

USI HOLDINGS LIMITED

Interim Report 2005

FINANCIAL RESULTS

The Board of Directors (the “Directors”) of USI Holdings Limited (the “Company”) presents the interim report and the unaudited financial statements of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2005.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2005

		Unaudited	
		Six months ended 30 June	
		2005	2004
			(As restated)
	Note	HK\$'M	HK\$'M
Turnover	3	551.8	584.1
Cost of sales		(421.2)	(431.9)
Gross profit		130.6	152.2
Other operating income		9.0	18.6
Distribution costs		(44.6)	(46.2)
Administrative expenses		(123.6)	(111.3)
Gain arising from change in fair value of investment properties		26.8	–
Gain on disposal of strategic investments		67.1	–
Profit from operations	4	65.3	13.3
Finance costs		(9.8)	(9.7)
Share of results of associates		12.8	3.3
Gain on disposal of an associate		–	7.6
Profit before taxation		68.3	14.5
Taxation	5	(1.6)	(1.5)
Profit for the period		66.7	13.0
Loss attributable to minority interests		5.6	0.3
Profit attributable to equity holders of the Company		72.3	13.3
Earnings per share for profit attributable to the equity holders of the Company during the period	6		
Basic		HK13.7 cents	HK2.6 cents
Diluted		HK13.7 cents	HK2.6 cents
Dividends	7	17.1	5.1

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2005

		Unaudited	Audited
		30 June	31 December
		2005	2004
			(As restated)
	Note	HK\$'M	HK\$'M
Non-current assets			
Investment properties	8	568.4	541.6
Properties under development		254.7	177.4
Other properties, plant and equipment	9	290.7	284.7
Leasehold land and land use rights		455.5	196.6
Interests in associates		217.7	165.8
Strategic investments		362.3	430.3
Other non-current assets		0.4	1.6
		2,149.7	1,798.0
Current assets			
Inventories		167.9	133.9
Properties under development for sale		751.0	666.3
Trade and other receivables and prepayments	10	148.5	119.6
Bills receivable		86.7	67.4
Deposit paid		52.9	–
Sales proceeds held in stakeholders' accounts		186.2	101.2
Held to maturity investments		1.8	1.8
Amounts due from associates		14.9	8.4
Bank balances and cash		247.5	139.8
		1,657.4	1,238.4
Current liabilities			
Trade and other payables	11	288.4	258.7
Bills payable		13.9	13.7
Presale deposits received		890.9	107.4
Derivative financial instruments		1.0	–
Taxation payable		1.9	0.4
Bank borrowings in respect of bills		11.7	–
Short-term bank borrowings and overdrafts	12	10.6	3.3
Bank loans – amount due within one year	13	324.0	448.4
		1,542.4	831.9
Net current assets			
		115.0	406.5

CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

At 30 June 2005

		Unaudited	Audited
		30 June	31 December
		2005	2004
			(As restated)
	Note	HK\$'M	HK\$'M
Non-current liabilities			
Bank loans – amount due after one year	13	588.3	700.4
Other long-term loans	14	41.0	52.5
Deferred taxation		25.9	25.9
		655.2	778.8
Net assets			
		1,609.5	1,425.7
Financed by:			
Share capital	15	263.1	263.1
Reserves	16	1,290.3	1,100.8
Shareholders' funds		1,553.4	1,363.9
Minority interests	17	56.1	61.8
Total equity		1,609.5	1,425.7

