



# CHINESE ESTATES HOLDINGS LIMITED

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 127)**

**Interim Report  
For The Six Months  
Ended 30th June 2004**

## **CORPORATE INFORMATION**

*Executive Directors:*

Thomas Lau, Luen-hung (*Chairman*)

Joseph Lau, Luen-hung

*Independent Non-executive Directors:*

Constance Choy, Hok-man

Koon, Wing-yee

Cheng, Kwee

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## **INDEPENDENT REVIEW REPORT**

### **TO THE BOARD OF DIRECTORS OF CHINESE ESTATES HOLDINGS LIMITED** *(incorporated in Bermuda with limited liability)*

#### **Introduction**

We have been instructed by the Company to review the interim financial report set out on pages 2 to 15.

#### **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 No. 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 30th June 2004.

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

Hong Kong, 6th September 2004

## RESULTS

The Board of Directors of Chinese Estates Holdings Limited (the “Company”), announces the following unaudited consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30th June 2004 together with the comparative figures for 2003:-

### CONDENSED CONSOLIDATED INCOME STATEMENT

*For the six months ended 30th June 2004*

		Six months ended 30th June	
		2004	2003
	Notes	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Turnover	2	3,558,763	459,666
Cost of sales		<u>(3,240,570)</u>	<u>(155,983)</u>
Gross profit		318,193	303,683
Other operating income	4	19,936	17,963
Administrative expenses		(57,001)	(111,690)
Investment income	5	320,121	24,262
Other operating expenses	6	(1,473)	(663)
Gain on disposals of property and other fixed assets		11,848	18,217
Gain (loss) on disposals of investment properties		<u>8,413</u>	<u>(5,930)</u>
Profit from operations	7	620,037	245,842
Finance costs	8	(16,029)	(49,715)
Other income, net	9	4,980	1,925
Share of results of jointly controlled entities		(768)	–
Share of results of associates		<u>23,102</u>	<u>(12,328)</u>
Profit before taxation		631,322	185,724
Taxation	10	<u>(39,931)</u>	<u>(7,754)</u>
Profit after taxation and before minority interests		591,391	177,970
Minority interests		<u>(2,882)</u>	<u>(464)</u>
Profit attributable to shareholders		<u>588,509</u>	<u>177,506</u>
Interim dividend per share declared after the interim period end	11	<u>8.5 cents</u>	<u>5.0 cents</u>
Basic earnings per share	12	<u>27.9 cents</u>	<u>7.9 cents</u>

**CONDENSED CONSOLIDATED BALANCE SHEET**  
**At 30th June 2004**

	<i>Notes</i>	<b>30th June 2004 HK\$'000 (Unaudited)</b>	31st December 2003 HK\$'000 (Audited)
<b>Non-current assets</b>			
Investment properties	13	16,485,372	16,309,330
Property and other fixed assets		38,409	43,971
Properties under development	14	9,500	149,656
Property interests held for future development		71,348	70,954
Intangible assets		1,319	1,508
Goodwill		8,985	10,269
Negative goodwill		(220,862)	(225,193)
Interests in associates	15	1,383,241	1,610,171
Interests in jointly controlled entities		–	768
Investments in securities		806,097	1,019,352
Advance to an investee company		35,921	154,393
Other assets		15,951	15,951
Loans receivable – due after one year		17,860	21,708
Deferred tax assets		92,868	97,976
Pledged deposits		121,505	94,937
		<b>18,867,514</b>	<b>19,375,751</b>
<b>Current assets</b>			
Investments in securities		1,139,782	1,014,670
Properties under development	14	641,830	604,735
Properties held for sale		217,834	340,085
Loans receivable – due within one year		1,229	1,238
Debtors, deposits and prepayments	16	185,197	120,748
Securities receivables and deposits		124,669	43,235
United States currency treasury bills		610,161	606,804
United States currency forward contracts		–	6,905
Taxation recoverable		2,485	4,638
Pledged deposits		10,813	357
Cash held by stakeholders		–	53,370
Time deposits, bank balances and cash		1,466,311	226,439
		<b>4,400,311</b>	<b>3,023,224</b>
<b>Current liabilities</b>			
Creditors and accruals	17	92,190	85,196
Cash and margin payable		116,068	36,031
Forward sales deposits received		–	280,065
Deposits and receipts in advance		234,918	231,858
Tax liabilities		66,900	54,165
Obligations under finance leases		–	971
Borrowings – due within one year	18	2,673,730	2,243,794
Provisions		16,017	16,017
		<b>3,199,823</b>	<b>2,948,097</b>
Net current assets		<b>1,200,488</b>	<b>75,127</b>
Total assets less current liabilities		<b>20,068,002</b>	<b>19,450,878</b>

**CONDENSED CONSOLIDATED BALANCE SHEET** (*cont'd*)  
*At 30th June 2004*

	<i>Notes</i>	<b>30th June 2004 HK\$'000 (Unaudited)</b>	31st December 2003 HK\$'000 (Audited)
Non-current liabilities			
Borrowings – due after one year	18	5,441,681	4,808,170
Amounts due to associates		21,247	20,646
Amounts due to minority shareholders		372,526	371,741
Deferred tax liabilities		46,826	35,774
		<u>5,882,280</u>	<u>5,236,331</u>
Minority interests			
		<u>(153,869)</u>	<u>(153,069)</u>
		<u>14,339,591</u>	<u>14,367,616</u>
Capital and reserves			
Share capital	19	210,322	216,390
Reserves		14,129,269	14,151,226
		<u>14,339,591</u>	<u>14,367,616</u>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**For the six months ended 30th June 2004**

	Share capital HK\$'000	Share premium HK\$'000	Treasury stocks HK\$'000	Investment properties revaluation reserve HK\$'000	Hotel property revaluation reserve HK\$'000	Special reserve HK\$'000	Capital redemption reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st January 2003	229,415	2,327,096	-	5,117,087	24,809	2,499,685	70,203	834,267	11,102,562
Deferred tax on revaluation reserve	-	-	-	(397)	-	-	-	-	(397)
Share of associates' reserve movements during the period	-	-	-	(2,167)	-	-	-	-	(2,167)
Exchange adjustments	-	-	-	-	-	-	-	22	22
Net gains (losses) not recognised in the consolidated income statement	-	-	-	(2,564)	-	-	-	22	(2,542)
Cancellation on repurchase of own shares	(10,325)	(131,367)	-	-	-	-	10,325	-	(131,367)
Deficit realised on disposal of investment properties	-	-	-	11,715	-	-	-	-	11,715
Profit for the period	-	-	-	-	-	-	-	177,506	177,506
At 30th June 2003	219,090	2,195,729	-	5,126,238	24,809	2,499,685	80,528	1,011,795	11,157,874
Deferred tax on revaluation reserve	-	-	-	(7,609)	(1,291)	-	-	-	(8,900)
Effect of change in tax rate	-	-	-	339	-	-	-	-	339
Exchange adjustments	-	-	-	-	-	-	-	(397)	(397)
Surplus on revaluation	-	-	-	2,593,583	-	-	-	-	2,593,583
Share of revaluation reserve by minority interest	-	-	-	(8,887)	-	-	-	-	(8,887)
Share of associates' reserve movements during the period	-	-	-	(3,251)	4,500	-	-	-	1,249
Net gains (losses) not recognised in the consolidated income statement	-	-	-	2,574,175	3,209	-	-	(397)	2,576,987
Cancellation on repurchase of own shares	(2,700)	(128,445)	(1,764)	-	-	-	4,464	-	(128,445)
Deficit realised on disposal of investment properties	-	-	-	1,444	-	-	-	-	1,444
Profit for the period	-	-	-	-	-	-	-	976,339	976,339
Interim dividend paid	-	-	-	-	-	-	-	(109,500)	(109,500)
Special dividend paid in specie	-	-	-	-	-	-	-	(107,083)	(107,083)
At 31st December 2003	216,390	2,067,284	(1,764)	7,701,857	28,018	2,499,685	84,992	1,771,154	14,367,616

