

USI HOLDINGS LIMITED

INTERIM REPORT 2004

FINANCIAL RESULTS

The Board of Directors (the “Directors”) of USI Holdings Limited (the “Company”) presents the interim report and the unaudited financial statements for the six months ended 30 June 2004 of the Company and its subsidiaries (the “Group”).

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2004

	Notes	Unaudited	
		Six months ended 30 June	
		2004	2003
		HK\$'M	HK\$'M
Turnover	3	584.1	518.7
Cost of sales		(431.9)	(392.7)
Gross profit		152.2	126.0
Other operating income		18.3	15.2
Distribution costs		(46.2)	(32.8)
Administrative expenses		(111.4)	(107.3)
Reversal of impairment losses recognised in respect of investments the underlying business of which is property development		–	17.7
Profit from operations	4	12.9	18.8
Other interest income		0.3	0.2
Finance costs		(9.0)	(10.6)
Share of results of associates		3.3	(4.2)
Gain on disposal of an associate		7.6	–
Profit before taxation		15.1	4.2
Taxation	5	(1.5)	(1.5)
Profit before minority interests		13.6	2.7
Minority interests		0.3	(1.6)
Net profit for the period		13.9	1.1
Dividend	6	5.1	5.2
Earnings per share	7		
Basic		HK 2.7 cents	HK 0.2 cent
Diluted		HK 2.7 cents	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2004

		Unaudited 30 June 2004 HK\$'M	Audited 31 December 2003 HK\$'M
	NOTES		
Non-current assets			
Investment properties	8	559.2	863.1
Properties under development		308.7	–
Other properties, plant and equipment	9	257.3	258.4
Interests in associates		389.6	478.2
Investments in securities		431.8	418.8
Other non-current assets		1.9	2.8
		<u>1,948.5</u>	<u>2,021.3</u>
Current assets			
Inventories		135.7	131.1
Properties held for sale		8.9	41.2
Trade and other receivables and prepayments	10	176.2	184.2
Bills receivable		107.4	109.4
Investment in securities		–	4.6
Amounts due from associates		10.7	6.7
Taxation recoverable		4.8	5.4
Bank balances and cash		120.9	207.6
		<u>564.6</u>	<u>690.2</u>
Current liabilities			
Trade and other payables	11	231.0	233.8
Bills payable		16.9	12.0
Amount due to an associate		0.1	0.1
Taxation payable		2.2	1.1
Short-term bank borrowings	12	8.0	46.9
Bank loans – amount due within one year	13	55.1	52.3
		<u>313.3</u>	<u>346.2</u>
Net current assets		<u>251.3</u>	<u>344.0</u>
		<u>2,199.8</u>	<u>2,365.3</u>

CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

At 30 June 2004

		Unaudited 30 June 2004 HK\$'M	Audited 31 December 2003 HK\$'M
	NOTES		
Capital and reserves			
Share capital	14	259.1	258.8
Reserves	15	1,014.5	999.7
Shareholders' funds		<u>1,273.6</u>	<u>1,258.5</u>
Minority interests		<u>55.8</u>	<u>57.1</u>
Non-current liabilities			
Bank loans – amount due after one year	13	762.1	688.5
Consideration payable for the acquisition of properties		–	288.9
Other long-term loans	16	89.6	53.6
Deferred taxation		18.7	18.7
		<u>870.4</u>	<u>1,049.7</u>
		<u>2,199.8</u>	<u>2,365.3</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2004

	Total equity	
	Six months ended 30 June	
	2004	2003
	HK\$'M	HK\$'M
At 1 January	<u>1,258.5</u>	1,258.6
Exchange differences arising on translation of financial statements of operations outside Hong Kong	3.3	1.9
Share of reserves of an associate	(0.4)	(0.4)
Deferred tax liabilities arising on change in tax rate in respective of other property revaluation reserve	–	(0.3)
Net gains not recognised in the consolidated income statement	<u>2.9</u>	1.2
	1,261.4	1,259.8
Issue of shares on exercise of share options	0.4	–
Translation reserve realised on disposal of an associate	3.0	–
Net profit for the period	13.9	1.1
Dividend paid	<u>(5.1)</u>	(5.2)
At 30 June	<u>1,273.6</u>	<u>1,255.7</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2004

	Unaudited	
	Six months ended 30 June	
	2004	2003
	HK\$'M	HK\$'M
Net cash from operating activities	52.1	7.4
Net cash used in investing activities	(205.1)	(29.4)
Net cash from financing activities	63.7	23.1
Net (decrease) increase in cash and cash equivalents	(89.3)	1.1
Cash and cash equivalents at the beginning of the period	207.4	83.2
Effect of foreign exchange rate changes	0.3	0.2
Cash and cash equivalents at the end of the period	<u>118.4</u>	<u>84.5</u>
Analysis of the balances of cash and cash equivalents:		
Bank balances and cash	120.9	84.7
Bank overdrafts	(2.5)	(0.2)
	<u>118.4</u>	<u>84.5</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“the Listing Rules”) and with the Statement of Standard Accounting Practice No. 25 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

2. ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties. The accounting policies adopted in the preparation of the condensed financial statements are consistent with those followed by the Group in the preparation of its annual audited financial statements for the year ended 31 December 2003.

3. TURNOVER AND SEGMENT INFORMATION

Business segment

For management purposes, the Group is organised into five operating divisions – garment manufacturing and trading, branded products distribution, property rental and management, property development and investing activities. These divisions are the basis on which the Group reports its primary segment information.