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2005

	Unaudited	
	Six months ended 30 June	
	2005	2004
		(As restated)
	HK\$'M	HK\$'M
At 1 January		
– as previously reported as equity	1,364.9	1,258.5
– as previously reported separately as minority interests	61.8	57.1
– adjustment on adoption of new/revised HKFRSs (Note 2)	47.4	0.2
– as restated	1,474.1	1,315.8
Surplus arising on revaluation of strategic investments	151.9	–
Investment revaluation reserve realised on disposal of strategic investments	(67.1)	–
Decrease in hedging reserve	(1.3)	–
Exchange differences arising on translation of financial statements of operations outside Hong Kong	(5.6)	3.3
Share of reserves of an associate	–	(0.4)
Net income recognised directly in equity	77.9	2.9
Net profit for the period	66.7	13.0
Total recognised income for the period (Note)	144.6	15.9
	1,618.7	1,331.7
Issue of shares on exercise of share options	–	0.4
Translation reserve realised on disposal of an associate	–	3.0
Dividend paid	(9.2)	(6.1)
At 30 June	1,609.5	1,329.0
Note:		
Total recognised income for the period attributable to:		
Equity holders of the Company	150.3	16.2
Minority interests	(5.7)	(0.3)
	144.6	15.9

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2005

	Unaudited	
	Six months ended 30 June	
	2005	2004
		(As restated)
	HK\$'M	HK\$'M
Net cash from operating activities	545.3	52.1
Net cash used in investing activities	(188.0)	(205.1)
Net cash (used in)/from financing activities	(252.2)	63.7
Net increase/(decrease) in cash and cash equivalents	105.1	(89.3)
Cash and cash equivalents at the beginning of the period	139.3	207.4
Effect of foreign exchange rate changes	(2.4)	0.3
Cash and cash equivalents at the end of the period	242.0	118.4
Analysis of the balances of cash and cash equivalents:		
Bank balances and cash	247.5	120.9
Bank overdrafts	(5.5)	(2.5)
	242.0	118.4

Notes To The Condensed Consolidated Financial Statements

1. INDEPENDENT REVIEW

The interim results for the six months ended 30 June 2005 are unaudited, but reviewed in accordance with the Statement of Auditing Standard 700 “Engagements to review interim financial reports” issued by the Hong Kong Institute of Certified Public Accountants by the Company’s auditors. The interim results have also been reviewed by the Company’s audit committee.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited condensed consolidated financial statements (the “Accounts”) 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 Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

The Accounts should be read in conjunction with the 2004 annual accounts.

The accounting policies used in the preparation of the Accounts are consistent with those used in the annual financial statements for the year ended 31 December 2004 except that the Group has changed certain of its accounting policies following its adoption of the new/revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRSs”) including all HKASs and applicable interpretations which are effective for accounting periods commencing on or after 1 January 2005.

The major changes to the accounting policies which have material financial effect on the Group are summarised as follows:

(i) Financial instruments

Prior to 1 January 2005, derivatives of the Group were not recorded in the financial statements. Following the adoption of HKAS 32 “Financial Instruments: Disclosure and Presentation” and HKAS 39 “Financial Instruments: Recognition and Measurement”, all derivatives are stated at fair value. The gain or loss on changes in fair value is recognised generally in the income statement unless the derivative qualifies for hedge accounting. Where a derivative qualifies for hedge accounting and is designated as a cash flow hedge, the effective part

and the ineffective part of any unrealised gain or loss on the instrument is recognised directly in cash flow hedge reserve and in the income statement respectively. The cumulative gain or loss associated with the effective part of the cash flow hedge recorded in cash flow hedge will be recognised in the income statement in the same period or periods during which the gain or loss arising from the hedged transaction is recognised in the income statement.

In prior years, strategic investments held for long term were classified as investments in securities and stated at cost less impairment losses. Since 1 January 2005, such investments meet the recognition and measurement requirements under HKAS 32 and 39 as “Available-for-Sale Financial Assets” and have been reclassified as strategic investments, and are carried at fair value or cost less impairment loss if their fair value cannot be reliably measured. Gains and losses arising from changes in fair value are recognised in investment revaluation reserve. On the disposal of the investment or when an investment is determined to be impaired, the cumulative gain or loss previously recognised in investment revaluation reserve will be transferred to the income statement.