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY** (cont'd)  
**For the six months ended 30th June 2004**

	Share capital HK\$'000	Share premium HK\$'000	Treasury stocks HK\$'000	Investment properties revaluation reserve HK\$'000	Hotel property revaluation reserve HK\$'000	Special reserve HK\$'000	Capital redemption reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
Deferred tax on revaluation reserve	-	-	-	(4)	-	-	-	-	(4)
Share of associates' reserve movements during the period	-	-	-	(639)	-	-	-	-	(639)
Exchange adjustments	-	-	-	-	-	-	-	1,156	1,156
Net gains (losses) not recognised in the consolidated income statement	-	-	-	(643)	-	-	-	1,156	513
Cancellation on treasury stocks	(1,764)	-	1,764	-	-	-	-	-	-
Cancellation on repurchase of own shares	(4,304)	(356,669)	(4,255)	-	-	-	8,559	-	(356,669)
Surplus realised on disposal of investment properties	-	-	-	(7,178)	-	-	-	-	(7,178)
Final dividend paid	-	-	-	-	-	-	-	(253,200)	(253,200)
Profit for the period	-	-	-	-	-	-	-	588,509	588,509
<b>At 30th June 2004</b>	<b><u>210,322</u></b>	<b><u>1,710,615</u></b>	<b><u>(4,255)</u></b>	<b><u>7,694,036</u></b>	<b><u>28,018</u></b>	<b><u>2,499,685</u></b>	<b><u>93,551</u></b>	<b><u>2,107,619</u></b>	<b><u>14,339,591</u></b>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**  
*For the six months ended 30th June 2004*

	<b>Six months ended 30th June</b>	
	<b>2004</b>	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	(Unaudited)
Net cash from operating activities	<b>779,671</b>	266,087
Net cash from (used in) investing activities	<b>18,270</b>	(1,954,151)
Net cash from financing activities	<b>441,982</b>	1,260,775
	<hr/>	<hr/>
Increase (decrease) in cash and cash equivalents	<b>1,239,923</b>	(427,289)
Cash and cash equivalents at beginning of the period	<b>226,439</b>	1,007,116
Effect of foreign exchange rate changes	<b>(51)</b>	22
	<hr/>	<hr/>
Cash and cash equivalents at end of the period	<b><u>1,466,311</u></b>	<u>579,849</u>
Analysis of cash and cash equivalents		
Time deposits, bank balances and cash	<b><u>1,466,311</u></b>	<u>579,849</u>

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30th June 2004

### 1. Basis of preparation and principal accounting policies

The condensed consolidated 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 Statement of Standard Accounting Practice No. 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants.

The condensed consolidated financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties and investments in securities. The accounting policies adopted are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31st December 2003.

### 2. Turnover

Turnover represents the aggregate of amounts received and receivable from the sales of securities investment, sales of properties held for sale, property rental income, commission from brokerage, settlement charges from brokerage and interest income from loan financing.

### 3. Segment information

#### Business segments

The Group’s primary format for reporting segment information is business segments.

#### For the six months ended 30th June 2004

	Property development and trading HK\$’000	Property leasing HK\$’000	Money lending HK\$’000	Listed securities investment HK\$’000	Unlisted securities investment, holding and brokerage HK\$’000	Other operations HK\$’000	Consolidated HK\$’000
REVENUE							
Revenue from external customers	<u>298,645</u>	<u>345,737</u>	<u>213</u>	<u>2,906,840</u>	<u>7,328</u>	<u>-</u>	<u>3,558,763</u>
RESULT							
Segment result	<u>(21,652)</u>	<u>337,966</u>	<u>213</u>	<u>161,274</u>	<u>168,737</u>	<u>-</u>	<u>646,538</u>
Unallocated corporate expenses							<u>(26,501)</u>
Profit from operations							<u>620,037</u>
Finance income on listed securities investment	-	-	-	6,128	-	-	6,128
Other finance costs							(22,157)
Other income, net							4,980
Share of results of jointly controlled entities							(768)
Share of results of associates	5,092	17,166	472	-	171	201	<u>23,102</u>
Profit before taxation							<u>631,322</u>
Taxation							<u>(39,931)</u>
Profit after taxation							<u><u>591,391</u></u>

For the six months ended 30th June 2003

	Property development and trading <i>HK\$'000</i>	Property leasing <i>HK\$'000</i>	Money lending <i>HK\$'000</i>	Listed securities investment <i>HK\$'000</i>	Unlisted securities investment, holding and brokerage <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>REVENUE</b>							
Revenue from external customers	<u>-</u>	<u>325,066</u>	<u>5,064</u>	<u>127,335</u>	<u>2,201</u>	<u>-</u>	<u>459,666</u>
<b>RESULT</b>							
Segment result	<u>-</u>	<u>306,377</u>	<u>5,064</u>	<u>(10,170)</u>	<u>20,744</u>	<u>-</u>	322,015
Unallocated corporate expenses							<u>(76,173)</u>
Profit from operations							245,842
Finance costs on listed securities investment	-	-	-	(739)	-	-	(739)
Other finance costs							(48,976)
Other income, net							1,925
Share of results of associates	(29,964)	20,973	-	-	(6,176)	2,839	<u>(12,328)</u>
Profit before taxation							185,724
Taxation							<u>(7,754)</u>
Profit after taxation							<u>177,970</u>

#### 4. Other operating income

**Six months ended 30th June**  
**2004**                      2003  
*HK\$'000*                      *HK\$'000*

Included in other operating income are:

Net building management fee income	<b>11,479</b>	11,153
Release of negative goodwill	<b>4,331</b>	4,581
Write off of negative goodwill	<b>2,116</b>	-
	<u>18,926</u>	<u>16,315</u>

#### 5. Investment income

**Six months ended 30th June**  
**2004**                      2003  
*HK\$'000*                      *HK\$'000*

Unrealised holding gain on		
- an unlisted securities investment	<b>138,953</b>	-
- increase in market price of listed securities investments	<b>120,326</b>	881
	<u>259,279</u>	<u>881</u>
- exchange gain on translation of listed securities investments	<b>1,603</b>	-
Total unrealised holding gain	<b>260,882</b>	881
Other investment income	<b>6,597</b>	-
Dividend income		
- listed investments	<b>23,211</b>	3,760
- unlisted investments	<b>13,889</b>	11,946
Interest income	<b>15,542</b>	7,675
	<u>320,121</u>	<u>24,262</u>