	Garment manufacturing and trading	Branded products distribution	Property rental and management	Property development	Investing activities	Elimination	Consolidated
For the period ended 30 June 2004	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M
Turnover							
External sales	382.3	105.4	30.0	61.5	4.9	–	584.1
Inter-segment sales	–	–	3.5	–	–	(3.5)	–
Total	<u>382.3</u>	<u>105.4</u>	<u>33.5</u>	<u>61.5</u>	<u>4.9</u>	<u>(3.5)</u>	<u>584.1</u>
Results							
Segment results	1.7	(1.9)	7.1	28.7	(3.1)	–	32.5
Unallocated corporate expenses							(19.6)
Profit from operations							12.9
Other interest income							0.3
Finance costs							(9.0)
Share of results of associates							3.3
Gain on disposal of an associate							<u>7.6</u>
Profit before taxation							15.1
Taxation							<u>(1.5)</u>
Profit before minority interests							13.6
Minority interests							<u>0.3</u>
Net profit for the period							<u>13.9</u>

Inter-segment sales are charged at prevailing market rate.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the period ended 30 June 2003	Garment manufacturing and trading HK\$'M	Branded products distribution HK\$'M	Property rental and management HK\$'M	Property development HK\$'M	Investing activities HK\$'M	Elimination HK\$'M	Consolidated HK\$'M
Turnover							
External sales	365.5	86.1	29.2	32.2	5.7	–	518.7
Inter-segment sales	–	–	3.0	–	–	(3.0)	–
Total	<u>365.5</u>	<u>86.1</u>	<u>32.2</u>	<u>32.2</u>	<u>5.7</u>	<u>(3.0)</u>	<u>518.7</u>
Results							
Profit from operations	15.2	(5.0)	9.9	16.2	(17.5)	–	18.8
Other interest income							0.2
Finance costs							(10.6)
Share of results of associates							(4.2)
Profit before taxation							<u>4.2</u>
Taxation							(1.5)
Profit before minority interests							<u>2.7</u>
Minority interests							(1.6)
Net profit for the period							<u>1.1</u>

Inter-segment sales are charged at prevailing market rate.

Geographical segment

The following table provides an analysis of the Group's turnover by geographical market, irrespective of the origin of the goods/services:

	Turnover by geographical market	
	Six months ended 30 June	
	2004 HK\$'M	2003 HK\$'M
North America	258.7	256.6
United Kingdom	123.2	108.2
Hong Kong	93.9	81.1
Other European countries	54.1	46.0
Other areas	54.2	26.8
	<u>584.1</u>	<u>518.7</u>

4. PROFIT FROM OPERATIONS

	Six months ended 30 June	
	2004	2003
	HK\$'M	HK\$'M
Profit from operations has been arrived at after charging:		
Amortisation of		
– trademark (included in administrative expenses)	0.2	0.1
– permanent textile quota entitlements (included in cost of sales)	0.2	0.7
Cost of temporary textile quota entitlements written off on purchase	3.6	17.6
Depreciation and amortisation of other properties, plant and equipment	<u>11.5</u>	<u>10.3</u>

5. TAXATION

	Six months ended 30 June	
	2004	2003
	HK\$'M	HK\$'M
Taxation of the Company and its subsidiaries		
– Hong Kong Profits Tax	1.3	1.0
– Taxation in other jurisdictions	<u>0.2</u>	<u>–</u>
	1.5	1.0
Deferred taxation	<u>–</u>	<u>0.5</u>
	<u>1.5</u>	<u>1.5</u>

Hong Kong Profits Tax is calculated at 17.5% on the estimated assessable profits for both periods. Taxation in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

6. DIVIDEND

During the six months ended 30 June 2004, a final dividend of HK1.0 cent per share in respect of the year ended 31 December 2003 was approved at the Company's annual general meeting held on 15 June 2004 and paid to the shareholders during the period.

The directors do not recommend the payment of an interim dividend in respect of the six months ended 30 June 2004.

7. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the net profit for the period of HK\$13.9 million (1 January 2003 to 30 June 2003: HK\$1.1 million) and on the weighted average of 517,994,158 shares (1 January 2003 to 30 June 2003: 517,625,339 shares) in issue throughout the period.

The computation of diluted earnings per share is as follows:

	Six months ended 30 June 2004
Earnings for the purposes of calculating both basic and diluted earnings per share	<u>HK\$13.9 million</u>
(Number of ordinary shares)	
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	517,994,158
Effect of dilutive potential ordinary shares issuable under the Company's share option scheme	<u>2,163,903</u>
Weighted average number of shares for the purpose of calculating diluted earnings per share	<u>520,158,061</u>

No diluted earnings per share is presented for the period from 1 January 2003 to 30 June 2003 as the exercise price of the options was higher than the average market price per share. Thus, no exercise of the Company's outstanding option was assumed.

8. INVESTMENT PROPERTIES

During the period, investment properties of HK\$303.9 million were transferred to properties under development.

The Group's investment properties are stated at revalued amounts based on professional valuations at 31 December 2003 on an open market value basis.

9. OTHER PROPERTIES, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK\$9.1 million (1 January 2003 to 30 June 2003: HK\$12.5 million) on acquisition of other properties, plant and equipment.

10. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

The Group allows different credit periods to its trade customers. Credit periods vary from 30 to 90 days in accordance with industry practice.