(ii) Jointly controlled entities

Pursuant to the revised accounting standard HKAS 31 “Investments in joint ventures”, the Group’s interests in jointly controlled entities are accounted for using proportionate consolidation. The Group combines its share of the joint ventures’ individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group’s Accounts. The Group recognises the portion of gains or losses on the sale of assets by the Group to the joint venture that it is attributable to the other ventures. The Group does not recognise its share of profits or losses from the joint venture the result from the Group’s purchase of assets from the joint venture until it resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

In prior years, these entities were accounted for as associates using the equity method. The change in accounting policy affects the presentation of the Group’s share of results, assets and liabilities in these entities, there is no financial impact to the net assets and results of the Group for the current and prior periods.

Notes To The Condensed Consolidated Financial Statements

(iii) Leasehold land and land use rights

Following the adoption of HKAS 17 “Leases” and HK-INT 4 “Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases”, leasehold interests in the land and land use rights for own use are reclassified as leasehold land and land use rights and are amortised over the period of the lease on a straight-line basis. Prepaid land lease is included in properties under development and properties under development for sale, of which the amortisation of prepaid land lease is capitalised as part of the building costs during the development period but charged to the income statement for completed properties.

(iv) Share-based payment

In accordance with HKFRS 2 “Share-based Payments”, the fair value of share options and share-based arrangements at grant date are amortised over the relevant vesting period to the income statement.

Pursuant to HKAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” (which outlines the disclosure requirements when a change in accounting policy has a material effect on the current and prior periods presented), the Group has applied the new accounting policies retrospectively except for HKAS 32 and HKAS 39 which are applied prospectively in accordance with the transitional provisions. These effects are summarised as follows:

	HKAS 17	HKAS 32 & 39	Total
	HK\$'M	HK\$'M	HK\$'M
Effects on periods prior to 2004:			
Decrease in amortisation of leasehold land	0.2	–	0.2
Increase in retained profits as at 1 January 2004	0.2	–	0.2
Effects on 2004:			
Six months ended 30 June 2004			
Decrease in amortisation of leasehold land	0.1	–	0.1
Increase in interest expenses on leasehold land	(0.7)	–	(0.7)
	(0.6)	–	(0.6)
Six months ended 31 December 2004			
Decrease in amortisation of leasehold land	0.1	–	0.1
Increase in interest expenses on leasehold land	(0.7)	–	(0.7)
	(0.6)	–	(0.6)
Decrease in net profit for the year ended 31 December 2004	(1.2)	–	(1.2)
Decrease in retained profits as at 31 December 2004	(1.0)	–	(1.0)

Notes To The Condensed Consolidated Financial Statements

	HKAS 17	HKAS 32 & 39	Total
	HK\$'M	HK\$'M	HK\$'M
Effects on 1 January 2005:			
Increase in hedging reserve	–	0.3	0.3
Increase in investment revaluation reserve	–	48.1	48.1
Increase in reserves	–	48.4	48.4
Increase in equity attributable to the shareholders of Company	–	48.4	48.4
(Decrease) / increase in equity attributable to the shareholders of the Company as at 1 January 2005	(1.0)	48.4	47.4
Effects on period ended 30 June 2005:			
Decrease in amortisation of leasehold land	0.1	–	0.1
Increase in interest expenses on leasehold land	(0.7)	–	(0.7)
Decrease in hedging reserve	–	(1.3)	(1.3)
Increase in investment revaluation reserve	–	84.8	84.8
(Decrease) / increase in net profit for the period	(0.6)	83.5	82.9

In addition, as disclosed above, jointly controlled entities are accounted for using proportionate consolidation pursuant to the adoption of HKAS 31. As a result, the Group's proportionate share of the jointly controlled entities' bank borrowings is included in the consolidated balance sheet and is no longer required to disclose its proportionate guarantee to such borrowings as contingent liabilities.

Other presentation changes include:-

- a. In prior years, attributable share of results and net assets by minority interests were presented as a deduction from the Group's results and net assets for arriving at the attributable share of the Company's shareholders. Pursuant to the new HKFRSs, minority interests are presented as part of equity. Presentation of the financial statements and comparatives are adjusted accordingly.
- b. The Group's share of results of associates is net of tax. Previously, this is shown at gross according to the applicable accounting standards.