## 6. Other operating expenses

**Six months ended 30th June**  
**2004**                      2003  
*HK\$'000*                      *HK\$'000*

Included in other operating expenses are:

Amortisation of goodwill	1,284	–
Amortisation of intangible assets	<u>189</u>	<u>–</u>

## 7. Profit from operations

**Six months ended 30th June**  
**2004**                      2003  
*HK\$'000*                      *HK\$'000*

Profit from operations has been arrived at after (charging) crediting:

Staff costs		
Staff costs, including Directors' emoluments	(32,006)	(38,664)
Retirement benefit schemes contributions	<u>(375)</u>	<u>(310)</u>
	<u>(32,381)</u>	<u>(38,974)</u>
 Depreciation	 <u>(5,785)</u>	 <u>(4,819)</u>
 Gain (loss) on disposal of listed securities investments		
– increase (decrease) in market value of listed securities investments	25,729	(14,811)
– realised exchange loss on translation of listed securities investments	<u>(20,427)</u>	<u>–</u>
	<u>5,302</u>	<u>(14,811)</u>
 Gross rental income from investment properties	 345,737	 325,066
<i>Less: Outgoings</i>	<u>(16,184)</u>	<u>(12,759)</u>
	<u>329,553</u>	<u>312,307</u>

## 8. Finance costs

**Six months ended 30th June**  
**2004**                      2003  
*HK\$'000*                      *HK\$'000*

Interest on:

Bank loans wholly repayable within five years	20,507	58,774
Other loans wholly repayable within five years	<u>8,308</u>	<u>739</u>
	28,815	59,513
Realised exchange gain on translation of foreign currency loans	(20,427)	–
Unrealised exchange loss on translation of foreign currency loans	5,991	–
Other finance costs	<u>3,648</u>	<u>3,194</u>
	18,027	62,707
<i>Less: Interest capitalised to properties under development</i>	<u>(1,998)</u>	<u>(12,992)</u>
	<u>16,029</u>	<u>49,715</u>

## 9. Other income, net

	<b>Six months ended 30th June</b>	
	<b>2004</b>	<b>2003</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Included in other income, net are:		
Gain on disposals of subsidiaries	<b>3,819</b>	–
Release of negative goodwill arising from investment in an associate	<b>1,460</b>	<b>1,460</b>

## 10. Taxation

	<b>Six months ended 30th June</b>	
	<b>2004</b>	<b>2003</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
The charge (credit) comprises:		
Company and subsidiaries		
Current tax		
Hong Kong Profits Tax	<b>16,321</b>	8,601
Other than Hong Kong	<b>2,179</b>	<b>1,491</b>
	<b>18,500</b>	<b>10,092</b>
Deferred tax		
Current year	<b>16,395</b>	<b>(3,270)</b>
Share of taxation attributable to associates:		
Hong Kong Profits Tax	<b>(102)</b>	(480)
Other than Hong Kong	<b>5,138</b>	<b>1,412</b>
	<b>5,036</b>	<b>932</b>
	<b>39,931</b>	<b>7,754</b>

Hong Kong Profits Tax have been provided for at the rate of 17.5% on the estimated assessable profits for the period. Taxation on profits arising outside Hong Kong has been provided for in accordance with the relevant local jurisdictions.

## 11. Dividend

- (a) Interim dividend declared after the interim period end

	<b>Six months ended 30th June</b>	
	<b>2004</b>	<b>2003</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Interim dividend of HK8.5 cents (2003: HK5 cents) per share	<b>172,858</b>	<b>109,500</b>

- (b) The final dividend of HK12 cents per share, totalling HK\$253,200,000 (2003: Nil) for the year ended 31st December 2003 has been paid to shareholders on 19th June 2004.

## 12. Basic earnings per share

The calculation of the basic earnings per share is based on the profit attributable to shareholders for the period ended 30th June 2004 of approximately HK\$588,509,000 (period ended 30th June 2003: HK\$177,506,000) and on the weighted average number of 2,110,479,824 (period ended 30th June 2003: 2,252,171,607) ordinary shares in issue throughout the period.

### 13. Investment properties

	<i>HK\$'000</i>
At 1st January 2004	16,309,330
Additions	251,838
Disposals	<u>(75,796)</u>
At 30th June 2004	<u>16,485,372</u>

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

### 14. Properties under development

	<i>HK\$'000</i>
At 1st January 2004	754,391
Additions	64,423
Transfer to properties held for sale	<u>(167,484)</u>
At 30th June 2004	651,330
Less: Amount shown under current assets	<u>(641,830)</u>
Amount shown under non-current assets	<u>9,500</u>

### 15. Interests in associates

	<b>30th June 2004</b>	31st December 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Share of net assets	<b>527,679</b>	671,165
Negative goodwill	<b>(77,369)</b>	(78,829)
Advances to associates	<b>932,931</b>	1,017,835
	<u><b>1,383,241</b></u>	<u>1,610,171</u>

The Group's interests in one of the associates with carrying value of approximately HK\$141 million as at 31st March 2004, was accounted for as an investment in security as, in the opinion of the Directors, the Group was no longer in a position to exercise significant influence over that associate since 1st April 2004.

### 16. Debtors, deposits and prepayments

Included in debtors, deposits and prepayments are trade receivables of approximately HK\$33,657,000 (31st December 2003: HK\$34,798,000) comprising mainly rental receivables which are billed in advance and settlements are expected upon receipts of billings.

The following is an aged analysis of trade receivables at the balance sheet date:

	<b>30th June 2004</b>	31st December 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
0-30 days	<b>6,531</b>	6,385
31-60 days	<b>2,032</b>	3,150
61-90 days	<b>482</b>	1,243
Over 90 days	<b>24,612</b>	24,020
	<u><b>33,657</b></u>	<u>34,798</u>

## 17. Creditors and accruals

Included in creditors and accruals are trade payables of approximately HK\$718,000 (31st December 2003: HK\$16,739,000).

The following is an aged analysis of trade payables at the balance sheet date:

	<b>30th June 2004 HK\$'000</b>	31st December 2003 HK\$'000
0-90 days	<b>349</b>	13,937
Over 90 days	<b>369</b>	2,802
	<b><u>718</u></b>	<b><u>16,739</u></b>

## 18. Borrowings

	<b>30th June 2004 HK\$'000</b>	31st December 2003 HK\$'000
Bank loans, secured	<b>6,602,014</b>	5,643,935
Other loans, secured	<b>1,513,397</b>	1,408,029
	<b>8,115,411</b>	7,051,964
<i>Less: Amount due within one year and shown under current liabilities</i>	<b><u>(2,673,730)</u></b>	<b><u>(2,243,794)</u></b>
Amount due after one year	<b><u>5,441,681</u></b>	<b><u>4,808,170</u></b>

## 19. Share capital

	<b>Number of shares '000</b>	<b>Share capital HK\$'000</b>
Ordinary shares of HK\$0.10 each		
Authorised:		
At 1st January 2003, 31st December 2003 and 30th June 2004	<b><u>3,100,000</u></b>	<b><u>310,000</u></b>
Issued and fully paid:		
At 1st January 2003	2,294,146	229,415
Shares repurchased and cancelled	<u>(130,246)</u>	<u>(13,025)</u>
At 31st December 2003	2,163,900	216,390
Shares repurchased and cancelled	<u>(60,684)</u>	<u>(6,068)</u>
At 30th June 2004	<b><u>2,103,216</u></b>	<b><u>210,322</u></b>

## 20. Capital commitments

At the balance sheet date, the Group had the following capital commitments not provided for in the financial statements.