The following is an aged analysis of the Group's trade receivables at the report date:

	30 June 2004	31 December 2003
	HK\$'M	HK\$'M
0 – 30 days	75.9	45.6
31 – 90 days	23.4	65.7
Over 90 days	28.1	33.9
	<u>127.4</u>	<u>145.2</u>
Other receivables and prepayments	48.8	39.0
Total	<u>176.2</u>	<u>184.2</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

11. TRADE AND OTHER PAYABLES

The following is an aged analysis of the Group's trade payables at the report date:

	30 June 2004	31 December 2003
	HK\$'M	HK\$'M
0 – 30 days	41.1	61.0
31 – 90 days	23.0	22.3
Over 90 days	12.6	9.8
	76.7	93.1
Other payables	154.3	140.7
Total	231.0	233.8

12. SHORT-TERM BANK BORROWINGS

	30 June 2004	31 December 2003
	HK\$'M	HK\$'M
Trust receipts and import loans	5.5	8.7
Bank overdrafts	2.5	0.2
Short-term bank loans	–	38.0
	8.0	46.9

The short-term bank borrowings are unsecured.

13. BANK LOANS

The bank loans carry interest at the prevailing market rates and are repayable as follows:

	30 June 2004	31 December 2003
	HK\$'M	HK\$'M
Within one year	55.1	52.3
Between one to two years	110.8	154.9
Between two to five years	420.4	516.2
After five years	230.9	17.4
	<u>817.2</u>	<u>740.8</u>
Less: Amount due within one year shown under current liabilities	(55.1)	(52.3)
Amount due after one year	<u>762.1</u>	<u>688.5</u>
Analysed as:		
– secured	492.3	445.1
– unsecured	324.9	295.7
	<u>817.2</u>	<u>740.8</u>

14. SHARE CAPITAL

	No. of shares	Amount HK\$'M
Authorised:		
Ordinary shares of HK\$0.50 each at 31 December 2003 and 30 June 2004	1,320,000,000	<u>660.0</u>
Issued and fully paid:		
At 1 January 2003 and 1 January 2004	517,625,339	258.8
Issue of shares on exercise of share options	485,000	0.3
At 30 June 2004	<u>518,110,339</u>	<u>259.1</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

15. RESERVES

	Share premium HK\$'M	Investment property revaluation reserve HK\$'M	Other property revaluation reserve HK\$'M	Translation reserve HK\$'M	Contributed surplus HK\$'M	Other distributable reserve (deficit) HK\$'M	Total HK\$'M
At 1 January 2003	438.4	21.0	18.4	(24.9)	637.0	(90.1)	999.8
Exchange differences arising on translation of financial statements of operations outside Hong Kong	-	-	-	1.9	-	-	1.9
Share of reserves of an associate	-	-	-	(0.4)	-	-	(0.4)
Net profit for the six months ended 30 June 2003	-	-	-	-	-	1.1	1.1
Deferred tax liabilities arising on change in tax rate	-	-	(0.3)	-	-	-	(0.3)
2002 final dividend paid	-	-	-	-	(5.2)	-	(5.2)
At 30 June 2003	438.4	21.0	18.1	(23.4)	631.8	(89.0)	996.9
Deficit arising on revaluation	-	(20.3)	-	-	-	-	(20.3)
Exchange differences arising on translation of financial statements of operations outside Hong Kong	-	-	-	3.0	-	-	3.0
Share of reserves of associates	-	2.8	-	(1.3)	-	-	1.5
Share of reserves by minority shareholders	-	1.2	-	-	-	-	1.2
Net profit for the six months ended 31 December 2003	-	-	-	-	-	17.4	17.4
At 31 December 2003 and 1 January 2004	438.4	4.7	18.1	(21.7)	631.8	(71.6)	999.7
Issue of shares on exercise of share options	0.1	-	-	-	-	-	0.1
Realised on disposal of an associate	-	-	-	3.0	-	-	3.0
Exchange differences arising on translation of financial statements of operations outside Hong Kong	-	-	-	3.3	-	-	3.3
Share of reserves of an associate	-	-	-	(0.4)	-	-	(0.4)
Net profit for the six months ended 30 June 2004	-	-	-	-	-	13.9	13.9
2003 final dividend paid	-	-	-	-	(5.1)	-	(5.1)
At 30 June 2004	438.5	4.7	18.1	(15.8)	626.7	(57.7)	1,014.5

16. OTHER LONG-TERM LOANS

	30 June 2004	31 December 2003
	HK\$'M	HK\$'M
Interest bearing loans	72.3	36.3
Interest free loan	17.3	17.3
	<u>89.6</u>	<u>53.6</u>

The loans are from minority shareholders of subsidiaries. The interest bearing loans carry interest at market rates and are extended to the Group to finance property development projects. All the loans are unsecured and have no fixed repayment terms. In the opinion of the directors, demand for repayment of these loans will not be made within one year of the balance sheet date. The loans are therefore shown in the balance sheet as non-current liabilities.

