$12.1 million (HK\$65.2 million) secured mainly by properties valued at NZ\$395.5 million (HK\$1,264.6 million) and A\$25.4 million (HK\$136.9 million) respectively and pledged bank deposits of NZ\$123.0 million (HK\$603.8 million).

In Hong Kong and China, properties valued at HK\$2,695.5 million and fixed deposits of HK\$37.3 million were pledged for banking facilities amounting to HK\$1,588.8 million that was extended to certain subsidiaries as at 30th June, 2004.

### Refinancing and Gearing

The renewal of major credit facilities on a medium and long-term basis has provided the Group with capacity and flexibility to undertake development and investment opportunities consistent with its strategy to remain as a long-term investor in property.

The Group's overall gearing, or net interest bearing debt minus cash, as a percentage of total property assets have increased from 21% as at 31st December, 2003 to 28% as at 30th June, 2004. The increase was mainly due to additional loans were drawn down to support the initial deposits for new properties acquisitions.

### Treasury policies

The Group adheres to prudent treasury policies. The ratio of non-current liabilities to shareholders' fund plus minority interests was 0.75 at 30th June, 2004 (0.77 at 31st December, 2003).

The Group's borrowings are principally on a floating rate basis. However, when requested by lenders under banking arrangements or at times when interest rates are volatile, hedging instruments including swaps and forwards are used to manage interest rate exposure.

### Capital movements

During the period, the Company has not issued any additional shares or any type of capital instruments.

### Loan maturity profile

As at 30th June, 2004, maturities of the Group's outstanding borrowings were as follow:

	<i>HK\$m</i>
Within 1 year	477
1-2 years	1,174
2-5 years	641
Over 5 years	738
<b>Total</b>	<b>3,030</b>

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### OUTLOOK

Market sentiment continued to improve especially in Hong Kong and China. This will definitely benefit the leasing and development activities of the Group.

The Group will continue to invest in Asian/Pacific property markets where counter-cyclical property investment or development opportunities exist. With the disposal of assets in the 1st half of the year, the Group has accumulated considerable cash resources to take up additional investments. The Group will actively pursue its investment opportunities.

### SHARE REGISTRATION

The Register of Members of the Company will be closed from Monday, 27th September, 2004 to Thursday, 30th September, 2004, both days inclusive, during which period no transfer of shares can be registered. In order to qualify for the proposed interim dividend, all transfers accompanied by the relevant share certificates, must be lodged with the Company's Branch Share Registrars in Hong Kong, Standard Registrars Limited, G/F., BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, for registration not later than 4:00 p.m. on Friday, 24th September, 2004. Warrantheolders who wish to participate in the interim dividend must exercise their subscription rights not later than 4:00 p.m. on Friday, 24th September, 2004.

### DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS

As at 30th June, 2004, the interests and short positions of the directors and the chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited ("HKSE") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

#### 1. Long positions in shares and underlying shares of the Company

Name of Director	No. of Shares		Number of underlying shares (warrants)		Number of underlying shares (share option)	Total	% of shares in issue
	Beneficial interests	Interests held by controlled corporation	Beneficial interests	Interests held by controlled corporation			
Lu Wing Yuk, Andrew	-	-	-	-	3,000,000	3,000,000	0.59
Lu Wing Chi	-	-	-	-	12,500,000	12,500,000	2.44
Lu Wing Lin	94,000	-	-	-	12,500,000	12,594,000	2.46
Lincoln Lu	618,000	256,669,811	572,717	73,897,812	-	331,758,340*	64.88
Lambert Lu	610,000	256,669,811	572,717	73,897,812	-	331,750,340*	64.88

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Note: \* Of these shares and warrants of the Company, 256,669,811 shares and warrants carrying 73,897,812 underlying shares deemed to be interested by Messrs. Lincoln Lu and Lambert Lu represented the same interests and were therefore duplicated amongst these two directors for the purpose of the SFO. 256,669,811 shares and warrants carrying 71,786,743 underlying shares out of such shares were held by Nan Luen International Limited, which was 62.77% owned by JCS Limited ("JCS"), and warrants carrying 2,111,069 underlying shares were held directly by JCS. JCS was 26.09% owned by a discretionary trust, of which both directors are beneficiaries. In addition, Messrs. Lincoln Lu and Lambert Lu were each interested in 10.87% in JCS directly. JCS is deemed to be a controlled corporation of each of Messrs. Lincoln Lu and Lambert Lu by virtue of the SFO.

### 2. Share options

As at 30th June, 2004, certain directors have outstanding share options granted pursuant to the Company's Share Option Scheme, details of which were as follows:

Name of Director	Date of grant	Exercise Price (HK\$)	Exercise period	Number of share options as at 1.1.2004 and 30.6.2004
Lu Wing Yuk, Andrew	4.12.2000	1.44	4.12.2000 – 3.12.2010	3,000,000
Lu Wing Chi	4.12.2000	1.44	4.12.2000 – 3.12.2010	12,500,000
Lu Wing Lin	4.12.2000	1.44	4.12.2000 – 3.12.2010	12,500,000