	<b>30th June 2004 HK\$'000</b>	31st December 2003 HK\$'000
Authorised and contracted for:		
Development expenditure of properties in Hong Kong	535,244	260,594
Acquisition of properties in the People's Republic of China	23,434	23,563
Acquisition of properties and other assets	—	124,331
	<u>558,678</u>	<u>408,488</u>
Authorised but not contracted for:		
Development expenditure of properties in Hong Kong	<u>167,252</u>	<u>530,157</u>

## 21. Contingent liabilities

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

	<b>30th June 2004 HK\$'000</b>	31st December 2003 HK\$'000
(a) Guarantee given to banks in respect of banking facilities utilised by associates and an investee company	<u>538,775</u>	<u>847,602</u>
(b) A creditor under liquidation has lodged a claim against Chi Cheung Investment Company, Limited ("Chi Cheung"), a 74.32% interest subsidiary of the Company, in the sum of HK\$8.2 million. The claim related to a debt arisen in 1998, prior to the debt-restructuring scheme of Chi Cheung sanctioned in 2000. The management of Chi Cheung considered that the claim is time barred. However, the management of Chi Cheung has sought legal advice on the merits of the claim. Pending the result of the legal advice, no provision has been made for the period.		

## 22. Related party transactions

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

	<b>Six months ended 30th June</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	<b>HK\$'000</b>
Income received from associates:		
Office and retail rental	222	229
Building management fee	85	85
Interest income	3,544	3,853
Management fee	78	152
Accountancy fee	60	60
Rent and rates paid to associates	189	166
Income received from a private company partially owned by two Directors:		
Retail rental	20,018	20,018
Building management fee	<u>1,788</u>	<u>1,788</u>

Office and retail rental and building management fee were determined on terms similar to those applicable to transactions with unrelated parties. Management fee was charged at the terms agreed by both parties. Interest income was charged at prevailing market rate based on outstanding balance during the period.

## 23. Post balance sheet events

- (a) Pursuant to the Contract for Pre-registration of Grant of State-owned Land Use Rights dated 5th August 1992 (the “Contract”), the Group has been granted a pre-registered land use right for the development of a site situated at estuary of Xinjin River, Longhu District, Shantou, Guangdong Province, the PRC (the “Development Project”) by Shantou City Chenghai District Planning and State-owned Land Resources Bureau (the “Bureau”). The Development Project is held by a wholly owned subsidiary of Chi Cheung Investment Company, Limited, which is a 74.32% interest subsidiary of the Company. The Group has the following alternatives regarding the Development Project: (i) submit land application and development construction plan and settle the final payment of land cost of approximately RMB25 million in July 2004 (the “Deadline”) to obtain the land use rights certificate; (ii) extend the Deadline; or (iii) claim for a refund of approximately RMB49 million (equivalent to HK\$46 million) in accordance with the Contract.

Subsequent to 30th June 2004, the Group issued a letter to the Bureau to request for an extension of the Deadline but without any response. The Group subsequently determined not to extend the Deadline and requested, pursuant to the Contract, for land cost refund of the RMB49 million from the Bureau after considering that the Deadline would be expired soon and the ancillary utility services around the site of the Development Project have yet to be constructed. The Group received a letter from the Bureau in August, replied that the refund request cannot be proceeded now by reason of the existence of the pre-registration relationship between the parties. As at 30th June 2004, the carrying value of the Development Project is approximately HK\$71 million. The Group is seeking clarification from the Bureau regarding the refund and if the refund is successful, the total estimated loss is calculated as HK\$25 million and represents a loss of HK\$18.6 million attributable to the Group.

- (b) On 27th August 2004, Paul Y Holdings Company Limited (“Paul Y”), a wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement with Colour Jade Ltd, which is wholly owned by a discretionary trust set up by a Director and controlling shareholder of the Company for the benefit of certain of his family members, relating to the sale of the entire issued share capital of four direct wholly-owned subsidiaries of Paul Y, which hold indirect interests in certain properties, and the benefits of all sums due by all outgoing subsidiaries. Consideration of the sale amounted to approximately HK\$548.8 million.

On 27th August 2004, the Company entered into a conditional sale and purchase agreement with London Queen Limited, which is wholly owned by a discretionary trust set up by a Director and controlling shareholder of the Company for the benefit of certain of his family members, relating to the sale of the entire interest of Jade Wall Limited, which is a direct wholly-owned subsidiary of the Company and holds certain assets, and the benefits of all sums due by Jade Wall Limited. Consideration of the sale amounted to approximately HK\$93.3 million.

Details of the above transactions are set out in the announcement dated 27th August 2004.

## **INTERIM DIVIDEND**

The Board of Directors of the Company (the “Board”) have declared an interim dividend of HK8.5 cents per share (period ended 30th June 2003: HK5 cents) for the six months ended 30th June 2004, payable to the shareholders whose names appear in the Company’s register of members on 28th September 2004.

The register of members will be closed from 22nd September 2004 to 28th September 2004 both days inclusive. To qualify for the interim dividend, transfer must be lodged with the Company’s Branch Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not later than 4:00 p.m. on 21st September 2004.

It is expected that the relevant dividend will be payable to those entitled on or about 30th September 2004.

## **FINANCIAL OPERATION REVIEW**

### **Results**

Turnover for the period ended 30th June 2004 (the “Period”) amounted to HK\$3,558.8 million (period ended 30th June 2003: HK\$460.0 million), a 6.7 times increase over the same period last year. It was mainly due to the increase in turnover of securities investment comprising Hong Kong listed shares, overseas listed shares and overseas debt securities, amounted to HK\$2,906.8 million. The turnover for sales generated from development properties in Manhattan Avenue and City 151 was recognized in the Period.

For property leasing, the Period recorded an increase of 6.4% in rental income as compared with the corresponding period in 2003, amounting HK\$345.7 million (2003: HK\$325.1 million) which included full period rental contribution from Tung Ying Building and Tung Sang Building, which are acquired in April 2003 and June 2003 respectively. Rental income from retail property has shown a satisfactory increase during the period.

Gross profit for the Period amounted to HK\$318.2 million, a 4.8% increase as compared with the same period last year.

In relation to property development, sale of Parc Palais in King’s Park (10% interest) has been successful. The sale was recognized in the Period generating a contribution of HK\$138.9 million which was included in investment income.