Notes To The Condensed Consolidated Financial Statements

3. TURNOVER AND SEGMENT INFORMATION

The Group is currently organised into five operating divisions – garment manufacturing and trading, branded products distribution, property rental and management, property development and investing activities. The analysis of the Group's turnover and profit from operations by business segment and geographical segment is as follows:

Business segment

For the period ended 30 June 2005	Garment manufacturing and trading	Branded products distribution	Property rental and management	Property development	Investing activities	Elimination	Consolidated
	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M
Turnover							
External sales	386.5	112.3	35.0	15.7	2.3	-	551.8
Inter-segment sales	-	-	2.7	-	-	(2.7)	-
Total	<u>386.5</u>	<u>112.3</u>	<u>37.7</u>	<u>15.7</u>	<u>2.3</u>	<u>(2.7)</u>	<u>551.8</u>
Results							
Segment results	(26.1)	2.0	38.5	3.7	1.7	-	19.8
Gain on disposal of strategic investments	-	-	-	-	67.1	-	67.1
Unallocated corporate expenses							<u>(21.6)</u>
Profit from operations							65.3
Finance costs							(9.8)
Share of results of associates							<u>12.8</u>
Profit before taxation							68.3
Taxation							<u>(1.6)</u>
Profit for the period							66.7
Loss attributable to minority interests							<u>5.6</u>
Profit attributable to equity holders of the Company							<u>72.3</u>

Inter-segment sales are charged at prevailing market rate.

For the period ended 30 June 2004	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	382.3	105.4	30.0	61.5	4.9	-	584.1
Inter-segment sales	-	-	3.5	-	-	(3.5)	-
Total	382.3	105.4	33.5	61.5	4.9	(3.5)	584.1
Results							
Segment results	1.7	(1.9)	7.1	28.7	(3.1)	-	32.5
Unallocated corporate expenses							(19.2)
Profit from operations							13.3
Finance costs							(9.7)
Share of results of associates							3.3
Gain on disposal of an associate							7.6
Profit before taxation							14.5
Taxation							(1.5)
Profit for the period							13.0
Loss attributable to minority interests							0.3
Profit attributable to equity holders of the Company							13.3

Inter-segment sales are charged at prevailing market rate.

Notes To The Condensed Consolidated Financial Statements

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	
	2005	2004
	HK\$'M	HK\$'M
North America	247.3	258.7
United Kingdom	129.9	123.2
Hong Kong	54.9	93.9
Other European countries	61.6	54.1
Other Asian Pacific countries	58.1	54.2
	551.8	584.1

4. PROFIT FROM OPERATIONS

	Six months ended 30 June	
	2005	2004
	HK\$'M	HK\$'M
Profit from operations has been arrived at after charging:		
Amortisation of		
– trademark (included in administrative expenses)	–	0.2
– permanent textile quota entitlements (included in cost of sales)	–	0.2
Cost of temporary textile quota entitlements written off on purchase	–	3.6
Depreciation and amortisation of leasehold land and land use rights and other properties, plant and equipment	12.7	11.5

5. TAXATION

Taxation of the Group for the period represents Hong Kong Profits Tax which is calculated at 17.5% (2004: 17.5%) on the estimated assessable profits. Taxation for the corresponding period also included HK\$0.2 million taxation in other jurisdictions which is calculated at the rates prevailing in the respective jurisdictions.

6. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit for the period of HK\$72.3 million (2004: HK\$13.3 million) and on the weighted average of 526,255,339 shares (2004: 517,994,158 shares) in issue during the period.

The computation of diluted earnings per share is as follows:

	Six months ended 30 June	
	2005	2004
Earnings for the purposes of calculating diluted earnings per share	HK\$72.3 million	HK\$13.3 million
Weighted average number of shares for the purpose of calculating basic earnings per share	526,255,339	517,994,158
Effect of dilutive potential shares issuable under the Company's share option scheme	281,544	2,163,903
Weighted average number of shares for the purpose of calculating diluted earnings per share	526,536,883	520,158,061

7. DIVIDENDS

During the six months ended 30 June 2005, a final dividend of HK1.75 cents per share in respect of the year ended 31 December 2004 was approved at the Company's annual general meeting held on 17 June 2005 and paid to the shareholders during the period.