17. CAPITAL COMMITMENTS

	30 June 2004	31 December 2003
	HK\$'M	HK\$'M
Capital expenditure contracted but not provided in respect of acquisition of property, plant and equipment	<u>11.9</u>	<u>2.3</u>
Capital expenditure in respect of property development		
Contracted for but not provided	2.0	–
Authorised but not contracted for	102.2	–
	<u>104.2</u>	<u>–</u>
	<u>116.1</u>	<u>2.3</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

18. CONTINGENT LIABILITIES

	The Group	
	30 June 2004	31 December 2003
	HK\$'M	HK\$'M
Export bills discounted with recourse	<u>9.5</u>	<u>7.3</u>
Guarantees given to banks in respect of utilised credit facilities extended to associates	<u>319.7</u>	<u>193.8</u>

At 30 June 2004, the Group's share of several and proportionate guarantees, given in respect of unutilised credit facilities granted by financial institutions to associates of the Group which are engaged in property development, amounted to HK\$363.2 million (31 December 2003: HK\$368.2 million).

19. RELATED PARTY TRANSACTIONS

During the period ended 30 June 2004, property management fee income and interest income received and receivable by the Group from its associates amounted to HK\$2.8 million (1 January 2003 to 30 June 2003: HK\$3.9 million) and HK\$3.3 million (1 January 2003 to 30 June 2003: HK\$3.7 million) respectively. These transactions were carried out on terms similar to those applicable to transactions with independent third parties.

At 30 June 2004, the Group's advance to associates amounted to HK\$437.0 million (31 December 2003: HK\$548.7 million). The Group's advances to associates at 30 June 2004 include amounts of HK\$360.6 million (31 December 2003: HK\$422.1 million) which are subordinated to the loans facilities of the associates. These associates are engaged in property development. These Group's advances to associates include amounts of HK\$336.9 million (31 December 2003: HK\$401.8 million) which are assigned, and the shares in these associates beneficially owned by the Group are pledged, to the financial institutions.

INDEPENDENT REVIEW REPORT



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To the Board of Directors of USI Holdings Limited

(incorporated in Bermuda with limited liability)

INTRODUCTION

We have been instructed by USI Holdings Limited (the "Company") to review the interim financial report set out on pages 1 to 16.

DIRECTORS' RESPONSIBILITIES

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 the Statement of Standard Accounting Practice No. 25 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants. 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 the Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public 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 30 June 2004.

Deloitte Touche Tohmatsu

Certified Public Accountants
Hong Kong
15 September 2004

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2004 (2003: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Results

For the first half of 2004, the Group reported a consolidated net profit of HK\$13.9 million, compared with HK\$1.1 million reported for the same period in 2003. Turnover for the Group was HK\$584.1 million for the period ended 30 June 2004, compared with HK\$518.7 million for the first half of 2003.

The increase in the Group's turnover and net profit was due mainly to better performance from the Property Division and a profit of HK\$7.6 million on the disposal of the Group's investment in Oneword Radio Limited.

Apparel

The Group's garment manufacturing operations, through Shui Hing Textiles International Limited and Unimix Holdings Limited, contributed HK\$8.2 million operating profit, excluding restructuring and other closure costs, as compared to HK\$18.7 million for the 2003 Interim period. Turnover for the period ended 30 June 2004 was HK\$344.6 million compared with HK\$337.4 million for the same period last year.

While we were able to record a slight increase in turnover, profit margin was reduced as a result of intense competition, reduced production lead time and more stringent compliance requirements. In addition, shortage in electricity supply has added to our manufacturing costs.

We expect these adverse factors and the uncertainty arising from the elimination of quotas in 2005 to continue to put pressure on prices and profit margin. It is expected that the elimination of quota restrictions in 2005 will cause apparel production to shift further to and become more concentrated in China due to its low labour cost, productive workers, and efficient infrastructure. In short, there is an opportunity to grow turnover, though margin is likely going to be under pressure.

In anticipation of the competition and opportunities ahead, we have been reengineering our manufacturing sales and procurement functions. The expansion plan of our production facilities is progressing well to meet the expected surge in volume. The construction of our Ru Yuan woven and fine knit production facilities will be completed by the end of 2004 and ready for production in early 2005. These two factories, with 250,000 square feet of shop floor, will add an annual capacity of 350,000 dozens and further improve our overall efficiency.

Gieves & Hawkes plc

The turnover of Gieves & Hawkes plc (“G&H”) for the first half in 2004 increased by about 22% to HK\$105 million from HK\$86 million last year. Sales at the concession store that opened in September 2003 at the House of Fraser City store in London, and the new concession store that opened in February 2004 at Harvey Nichols, Knightsbridge, more than offset the sales lost as a result of the closure of two stores in early 2003. The particularly strong performance at the Flagship store at Savile Row, together with the wholesale division that commenced in mid 2003, also helped boost turnover.

Operating loss was reduced from HK\$6.6 million in the first half 2003 to HK\$3.9 million for the same period in 2004.

Property

Property Development

The residential market in Hong Kong performed well in the first quarter of the year with sales volume and prices increasing sharply. However, the market started its consolidation during the second quarter with transaction volume reducing substantially while prices remain stable.

The Property Division produced strong operating profits in the first half of 2004 from sales of the remaining inventory in the three completed developments, namely The Waterfront, The Bloomsville, and The Hillgrove. Profits of the Property Division, including the share of associates’ profits, amounted to HK\$30.1 million, compared with HK\$13.6 million for the corresponding period in 2003.

The construction of The Giverny and The Grandville, two projects situated locally and in which the Group has a 50% and a 40% interest respectively, is progressing satisfactorily. The target completion dates of these two development projects are early 2005 and early 2006, respectively. Application for pre-sale consent for The Grandville has been submitted to the Government in June 2004 which is expected to be approved in October 2004. Given the positive sentiment in the Hong Kong residential market and the Group's reputation for developing high quality properties, the Group is confident that The Grandville will be successfully launched towards the end of the year.