In respect of the performance of listed securities investment, the Group has recorded gross profit of HK\$5.3 million (period ended 30th June 2003: a loss of HK\$14.8 million) and unrealized holding gain of HK\$121.9 million (period ended 30th June 2003: HK\$0.9 million) for the Period. Listed securities investment held was marked to market at period end date.

Other operating income recorded an increase of 11.0% to HK\$19.9 million when compared with the same period last year. Administrative expenses decreased by 49.0% to HK\$57.0 million as compared with the same period last year. Finance costs recorded a decrease of 67.8% to HK\$16.0 million as compared with the same period last year.

Profit attributable to shareholders for the Period was HK\$588.5 million as compared to HK\$177.5 million for the same period last year. The profit for the Period was mainly attributable from sale of Parc Palais, investment in listed securities investments and from the effect in cost saving. Earnings per share was HK27.9 cents (period ended 30th June 2003: HK7.9 cents).

A final dividend for the year ended 31st December 2003 of HK12 cents per share was paid during the period.

## **Net Asset Value**

As at 30th June 2004, the Group's total net asset amounted to HK\$14,340 million (31st December 2003: HK\$14,368 million), a decrease of HK\$28 million or 0.19% when compared with 31st December 2003. The decrease in total net asset mainly due to the effect of dividend payment and share repurchase of HK\$253 million and HK\$357 million respectively, notwithstanding a profit of HK\$589 million is recorded. With the total number of ordinary shares in issue of 2,103,216,000 as at 30th June 2004, the net asset value per share was HK\$6.82, an increase of 2.71% over 31st December 2003 (HK\$6.64). The increase in net asset value per share was mainly due to the profit retained for the Period and the result of share repurchase during the period.

During the period, the Group acquired certain residential properties, bought and sold listed securities investments. Other than the existing projects and as disclosed in the interim report, the Group did not have any future plans for material investment or capital assets.

## **Securities Investment**

At 30th June 2004, listed securities investments, which formed part of the Group's cash management activities, amounted to HK\$1,611.9 million, representing 6.9% (31st December 2003: 8.8%) of the total assets at the period end, which mainly comprises blue chips listed shares in Hong Kong and overseas and listed debt securities. For overseas securities investments, most of the cost of investment was hedged by corresponding foreign currency loans in order to eliminate the exchange risk on these investments during the period.

It should be noted that the performance of securities investments for the year ending 31st December 2004 depends on the transactions transacted in the whole year of 2004 and to a significant extent on the closing market value at the year end date. The whole year result may be lower than the interim figures or may even result in a loss.

## **Risk Management**

The Group has established adequate risk management procedures that enable it to identify, measure, monitor and control the various types of risk it faces. This is supplemented by active management involvement, effective internal controls and adequate internal audits in the best interests of the Group.

## **Equity**

The number of issued ordinary shares as at 30th June 2004 and 31st December 2003 were 2,103,216,000 and 2,163,900,000 respectively.

## **Debt and Gearing**

As at 30th June 2004, the Group's bank and other borrowings amounted to HK\$8,115 million (31st December 2003: HK\$7,052 million). Cash, deposit at bank and US Treasury Bills amounted to HK\$2,209 million (31st December 2003: HK\$929 million) and net borrowings amounted to HK\$5,906 million (31st December 2003: HK\$6,123 million).

Total debt to equity ratio was 56.6% (31st December 2003: 49.1%) and net debt to equity ratio was 41.2% (31st December 2003: 42.6%), which are expressed as a percentage of bank and other borrowings, and net borrowings respectively, over the total net asset of HK\$14,340 million (31st December 2003: HK\$14,368 million).

The increase in total debt to equity ratio and the decrease in net debt to equity ratio were mainly caused by an increase in total bank loans. The increase in cash level by the Group was for general working capital of the Group and enabled the Group to increase its investment in property in future.

At the balance sheet date, the Group's bank and other borrowings were denominated in Hong Kong dollars, US dollars and Japanese Yen. Of the Group's total bank and other borrowings HK\$8,115 million, 33.0%, 20.1%, 45.9% and 1.0% are repayable within 1 year, 1 to 2 years, 2 to 5 years and over 5 years respectively. The Group's bank and other borrowings carried at interest rates calculated with reference to HIBOR and LIBOR.

### **Pledge of Assets**

As at 30th June 2004, the Group's investment properties, development properties, properties held for sale, securities investments and time deposits with their respective book value of HK\$15,698.5 million (31st December 2003: HK\$15,664.9 million), HK\$641.8 million (31st December 2003: HK\$744.9 million) HK\$167.5 million (31st December 2003: HK\$ Nil), HK\$2,194.1 million (31st December 2003: HK\$2,575.7 million) and HK\$132.3 million (31st December 2003: HK\$95.3 million) were pledged to secure general banking facilities and other loan facilities of the Group.

### **Financial and Interest Income/Expenses**

Interest income was included in turnover and investment income. Finance costs included interest expenses on bank and other loans, arrangement, facility and commitment fee expenses. Interest income for the Period was HK\$16.0 million, representing an increase of 6.0% from that of 30th June 2003 (HK\$15.1 million). Interest capitalized for the Period was HK\$2.0 million as compared to HK\$13.0 million for the last period. An exchange gain on translation of foreign currency loans of HK\$14.4 million was recorded during the period. Interest expenses for the Period amounted to HK\$26.8 million, representing a 42.4% decrease over the interest expenses of HK\$46.5 million recorded for the same period last year. The decrease in interest expenses was due to decrease in interest rate during the period.

### **Remuneration Policies and Share Option Scheme**

During the period under review, the Group employed a total of 228 (period ended 30th June 2003: 213) staff (excluding about a total of 207 (period ended 30th June 2003: 183) estate management staff employed under the Group's estate management company, Perfect World Company Limited).

Employees were remunerated on the basis of their performance, experience and prevailing industry practice. Remuneration packages comprised salary and year-end discretionary bonus based on market conditions and individual performance. The Executive Directors continued to review employees' contributions and to provide them with necessary incentives and flexibility for their better commitment and performance.

No share option scheme was adopted for the Period. Details of share option scheme will be disclosed in the Group's annual report for the year ending 31st December 2004.

### **PRC**

Profit contribution from the Group's investment in the PRC (including operating profit and share of results of associated companies) for the Period amounted to HK\$33.8 million representing 5.7% of the profit attributable to shareholders (period ended 30th June 2003: HK\$17.7 million). The Group's China investment as at 30th June 2004 amounted to HK\$968.1 million representing 4.2% of the Group's total asset value (31st December 2003: HK\$873.9 million).

### **Listed Subsidiaries**

At the period end date, the Company owned 74.32% interest in Chi Cheung Investment Company, Limited and 57.56% interest in G-Prop (Holdings) Limited.

## **The Kwong Sang Hong International Limited**

During the period, the Group has an effective interest of 34.36% in the listed shares of The Kwong Sang Hong International Limited (“Kwong Sang Hong”).

Kwong Sang Hong had total asset and net asset of HK\$2,004.7 million and HK\$1,289.9 million respectively at 31st May 2004.