### 3. Long positions in shares and underlying shares of associated corporations

#### (a) JCS Limited

Name of Director	Beneficial interests	Interests as discretionary trust beneficiary	Total	% of shares in issue
Lu Wing Chi	2,000	12,000 <sup>1</sup>	14,000	30.43
Lincoln Lu	5,000	12,000 <sup>1</sup>	17,000	36.96
Lambert Lu	5,000	12,000 <sup>1</sup>	17,000	36.96

#### (b) Nan Luen International Limited

Name of Director	Interests held by controlled corporation	% of shares in issue
Lincoln Lu	98,210 <sup>2</sup>	62.77
Lambert Lu	98,210 <sup>2</sup>	62.77

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*Notes:*

1. 12,000 shares in JCS Limited deemed to be interested by Messrs. Lu Wing Chi, Lincoln Lu and Lambert Lu represented the same interests and were therefore duplicated amongst these three directors for the purpose of the SFO. Such shares were held by a discretionary trust, of which all three directors are beneficiaries.
2. 98,210 shares in Nan Luen International Limited deemed to be interested by Messrs. Lincoln Lu and Lambert Lu represented the same interests and were therefore duplicated amongst these two directors for the purpose of the SFO. Those shares were held by JCS Limited, which is deemed to be a controlled corporation of each of Messrs. Lincoln Lu and Lambert Lu by virtue of the SFO.

Saved as disclosed herein, as at 30th June, 2004, none of the Directors or chief executives of the Company or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the HKSE pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

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### DISCLOSURE OF INTERESTS BY PERSONS REQUIRED TO GIVE DISCLOSURE PURSUANT TO DIVISIONS 2 AND 3 OF THE SFO

So far as is known to any Director or chief executive of the Company, as at 30th June, 2004, persons (other than a Director or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO, were as follows:

#### Long positions in shares and underlying shares of the Company

Name of shareholders	Capacity	Number of shares	Number of underlying shares (warrants)	Total	% of shares in issue
<b>Substantial shareholders</b>					
JCS Limited <sup>2</sup>	Beneficial interests	–	2,111,069	2,111,069	
	Held by controlled corporation	256,669,811	71,786,743	328,456,554 <sup>1</sup>	
				330,567,623	64.65
Eaver Company Limited <sup>3</sup>	Beneficial interests	608,000	–	608,000	
	Held by controlled corporation	256,669,811	71,786,743	328,456,554 <sup>1</sup>	
				329,064,554	64.36
Nan Luen International Limited <sup>4</sup>	Beneficial interests	256,669,811	71,786,743	328,456,554 <sup>1</sup>	64.24
<b>Others</b>					
Pacific Rose Enterprises Limited	Beneficial interests	31,955,873	3,581,257	35,537,130	6.95
Cyress Gold Limited	Beneficial interests	20,013,043	7,711,957	27,725,000	5.42

#### Notes:

- 256,669,811 shares and warrants carrying 71,786,743 underlying shares deemed to be interested by JCS Limited, Eaver Company Limited and Nan Luen International Limited represented the same interests and were therefore duplicated amongst these three shareholders for the purpose of the SFO. JCS Limited and Eaver Company Limited were respectively interested in 62.77% and 37.23% in Nan Luen International Limited, which in turn was interested in these shares and warrants.
- Messrs. Lu Wing Chi, Lu Wing Lin, Lincoln Lu and Lambert Lu, all of whom are directors of the Company, are also directors of JCS Limited.



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3. Mr. Lu Yong Lee, a director of the Company, is also a director of Eaver Company Limited.
4. Messrs. Lu Wing Chi, Lu Wing Lin, Lu Wing Yuk, Andrew, Lu Yong Lee, Lincoln Lu and Lambert Lu, all of whom are directors of the Company, are also directors of Nan Luen International Limited.

Save as disclosed above, the Directors are not aware of any other person who, as at 30th June, 2004, had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

### DEALINGS IN THE COMPANY'S LISTED SECURITIES

During the half year ended 30th June, 2004, there was no purchase, sale or redemption by the Company or any of its subsidiaries, of the Company's listed shares or warrants.

### MANAGEMENT AND STAFF

The Group had 170 employees at 30th June, 2004 compared with 170 for the corresponding period. Salary and benefits are reviewed at least annually both in response to market conditions and trends and in conjunction with individual performance appraisals. Fringe benefits including study and training allowances, and voluntary employer contributions to retirement schemes are offered to most employees. The Company operates an employee share option scheme with options granted to the Group employees on a discretionary basis by the Board.

The board wishes to thank to the management and staff for their commitment, contribution and dedication and to the customers and tenants for their continuous support to the Group.

### AUDIT COMMITTEE

Regular meetings have been held by the committee since its establishment. The committee meets at least twice each year.

At the request of the directors, the interim financial report of the Company for the half year ended 30th June, 2004 has been reviewed by our auditors, Messrs. Deloitte Touche Tohmatsu, in accordance with the Statement of Auditing Standard 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Society of Accountants and an unmodified review conclusion has been issued.

### CODE OF BEST PRACTICE

The company has complied throughout the period covered by the interim report with the Code of best practice as set out in Appendix 14 of the Rules Governing the Listing of securities on The Stock Exchange of Hong Kong Limited, except that non-executive directors are not appointed for a specific term.

**Lu Wing Chi**

*Chairman and Managing Director*

Hong Kong, 2nd September, 2004