The Group's joint venture project in Singapore in which the Group has a 12% interest was formally named Kovan Melody and private sales was launched in late August 2004. Initial responses from the market were positive with 125 units sold. Sales of the Lancaster Gate project in London in which the Group has 47.5% interest will be launched in September 2004.

Investment Property

The refurbishment of the Group's property at 133 Leighton Road in Causeway Bay into a high-end serviced apartment/hotel operation is progressing satisfactorily. The property will be managed by the Group's hospitality division, Lanson Place, and is scheduled to open in mid-2005. In June 2004, Morgan Stanley Real Estate Funds acquired a 40% interest in the property from the Group. This is intended to be the first in a series of joint initiatives between the Group and Morgan Stanley. Both parties are looking to cooperate further to develop more serviced apartment joint ventures in Greater China.

While the property market in general had experienced a recovery, the industrial property market remained under pressure. However, occupancy rates at the Group's three industrial properties at Shui Hing Centre, Unimix Industrial Centre and 81 Hung To Road were similar to last year at around 80%.

Property Management Services

Lanson Place has established a reputation in the luxury leasing market as one of the most preferred serviced apartments brands in the region. With economies improving, our Lanson Place operations achieved better occupancy for the first half of 2004 than 2003.

Occupancy at Lanson Place Winsland in Singapore for the 2004 interim period was at 80%, as compared to 78% for the same period last year. In Kuala Lumpur, Lanson Place Ambassador Row recorded an occupancy at 73% versus 71% for the same period last year whereas Lanson Place Kondo 8 was able to maintain its leading position in the Ampang area and achieved 96% occupancy. In Hong Kong, Lanson Place Waterfront Residences achieved 87% occupancy for the 2004 interim period based on the full inventory of 161 units, as compared to the average occupancy of 47% for the same period 2003 and an inventory of 134 units.

The luxury leasing market remained extremely competitive with landlords offering very attractive rental packages to capture the corporate market. With the signing of the second phase of the Closer Economic Partnership Arrangement (CEPA) between China and Hong Kong and the resurgence of global trade and travel traffic, foreign investment in the region is expected to increase and boost the demand in luxury leasing market. The Group will continue to look for promising management opportunities to strengthen our position as a high quality residential leasing choice in the market.

Strategic Investments

SUNDAY Communications Limited

SUNDAY Communications Limited ("SUNDAY") achieved its first annual profit of HK\$27 million in 2003 despite difficult market conditions. The success was underpinned by its ability to operate with a more lean and efficient structure, the market segmentation strategy and higher service quality. SUNDAY continues to be a leader in innovative data services as it expands its proprietary Location Based Services.

In May 2004, pursuant to the Heads of Agreements dated 6 December 2003 between Mandarin Communications Limited ("Mandarin"), the main operating subsidiary of SUNDAY, and Huawei Technologies Co., Ltd. ("Huawei"), a leading telecom equipment manufacturer based in Mainland China, both parties entered into the Supply Contract of HK\$859 million in respect of the design, construction and supply, on a turnkey basis, of SUNDAY's third generation mobile telecommunications network ("3G") and the Facility Agreement for the provision of the required long-term financing. In return, Huawei is granted a security package, standard for similar project financing arrangements, which includes a charge over all the assets, revenues and shares of certain wholly-owned subsidiaries of SUNDAY.

SUNDAY will be ready for launch of 3G services by the end of 2004 and the partnership with Huawei gives it the flexibility to determine the launch date based on market conditions.

SUNDAY's shares are listed on The Stock Exchange of Hong Kong Limited and the NASDAQ National Market in the United States. The Group owns 13.7% of SUNDAY.

Prospects

Looking forward, the Apparel division will face increasing challenges with intensifying competition as a result of the elimination of apparel quotas in 2005. Yet, because of the on-going reengineering effort and the construction of new production facilities, the Group is well positioned to capture any opportunities arising from the expected surge in demand.

In the second half of the year, the Property Division's focus will be on the sales launch of the Grandville. Together with the sales launches of Kovan Melody in Singapore and Lancaster Gate in London, the Property Division is expected to contribute positively to the Group's overall profitability.

Barring any unforeseen circumstances, the current trend of recovery is expected to continue for the second half of the year.

Liquidity and Financial Resources

The Group's shareholders' funds were HK\$1,273.6 million as at 30 June 2004 as compared to HK\$1,258.5 million at the end of 2003. The increase in shareholders' funds was mainly due to the profit for the period ended 30 June 2004 net of the distribution of the 2003 final dividend.

As at 30 June 2004, the Group's net bank borrowings (total bank borrowings net of cash and bank balances) was HK\$704.3 million (as at 31 December 2003: HK\$580.1 million), representing 55.3% of the Group's net assets, as compared to 46.1% as at the end of 2003. Interest for the Group's bank borrowings was mainly on a floating rate basis. Most (around 92%) of the Group's bank borrowings were repayable in periods beyond one year, and the Group had unutilised banking facilities in excess of HK\$300 million as at 30 June 2004.

Foreign Currencies

The Group continues to conduct its business mainly in Hong Kong dollars and United States dollars. For transactions in other foreign currencies, our policy is to hedge most such dealings. In addition, the majority of our assets are situated in Hong Kong, thus our exposure to exchange rate fluctuations is minimal.