### **BUSINESS REVIEW**

#### **Hong Kong Investment Properties**

Rental from retail properties continued to be the main source of the Group’s rental income. During the period, its gross rental income increased 6.4% to HK\$345.7 million in the six months ended 30th June 2004, as compared with the corresponding period last year. The overall rental income benefited from the two property projects acquired last year, namely Tung Ying Building in Tsim Sha Tsui and Tung Sang Building in Wanchai. Meanwhile, the increase in gross rental income can also be attributed to the positive growth of retail rental as a result of Hong Kong’s economic rebound.

As of June 2004, the occupancy levels for the Group’s retail portfolio were maintained at over 96%. Such sustainable high occupancy rate is attributable to the prime location of the majority of the Group’s retail properties in Hong Kong’s busiest shopping districts such as Causeway Bay, Wanchai, Tsim Sha Tsui and Mongkok.

Retail rents have continued to improve since the third quarter of last year due to the growth in the tenants’ business turnover from increased tourist spending and the reviving local consumption.

Although the office property market remained competitive throughout the period under review, office rents have been recovering since the last quarter of 2003. As of June 2004, the occupancy rates for Windsor House, MassMutual Tower, Harcourt House and Tung Ying Building were 96%, 86%, 92% and 81% respectively.

#### **Hong Kong Development Properties**

In general, the Group’s development projects have been progressing well and are on schedules.

For the Tai Yuen Street/Wanchai Road redevelopment project undertaken with the Urban Renewal Authority (75% direct 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 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 total gross floor area of about 159,727 square feet. Phase 1 is scheduled for completion in second half of 2005. It is planned that Phase 1 will be offered for pre-sale in the end of 2004.

Site formation and foundation works for the development project at the junction of Cornwall Street and Tat Chee Avenue (33 $\frac{1}{3}$ % interest) commenced in January 2003. The project will have a total gross floor area of around 301,200 square feet. This development is scheduled for completion in late 2005. Presale is scheduled to be ready by end of 2004.

The residential development at Shiu Fai Terrace, Stubbs Road (50% interest) was completed in the first quarter of 2004. Its gross floor area totaled to around 107,600 square feet. Its certificate of compliance was obtained in February 2004. Presale commenced in November 2003 and all the units were successfully sold within 6 weeks.

Site formation and foundation works for the development at 55 Conduit Road (70% interest) commenced in February 2003. This residential project has a total gross floor area of around 87,800 square feet and is scheduled for completion in 2006.

The residential development project “Parc Palais” in King’s Park, Kowloon (10% interest) was completed in July 2004. The development has a total gross floor area of around 904,200 square feet. Presale of the project commenced in August 2003 and as of 30th June 2004 around 73% of the units were sold.

Superstructure works for the residential development at City 151 at Kau Pui Lung Road, Kowloon East (100% interest) was completed in November 2003. The development has a total gross floor area of approximately 45,564 square feet. Its certificate of compliance was obtained in early 2004. The units were offered for presale in the 3rd quarter of 2003 and all residential units were sold out within 3 weeks.

Superstructure works for the development at 31 Barker Road at the Peak (100% interest) were completed and the occupation permit was obtained in the third quarter of 2003. It comprises 4 luxury houses with a total gross floor area of approximately 13,600 square feet.

The development project of Manhattan Avenue at Hillier Street, Central (100% interest) was completed and the occupation permit was issued in January 2004. The development has a total gross floor area of approximately 42,314 square feet with residential area of approximately 39,332 square feet. Presale was launched in August 2003 and all 75 residential units were sold within 2 weeks.

### **PRC Properties**

The Hong Kong New World Tower, Shanghai (34.65% interest) comprises approximately 1,470,000 square feet of office and retail space. Leasing activities have been very encouraging, with the office section and retail section at around 83% and 56% let respectively as of June 2004.

The Hilton Hotel, Beijing (50% interest) maintained an average occupancy rate of 86% and a gross operating profit of HK\$25.7 million were reported for the six months ended 30th June 2004. Renovation works to the guestrooms are scheduled to commence in October 2004 and complete by June 2005. Beijing Municipal Commission of Urban Planning has approved the conceptual design of the hotel extension which includes executive rooms and other ancillary hotel facilities. The owner and hotel operator are finalizing the building plan for further submission to various governmental authorities.

The Oriental Place (50% interest), a 10-storey office building next to Hilton Beijing, was 88% let as of June 2004.

The Lowu Commercial Plaza, Shenzhen (100% interest), comprising 79 retail outlets with approximately 29,000 square feet, was 98% let out as of June 2004.

Due to project termination, the liquidation of co-operative joint venture company of Lot E of Huangsha Station in Guangzhou (33 $\frac{1}{3}$ % interest) was completed on 13th February 2004.

### **SUBSEQUENT EVENT**

On 27th August 2004, Paul Y. Holdings Company Limited, a wholly-owned subsidiary of the Company, had entered into a sale and purchase agreement with a company wholly-owned by a discretionary trust set up by Mr. Joseph Lau, Luen-hung (“Mr. Lau”), an executive director and a substantial shareholder of the Company, for the benefit of certain of his family members, relating to, among other things, the disposal of a group of wholly-owned subsidiaries of the Company (the “Group of Subsidiaries”), which hold indirect interests in various properties including 31 Barker Road, Hong Kong and 7 residential units. The total consideration for the disposal of the Group of Subsidiaries amounting to approximately HK\$548.8 million is subject to adjustment and has been determined by the open market value of the properties (approximately HK\$566.2 million) minus the net liabilities due to third parties from the Group of Subsidiaries (approximately HK\$17.4 million).

The Company had also on 27th August 2004 entered into a sale and purchase agreement with another company wholly-owned by a discretionary trust set up by Mr. Lau, an executive director and a substantial shareholder of the Company, for the benefit of certain of his family members, relating to the disposal of Jade Wall Limited (“Jade Wall”), a wholly-owned subsidiary of the Company which holds direct interests in certain works of art including Chinese ceramics, furniture and paintings (the “Assets”). The total consideration for the disposal of Jade Wall amounting to approximately HK\$93.3 million has been determined with reference to the high auction estimate of the Assets and is subject to adjustment.

The above two transactions were subject to the approval of independent shareholders of the Company in the forthcoming shareholders’ meeting and other conditions precedent being fulfilled.

## PROSPECTS

The revival of local consumption power, the increase in the influx of tourists from mainland China and the implementation of the Closer Economic Partnership Agreement (CEPA) will continue to strengthen the Group’s rental income from its retail and office properties, which are mostly located at prime and preferred locations.

Towards the last quarter of 2004, the Group will launch a series of residential projects for presale, expecting to record a significant income contribution to further enhance its financial position.

The Group will continue to focus and allocate more resources in investment and development properties by reducing its securities portfolio which will also minimize the Group’s exposure in securities investment due to market fluctuation.

Based on a strong foundation of our property portfolio and an efficient management, the Group is well-poised to be benefited from the burgeoning economic environment.

Barring unforeseen circumstances, the Company will maintain a dividend payment ratio of not less than 30% for this year.