The Directors declared the payment of an interim dividend of HK1.5 cents per share in respect of the six months ended 30 June 2005.

Notes To The Condensed Consolidated Financial Statements

8. INVESTMENT PROPERTIES

The Group's investment properties are stated at revalued amounts based on professional valuations at 30 June 2005 on an open market value basis.

9. OTHER PROPERTIES, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK\$23.3 million (2004: HK\$9.1 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 2005 HK\$'M	31 December 2004 HK\$'M
0 – 30 days	33.0	28.6
31 – 90 days	23.1	21.4
Over 90 days	30.4	26.3
	86.5	76.3
Other receivables and prepayments	62.0	43.3
Total	148.5	119.6

11. TRADE AND OTHER PAYABLES

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

	30 June	31 December
	2005	2004
	HK\$'M	HK\$'M
0 – 30 days	64.5	65.9
31 – 90 days	33.7	14.4
Over 90 days	15.6	12.5
	113.8	92.8
Other payables	174.6	165.9
Total	288.4	258.7

12. SHORT-TERM BANK BORROWINGS AND OVERDRAFTS

	30 June	31 December
	2005	2004
	HK\$'M	HK\$'M
Trust receipts and import loans	5.1	2.8
Bank overdrafts	5.5	0.5
	10.6	3.3

The short-term bank borrowings and overdrafts are unsecured.

Notes To The Condensed Consolidated Financial Statements

13. BANK LOANS

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

	30 June	31 December
	2005	2004
	HK\$'M	HK\$'M
Within one year	324.0	448.4
Between one to two years	55.3	90.9
Between two to five years	210.8	368.2
After five years	322.2	241.3
	912.3	1,148.8
Less: Amount due within one year shown under current liabilities	(324.0)	(448.4)
Amount due after one year	588.3	700.4
Analysed as:		
– secured	746.5	847.3
– unsecured	165.8	301.5
	912.3	1,148.8

14. OTHER LONG-TERM LOANS

	30 June	31 December
	2005	2004
	HK\$'M	HK\$'M
Interest bearing loan	37.3	35.3
Interest free loan	3.7	17.2
	41.0	52.5

The loans are from minority shareholders of certain subsidiaries. The interest bearing loan carries interest at market rates and is extended to the Group to finance property development project. 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.

15. SHARE CAPITAL

	No. of shares	Amount HK\$'M
Authorised:		
Ordinary shares of HK\$0.50 each at 31 December 2004 and 30 June 2005	1,320,000,000	660.0
Issued and fully paid:		
At 1 January 2004	517,625,339	258.8
Issue of shares on exercise of share options	8,630,000	4.3
At 31 December 2004 and 30 June 2005	526,255,339	263.1