Contingent Liabilities

As at 30 June 2004, the Group's contingent liabilities were guarantees given to banks in respect of utilised credit facilities extended to associates of HK\$319.7 million, and export bills discounted with recourse amounting to HK\$9.5 million.

Pledge of Assets

As at 30 June 2004, certain of the Group's investment properties with carrying value of HK\$532.9 million and properties for own use with carrying value of HK\$173.8 million, and properties under development with carrying value of HK\$308.7 million, were pledged to secure credit facilities for the Group.

The Group's advances to associates at 30 June 2004 include amounts of HK\$360.6 million (31 December 2003: HK\$422.1 million) which are subordinated to the loans facilities of the associates. These associates are engaged in property development. These Group's advances to associates include amounts of HK\$336.9 million (31 December 2003: HK\$401.8 million) which are assigned, and the shares in these associates beneficially owned by the Group are pledged to the financial institutions.

Employees

As at 30 June 2004, the Group had in excess of 6,000 staff and workers. The Group offers comprehensive remuneration and benefit packages to its employees, which are structured according to the prevailing salary levels in the market, individual merit and performance. The Group has a mandatory provident fund scheme to provide retirement benefits for all of its employees in Hong Kong. In addition, there is a defined contribution top-up scheme for qualifying employees of certain Hong Kong subsidiaries of the Group. The Group also operates a funded defined benefit pension scheme for certain overseas employees engaged prior to May 2001.

Employees and directors are eligible under the Company's share option scheme in which the share options are generally exercisable in stages within a period of one to five years from the date of grant.

DIRECTORS' INTERESTS

As at 30 June 2004, the interests of the directors of the Company in the shares and share options of the Company as recorded in the register maintained by the Company pursuant to section 352 of Part XV of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") were as follows:

1. Long position in the Shares of the Company

Name of director	Number of shares held				Total	Percentage of the Company's issued share capital
	Personal interests	Family interests	Corporate interests	Other interests		
Cheng Wai Chee, Christopher	75,999	–	150,409,086 Note (a)	110,595,862 Note (b)	261,080,947	50.39%
Cheng Wai Sun, Edward	–	–	–	110,595,862 Note (b)	110,595,862	21.35%
Cheng Man Piu, Francis	–	–	–	110,595,862 Note (b)	110,595,862	21.35%
Ng Tak Wai, Frederick	26,000	762,000	–	–	788,000	0.15%
Cheng Wai Keung	–	–	–	110,595,862 Note (b)	110,595,862	21.35%

Notes:–

- (a) Mr. Cheng Wai Chee, Christopher was deemed to be interested in 150,409,086 shares of the Company beneficially owned by Bestime Resources Limited, Pofung Investments Limited and Broxbourne Assets Limited by virtue of his corporate interests in these companies. Bestime Resources Limited, Pofung Investments Limited and Broxbourne Assets Limited were the beneficial owners of 68,747,996, 66,698,122 and 14,962,968 shares of the Company respectively.
- (b) Messrs. Cheng Wai Chee, Christopher, Cheng Wai Sun, Edward, Cheng Man Piu, Francis and Cheng Wai Keung were beneficiaries of a trust which assets include indirect interests in 110,595,862 shares of the Company beneficially owned by Brave Dragon Limited and Wing Tai Garment Manufactory (Singapore) Pte Limited as set out under "Substantial Shareholders' Interests" below.

2. Share Options of the Company

As at 30 June 2004, the outstanding number of shares issuable under share options granted to the directors of the Company pursuant to the Old Share Option Scheme (as defined in the section headed "Share Option Schemes" hereinafter) were as follows:

Name of director	Date of grant	Exercise price per share (HK\$)	Number of share options	
			Outstanding at 1.1.2004	Outstanding at 30.6.2004
Cheng Wai Chee, Christopher	15.11.1999	0.800	2,000,000	2,000,000
Cheng Wai Sun, Edward	15.11.1999	0.800	2,000,000	2,000,000
Ng Tak Wai, Frederick	15.11.1999	0.800	860,000	860,000
Au Hing Lun, Dennis	15.11.1999	0.800	600,000*	600,000

* Such share options were granted to Mr. Au Hing Lun, Dennis prior to his appointment as director of the Company.

The options granted are exercisable in stages within a period of one to five years from the date of grant. No option was granted to, or exercised by, the Company's directors during the six months ended 30 June 2004.

Save as disclosed above, as at 30 June 2004, none of the directors of the Company had or was deemed to have any interest or short position in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of the SFO) which has been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of the SFO and have been recorded in the register maintained by the Company pursuant to section 352 of the SFO; or which has been notified to the Company and the Stock Exchange pursuant to the Model Code. Nor any of the directors (including their spouses and children under the age of 18) had, as at 30 June 2004, any interest in, or had been granted any right to subscribe for the securities of the Company and its associated corporations within the meaning of the SFO, or had exercised any such rights during the period.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30 June 2004, the following persons (other than the directors of the Company) had interests in the shares of the Company as recorded in the register kept by the Company pursuant to section 336 of the SFO:

Long position in the Shares of the Company

Name of shareholder	Number of shares beneficially held	% of shareholding
Brave Dragon Limited	106,345,862	20.53
Wing Tai Holdings Limited	110,595,862	21.35 (Note 1)
Deutsche Bank International Trust Co. (Jersey) Limited	110,595,862	21.35 (Note 2)
Deutsche Bank International Trust Co. (Cayman) Limited	110,595,862	21.35 (Note 2)
Wing Tai Asia Holdings Limited	110,595,862	21.35 (Note 2)
Wing Sun Development Private Limited	110,595,862	21.35 (Note 2)
Terebene Holdings Inc.	110,595,862	21.35 (Note 2)
Winlyn Investment Pte Ltd.	110,595,862	21.35 (Note 2)
Bestime Resources Limited	68,747,996	13.27 (Note 3)
Pofung Investments Limited	66,698,122	12.87 (Note 3)
Wing Tai Corporation Limited	135,446,118	26.14 (Note 3)
Wesmore Limited	83,316,158	16.08 (Note 4)
Sun Hung Kai Properties Limited	100,762,150	19.45 (Note 4)
Lo Yuk Sui	51,676,000	9.97 (Note 5a)

Name of shareholder	Number of shares beneficially held	% of shareholding
Century City International Holdings Limited	51,676,000	9.97 (Note 5a)
Century City BVI Holdings Limited	51,676,000	9.97 (Note 5b)
Paliburg Holdings Limited	51,676,000	9.97 (Note 5b)
Paliburg Development BVI Holdings Limited	51,676,000	9.97 (Note 5b)
Paliburg International Holdings Limited	51,676,000	9.97 (Note 5b)
Paliburg BVI Holdings Limited	51,676,000	9.97 (Note 5b)
Regal Hotels International Holdings Limited	51,676,000	9.97 (Note 5b)
Regal International (BVI) Holdings Limited	51,676,000	9.97 (Note 5b)
Real Chance Profits Limited	51,676,000	9.97 (Note 5b)
HK 168 Limited	51,676,000	9.97 (Note 5b)

Notes:

- (1) Wing Tai Holdings Limited beneficially owned 89.4% of the issued share capital of Brave Dragon Limited and 100% of the issued share capital of Wing Tai Garment Manufactory (Singapore) Pte Limited which owned 4,250,000 shares of the Company.
- (2) Deutsche Bank International Trust Co. (Jersey) Limited was the trustee of a family trust (in which Messrs. Cheng Wai Chee, Christopher, Cheng Wai Sun, Edward, Cheng Man Piu, Francis and Cheng Wai Keung are beneficiaries) which held all units of a unit trust ("Unit Trust"). Deutsche Bank International Trust Co. (Cayman) Limited was the trustee of the Unit Trust which beneficially owned 100% of the issued shares of Wing Tai Asia Holdings Limited and 61.3% of the issued shares of Terebene Holdings Inc. Wing Tai Asia Holdings Limited, through its wholly-owned subsidiary, Wing Sun Development Private Limited, held 28.2% of the issued shares of Wing Tai Holdings Limited. Terebene Holdings Inc. held 59.3% of the issued shares of Winlyn Investment Pte Ltd. which in turn held 9.2% of the issued shares of Wing Tai Holdings Limited.

- (3) Wing Tai Corporation Limited beneficially owned 100% of the issued share capital of Bestime Resources Limited and Pofung Investments Limited and therefore, it was deemed to be interested in the shares they held in the Company by virtue of its corporate interests in them.
- (4) Sun Hung Kai Properties Limited (“SHKP”) beneficially owned 100% of the issued share capital of Soundworld Limited, Techglory Limited and Wesmore Limited. Soundworld Limited was the beneficial owner of 16,260,992 shares of the Company, Techglory Limited was the beneficial owner of 1,185,000 shares of the Company and Wesmore Limited was the beneficial owner of 83,316,158 shares of the Company. SHKP was deemed to be interested in the shares owned by the three aforementioned companies by virtue of its corporate interests in these companies.
- (5) (a) These shares were held through the companies controlled by Century City International Holdings Limited (“CCIHL”), of which Mr. Lo Yuk Sui is the Chairman and controlling shareholder. 51,676,000 shares of the Company were beneficially owned by HK 168 Limited (“HK 168”), in which shares Regal Chance Profits Limited, Regal International (BVI) Holdings Limited, Regal Hotels International Holdings Limited, Paliburg BVI Holdings Limited, Paliburg International Holdings Limited, Paliburg Development BVI Holdings Limited, Paliburg Holdings Limited, Century City BVI Holdings Limited and CCIHL were deemed to have an interest through their direct or indirect shareholding interests in HK 168. These interests in 51,676,000 shares are duplicated amongst Mr. Lo Yuk Sui and all these companies.
- (b) These companies are controlled by CCIHL.

Save as disclosed above, as at 30 June 2004, the Company is not aware of any other person (other than the directors of the Company) who has an interest or a short position in the shares or underlying shares of the Company which was required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO and have been recorded in the register kept by the Company pursuant to section 336 of the SFO.

SHARE OPTION SCHEMES

On 10 June 2003, the 2003 Share Option Scheme (“2003 Scheme”) was approved by shareholders under which the board of directors of the Company may, at their discretion, offer the directors and employees of the Group, options to subscribe for shares in the Company, subject to a maximum of 10% of the issued share capital of the Company as at 10 June 2003 and the maximum number of options granted to any one individual in any 12-month period shall not exceed 1% of the issued share capital of the Company. The purpose of the 2003 Scheme is to enable the Company to grant options to selected participants as incentives for their contributions to the Group. A consideration of HK\$1 is payable on acceptance of the grant of options. Options granted must be taken up within 28 days from the date of grant. The exercise price for an option to subscribe for a share is determined by the directors of the Company, and shall be at least the highest of : i) the closing price of the shares of the Company as stated in the Hong Kong Stock Exchange’s daily quotation sheet on the date of grant; ii) the average closing price of the shares of the Company as stated in the Hong Kong Stock Exchange’s daily quotation sheets for the five trading days immediately preceding the date of grant; iii) the nominal value of a share of the Company. The 2003 Scheme will be ended on 9 June 2013.