## DIRECTORS’ AND CHIEF EXECUTIVES’ INTERESTS IN THE SECURITIES OF THE COMPANY AND ASSOCIATED CORPORATIONS

As at 30th June, 2004, the interests and short positions of the directors of the Company (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 as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to the Model Code for Securities Transactions by the Directors of Listed Companies contained in the Rules Governing the Listing of Securities on the Stock Exchange were as follows:–

### I The Company

Name of Director	Number of Shares (ordinary share)	Note	Capacity	Percentage of Issued Share Capital
Joseph Lau, Luen-hung	275,537,456	(1)	Other Interests	
	<u>1,000,000,000</u>	(2)	Other Interests	
	<u><u>1,275,537,456</u></u>			61.90%
Thomas Lau, Luen-hung	<u><u>199,207,187</u></u>	(3)	Other Interests	9.67%

Notes:

- (1) These shares were indirectly owned by a discretionary trust of which Mr. Joseph Lau, Luen-hung was the founder and certain family members of Mr. Joseph Lau, Luen-hung were eligible beneficiaries.
- (2) These shares were held by a unit trust of which Mr. Joseph Lau, Luen-hung was one of the unit holders. The said shares were indirectly owned by a discretionary trust of which Mr. Joseph Lau, Luen-hung was the founder and certain family members of Mr. Joseph Lau, Luen-hung were eligible beneficiaries.
- (3) These shares were indirectly owned by a discretionary trust of which Mr. Thomas Lau, Luen-hung and his certain family members were eligible beneficiaries.

## II Associated Corporations of the Company

### 1. Chi Cheung Investment Company, Limited (“Chi Cheung”)

Name of Director	Number of Shares (ordinary share)	Note	Capacity	Percentage of Issued Share Capital
Joseph Lau, Luen-hung	209,811,186	(a)	Interest in Controlled Corporation	74.32%

### 2. The Kwong Sang Hong International Limited (“Kwong Sang Hong”)

Name of Director	Number of Shares (ordinary share)	Note	Capacity	Percentage of Issued Share Capital
Joseph Lau, Luen-hung	586,672,047	(b)	Interest in Controlled Corporation	61.12%

### 3. G-Prop (Holdings) Limited (“G-Prop”)

Name of Director	Number of Shares (ordinary share)	Note	Capacity	Percentage of Issued Share Capital
Joseph Lau, Luen-hung	397,858,761	(c)	Interest in Controlled Corporation	57.56%

Notes:

- (a) Mr. Joseph Lau, Luen-hung by virtue of his 61.90% interest in the share capital of the Company as disclosed in paragraph I above, was deemed to be interested in 209,811,186 shares of Chi Cheung held directly by Billion Up Limited, a wholly-owned subsidiary of Lucky Years Ltd. which in turn was the wholly-owned subsidiary of the Company.
- (b) Mr. Joseph Lau, Luen-hung by virtue of his 61.90% interest in the share capital of the Company as disclosed in paragraph I above, was deemed to be interested in the 586,672,047 shares of Kwong Sang Hong held indirectly by the Company. The Company was interested in 586,672,047 shares of Kwong Sang Hong of which 72,926,000 shares were held by Good System Investment Limited, a wholly-owned subsidiary of the Company. The other 513,746,047 shares were held by Power Jade Capital Limited which was 50% owned by Gold Castle Capital Ltd., a wholly-owned subsidiary of the Company.

- (c) Mr. Joseph Lau, Luen-hung, by virtue of his 61.90% interest in the issued share capital of the Company as disclosed in paragraph I above, was deemed to be interested in 397,858,761 shares of G-Prop under the provisions of the SFO. The Company was interested in 397,858,761 shares of G-Prop of which 170,000,000 shares, 113,818,911 shares, 37,162,165 shares and 76,877,685 shares were issued shares respectively held by Million Point Limited (“Million Point”), Paul Y. Holdings Company Limited (“Paul Y.”), Great Empire International Ltd. (“Great Empire”) and Luckpoint Investment Limited (“Luckpoint”).

The Company was deemed to be interested in the 170,000,000 shares of G-Prop by virtue of the SFO as the Company owned the entire issued share capital of Chinese Estates, Limited, which owned the entire issued share capital of Cosmos Success Limited which in turn owned the entire issued share capital of Million Point.

The Company was also deemed to be interested in the 113,818,911 shares of G-Prop by virtue of the SFO as the Company owned the entire issued share capital of Paul Y.

The Company was also deemed to be interested in the 37,162,165 shares of G-Prop by virtue of the SFO as the Company owned the entire issued share capital of Paul Y., which owned the entire issued share capital of Goldstance Group Limited, which in turn owned the entire issued share capital of Great Empire.

The Company was also deemed to be interested in the 76,877,685 shares of G-Prop by virtue of the SFO as the Company owned the entire issued share capital of China Entertainment and Land Investment Company, Limited, which in turn owned the entire issued share capital of Luckpoint.

All the interests stated above represent long positions. The percentage shown was the number of shares the relevant director was interested expressed as a percentage of the number of issued shares as at 30th June, 2004.

Saved as disclosed above, none of the other Directors and chief executives of the Company had or were deemed under the SFO to have any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as at 30th June, 2004.

During the six months ended 30th June, 2004, none of the Directors and chief executives of the Company nor their spouses or children under 18 years of age were granted or had exercised any right to subscribe for any securities of the Company or any of its associated corporations.

#### **SUBSTANTIAL SHAREHOLDERS’ INTERESTS IN THE SECURITIES OF THE COMPANY**

As at 30th June, 2004, so far as are known to the Directors, the following parties (other than 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 or deemed to be interested in 5% or more of the issued share capital of the Company:

<b>Name of Shareholder</b>	<b>Number of Shares (ordinary share)</b>	<b>Capacity</b>	<b>Percentage of Issued Share Capital</b>
Credit Suisse Trust Limited	1,000,000,000 <i>(note 1)</i>	Trustee and Beneficiary of a Trust	48.53%
Global King Ltd.	1,000,000,000 <i>(note 1)</i>	Trustee	48.53%
GZ Trust Corporation	275,537,456 <i>(note 2)</i>	Trustee and Interest in Controlled Corporation	13.37%
Joseph Lau Luen Hung Investments Limited (formerly known as Nation Link Limited)	275,537,456 <i>(note 2)</i>	Beneficial Owner	13.37%

<b>Name of Shareholder</b>	<b>Number of Shares (ordinary share)</b>	<b>Capacity</b>	<b>Percentage of Issued Share Capital</b>
Ip, Sok-wun	199,207,187 (note 3)	Founder of Discretionary Trust	9.67%
J. P. Morgan Trust Company (Bahamas) Limited	199,207,187 (note 4)	Trustee and Interest in Controlled Corporation	9.67%
Sunny Trend Limited	199,207,187 (note 4)	Beneficial Owner	9.67%
Li Ka-shing	174,660,000 (notes 5 & 6)	Founder of Discretionary Trusts and Interest of Controlled Corporations	8.48%
Li Ka-Shing Unity Trustcorp Limited	174,660,000 (notes 5 & 6)	Trustee and Beneficiary of a Trust	8.48%
Li Ka-Shing Unity Trustee Corporation Limited	174,660,000 (notes 5 & 6)	Trustee and Beneficiary of a Trust	8.48%
Li Ka-Shing Unity Trustee Company Limited	174,660,000 (notes 5 & 6)	Trustee	8.48%
Cheung Kong (Holdings) Limited	174,660,000 (notes 5 & 6)	Interest of Controlled Corporations	8.48%
Hutchison Whampoa Limited	174,660,000 (note 5)	Interest of Controlled Corporations	8.48%
Hutchison International Limited	174,660,000 (note 5)	Interest of a Controlled Corporation	8.48%
Primetek Holdings Limited	174,660,000 (note 5)	Beneficial Owner	8.48%

*Notes:*

1. Credit Suisse Trust Limited as trustee of a discretionary trust held units in a unit trust of which Global King Ltd. was the trustee and therefore was regarded as interested in the same parcel of shares held by Global King Ltd. These shares were the same parcel of 1,000,000,000 shares of the Company referred to in "Other Interests" of Mr. Joseph Lau, Luen-hung under "Directors' and Chief Executives' Interests in the Securities of the Company and Associated Corporations" as disclosed in paragraph I above.
2. GZ Trust Corporation as trustee of another discretionary trust held the entire issued share capital of Joseph Lau Luen Hung Investments Limited (formerly known as Nation Link Limited) and therefore was regarded as interested in the same parcel of shares held by Joseph Lau Luen Hung Investments Limited (formerly known as Nation Link Limited). These shares were the same parcel of 275,537,456 shares of the Company referred to in "Other Interests" of Mr. Joseph Lau, Luen-hung under "Directors' and Chief Executives' Interests in the Securities of the Company and Associated Corporations" as disclosed in paragraph I above.
3. These shares were indirectly owned by a discretionary trust of which Ms. Ip, Sok-wun was the founder. These shares were the same parcel of the shares referred to in "Other Interests" of Mr. Thomas Lau, Luen-hung under "Directors' and Chief Executives' Interests in the Securities of the Company and Associated Corporations" as disclosed in paragraph I above.

4. J. P. Morgan Trust Company (Bahamas) Limited as trustee of a discretionary trust owned the entire issued share capital of Sunny Trend Limited. By virtue of the SFO, J. P. Morgan Trust Company (Bahamas) Limited was deemed to have interest in the 199,207,187 shares held by Sunny Trend Limited. These shares were the same parcel of shares referred to in “Other Interests” of Mr. Thomas Lau, Luen-hung under “Directors’ and Chief Executives’ Interests in the Securities of the Company and Associated Corporations” as disclosed in paragraph I above and in the above note 3.
5. Primetek Holdings Limited (“Primetek”) is a wholly-owned subsidiary of Hutchison International Limited (“HIL”), which in turn is a wholly-owned subsidiary of Hutchison Whampoa Limited (“HWL”). By virtue of the SFO, HWL and HIL are deemed to be interested in the 174,660,000 shares of the Company held by Primetek.
6. Li Ka-Shing Unity Holdings Limited, of which each of Mr. Li, Ka-Shing, Mr. Li Tzar Kuoi, Victor and Mr. Li Tzar Kai, Richard is interested in one-third of the entire issued share capital, owns the entire issued share capital of Li Ka-Shing Unity Trustee Company Limited (“TUT1”). TUT1 as trustee of The Li Ka-Shing Unity Trust (“UT1”), together with certain companies which TUT1 as trustee of UT1 is entitled to exercise or control the exercise of more than one-third of the voting power at their general meetings, hold more than one-third of the issued share capital of Cheung Kong (Holdings) Limited (“CKH”). Subsidiaries of CKH are entitled to exercise or control the exercise of more than one-third of the voting power at the general meetings of HWL.

In addition, Li Kai-Shing Unity Holdings Limited also owns the entire issued share capital of Li Ka-Shing Unity Trustee Corporation Limited (“TDT1”) as trustee of The Li Ka-Shing Unity Discretionary Trust (“DT1”) and Li Ka-Shing Unity Trustcorp Limited (“TDT2”) as trustee of another discretionary trust (“DT2”). Each of TDT1 and TDT2 holds units in the UT1.

By virtue of the SFO, each of Mr. Li Ka-Shing being the settlor and may being regarded as a founder of DT1 and DT2 for the purpose of the SFO, TDT1, TDT2, TUT1 and CKH was deemed to be interested in the 174,660,000 shares of the Company held by Primetek.

All the interests stated above represent long positions. As at 30th June, 2004, no short positions were recorded in the register kept by the Company under section 336 of the SFO.

#### **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY**

During the six months ended 30th June 2004, the Company had purchased a total of 85,600,000 shares of the Company at an aggregate consideration of HK\$355,639,600 on The Stock Exchange of Hong Kong Limited (“the Stock Exchange”) and all of these shares were cancelled, details of which were as follows:–

<b>Method of Purchase</b>	<b>Month of Purchase</b>	<b>Number of Share Purchased</b>	<b>Highest Price/Share HK\$</b>	<b>Lowest Price/Share HK\$</b>	<b>Aggregate Consideration HK\$</b>
On the Stock Exchange	January 2004	14,892,000	4.625	3.025	56,472,200
	February 2004	21,372,000	5.250	4.650	104,404,100
	March 2004	–	–	–	–
	April 2004	–	–	–	–
	May 2004	6,784,000	4.150	2.525	23,625,700
	June 2004	42,552,000	4.200	3.750	171,137,600
<b>Total</b>		<b>85,600,000</b>			<b>355,639,600</b>

The Directors considered that the aforesaid shares were purchased at a discount to the net asset value per share and resulted in an increase in the net asset value per share then in issue. Save as disclosed herein, neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company’s listed securities during the period under review.

## PROFORMA COMBINED BALANCE SHEET OF THE AFFILIATED COMPANIES

Pursuant to Listing Rule 13.22, a proforma combined balance sheet of the affiliated companies to which financial assistance and guarantees for their benefit have been given by the Group as at 30th June 2004 (the latest practicable date) is presented below:

	<i>(note)</i> <b>Combined total</b> <i>HK\$' million</i>	<b>Interest attributable to the Group</b> <i>HK\$' million</i>
Non-current assets	5,306	2,188
Current assets	3,017	1,241
Current liabilities	(1,435)	(680)
Non-Current liabilities	(6,331)	(2,493)
Minority interests	(714)	(356)
	<hr/>	<hr/>
Net liabilities	<u>(157)</u>	<u>(100)</u>

*Note:* Proforma combined balance sheet has been realigned with the Group's accounting policies.

### CORPORATE GOVERNANCE

The unaudited interim report for the period ended 30th June 2004 has been reviewed by the Audit Committee and auditors.

The Company has complied throughout the period ended 30th June 2004 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules except that the independent non-executive directors are not appointed for any specific terms as they are subject to retirement by rotation and re-election at the Company's Annual General Meeting in accordance with the Company's Bye-Laws.

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 30th June 2004 and all Directors confirmed that they have complied.

### APPRECIATION

I would like to take this opportunity to thank the shareholders for their continuous support and all the staff for their dedication and hard work.

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

6th September 2004