Prior to the adoption of 2003 Scheme, the Company had an old share option scheme (the “Old Share Option Scheme”) which came into operation on 18 November 1991 and expired on 17 November 2001. Under the Old Share Option Scheme, the board of directors of the Company may, at their discretion, offer executive directors and employees of the Company or any of its subsidiaries, options to subscribe for shares in the Company up to a maximum of 10% of the issued share capital of the Company at the date of adoption of the Old Share Option Scheme. No option has been granted under the Old Share Option Scheme after its expiry on 17 November 2001. The movement of the share options granted under the Old Share Option Scheme and remained valid and exercisable during the period are as follows:

	Date of grant	Exercise price per share (HK\$)	Number of share options				Outstanding at 30.6.2004
			Outstanding at 1.1.2004	Exercised during the period	Lapsed during the period	Adjustment*	
Directors	15-11-1999	0.8	4,860,000	–	–	600,000	5,460,000
Employees working under continuous contracts	15-11-1999	0.8	4,685,000	(485,000)	–	(600,000)	3,600,000
Total			<u>9,545,000</u>	<u>(485,000)</u>	<u>–</u>	<u>0</u>	<u>9,060,000</u>

* Adjustment was made for 600,000 share options belong to Mr. Au Hing Lun, Dennis who had been appointed as an executive director of the Company on 5 February 2004.

The weighted average closing price of the Company's shares immediately before the date on which the share options were exercised was HK\$1.21 per share.

No option was granted during the six months period ended 30 June 2004. The options granted are generally exercisable in stages within a period of one to five years from the date of grant.

COMPLIANCE WITH RULE 13.22 OF THE LISTING RULES

At 30 June 2004, the aggregate amount of financial assistance provided to and guarantees given for affiliated companies by the Group amounted to HK\$768.3 million.

Pursuant to Rule 13.22 of the Listing Rules, an unaudited pro-forma combined balance sheet of these affiliated companies and the Group's attributable interest in these affiliated companies as at 30 June 2004 are presented below:

(HK\$'M)	Pro-forma combined balance sheet	Group's attributable interest
Non-current assets	3,834.1	706.7
Current assets	972.1	190.6
Current liabilities	(459.1)	(133.0)
Non-current liabilities	(4,964.5)	(813.1)
Net liabilities	<u>(617.4)</u>	<u>(48.8)</u>

AUDIT COMMITTEE

The Audit Committee of the Company comprises two independent non-executive directors and a non-executive director.

The Committee engaged the auditors of the Company to assist them in reviewing the interim financial report of the Company for the six months ended 30 June 2004. The auditors conducted their review in accordance with the Statement of Auditing Standards 700 “Engagements to review interim financial reports” issued by the Hong Kong Institute of Certified Public Accountants.

The Committee has met with the management and external auditors to review the unaudited interim financial report and consider the significant accounting principles and policies adopted by the Company and discuss with the management the internal control and financial reporting matters in respect of this interim report. The Committee recommended to the Board approval of the unaudited interim financial report for the six months ended 30 June 2004 for public release.

CORPORATE GOVERNANCE

None of the directors of the Company is aware of information which would reasonably indicate that the Company was not in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules during the six months ended 30 June 2004.

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

During the six months ended 30 June 2004, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

By Order of the Board

Au Hing Lun, Dennis

*Executive Director and
Company Secretary*

Hong Kong, 15 September 2004

CORPORATE INFORMATION

DIRECTORS

Cheng Wai Chee, Christopher *JP Chairman*
Cheng Wai Sun, Edward *Chief Executive*
Cheng Man Piu, Francis
Ng Tak Wai, Frederick
Au Hing Lun, Dennis
Cheng Wai Keung #
Kwok Ping Luen, Raymond #
Wong Yick Kam, Michael #
(also an alternate to Kwok Ping Luen, Raymond)
Hong Pak Cheung, William #
Simon Murray *CBE **
Fang Hung, Kenneth *JP **

non-executive directors

* independent non-executive directors

AUDIT COMMITTEE

Simon Murray, *CBE Chairman*
Fang Hung, Kenneth *JP*
Wong Yick Kam, Michael
Hong Pak Cheung, William
(alternate to Wong Yick Kam, Michael)

COMPANY SECRETARY

Au Hing Lun, Dennis

AUDITORS

Deloitte Touche Tohmatsu

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking
Corporation Limited
Standard Chartered Bank

REGISTRARS

Principal Register

The Bank of Bermuda Limited
Bank of Bermuda Building
Front Street, Hamilton
Bermuda

Branch Register

Standard Registrars Limited
G/F, Bank of East Asia Harbour View Centre
56 Gloucester Road, Wanchai
Hong Kong

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

HEAD OFFICE

25/F, Unimix Industrial Centre
2 Ng Fong Street
San Po Kong
Kowloon
Hong Kong

WEBSITE

<http://www.usi.com.hk>

HONG KONG STOCK EXCHANGE STOCK CODE

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WINGTAIASIA