Notes To The Condensed Consolidated Financial Statements

16. RESERVES

	Share premium HK\$'M	Hedging reserve HK\$'M	Investment 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 2004								
- as previously reported	438.4	-	-	18.1	(21.7)	631.8	(66.9)	999.7
- adjustment on adoption of new/revised HKFRSs	-	-	-	-	-	-	0.2	0.2
- as restated	438.4	-	-	18.1	(21.7)	631.8	(66.7)	999.9
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	-	-	-	-	-	-	13.3	13.3
2003 final dividend paid	-	-	-	-	-	(5.1)	-	(5.1)
At 30 June 2004	438.5	-	-	18.1	(15.8)	626.7	(53.4)	1,014.1
Issue of shares on exercise of share options	2.5	-	-	-	-	-	-	2.5
Exchange differences arising on translation of financial statements of operations outside Hong Kong	-	-	-	-	5.3	-	-	5.3
Share of reserves of associates	-	-	-	-	0.3	-	-	0.3
Share of reserves by minority shareholders	-	-	-	-	(0.1)	-	-	(0.1)
Net profit for the six months ended 31 December 2004	-	-	-	-	-	-	78.8	78.8
2003 final dividend paid	-	-	-	-	-	(0.1)	-	(0.1)
At 31 December 2004	441.0	-	-	18.1	(10.3)	626.6	25.4	1,100.8
At 1 January 2005								
- as previously reported	441.0	-	-	18.1	(10.3)	626.6	26.4	1,101.8
- adjustment on adoption of new/revised HKFRSs	-	0.3	-	-	-	-	47.1	47.4
- as restated	441.0	0.3	-	18.1	(10.3)	626.6	73.5	1,149.2
Transfer	-	-	48.1	-	-	-	(48.1)	-
Surplus arising on revaluation	-	-	151.9	-	-	-	-	151.9
Decrease in hedging reserve	-	(1.3)	-	-	-	-	-	(1.3)
Realised on disposal	-	-	(67.1)	-	-	-	-	(67.1)
Exchange differences arising on translation of financial statements of operations outside Hong Kong	-	-	-	-	(5.6)	-	-	(5.6)
Share of reserves by minority shareholders	-	-	-	-	0.1	-	-	0.1
Net profit for the six months ended 30 June 2005	-	-	-	-	-	-	72.3	72.3
2004 final dividend paid	-	-	-	-	-	(9.2)	-	(9.2)
At 30 June 2005	441.0	(1.0)	132.9	18.1	(15.8)	617.4	97.7	1,290.3

The other distributable reserve includes HK\$7.9 million (31 December 2004: HK\$9.2 million) representing the declared interim dividend for the period (31 December 2004: proposed 2004 final dividend).

17. MINORITY INTERESTS

	30 June 2005 HK\$'M	31 December 2004 HK\$'M
At 1 January 2005 and 2004	61.8	57.1
Minority interests' share of profits less losses	(5.6)	5.7
Share of translation reserve	(0.1)	0.1
Dividends paid and payable	–	(1.1)
At the end of the period	56.1	61.8

18. CAPITAL COMMITMENTS

	30 June 2005 HK\$'M	31 December 2004 HK\$'M
Capital expenditure in respect of properties under development		
– contracted for but not provided	514.4	106.7
Capital expenditure in respect of acquisition of other properties, plant and equipment		
– contracted for but not provided	4.3	11.5
– authorised but not contracted for	2.1	6.4
	520.8	124.6

In addition to the above, jointly controlled entities of the Group have HK\$448.2 million capital commitment in respect of properties under development for sale. The Group's proportionate share of this capital commitment amounted to HK\$181.4 million.

Notes To The Condensed Consolidated Financial Statements

19. CONTINGENT LIABILITIES

	30 June	31 December
	2005	2004
	HK\$'M	HK\$'M
Guarantee to banks	1.9	1.9
Export bills discounted with recourse	–	0.9

20. RELATED PARTY TRANSACTIONS

The Group has the following significant transactions with related parties during the period:–

	Six months ended 30 June	
	2005	2004
	HK\$'M	HK\$'M
Directors' emoluments		
Salaries and other benefits	5.3	4.0
Retirement benefits costs	0.3	0.2
	5.6	4.2
Interest income from associates	1.2	1.1
Project management fee income from associates	8.1	2.1
Project management fee income from a subsidiary of the Group's investee company	0.9	–

These transactions were carried out on terms similar to those applicable transactions with third parties.

21. APPROVAL OF ACCOUNTS

The Accounts on pages 1 to 22 were approved by the Directors on 13 September 2005.

INTERIM DIVIDEND

The Directors declared the payment of an interim dividend of HK1.5 cents per share for the six months ended 30 June 2005 (2004: Nil). The interim dividend will be paid on 14 October 2005 to the shareholders whose names appear on the register of members of the Company on 7 October 2005.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 5 October 2005 to 7 October 2005, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the entitlement of the interim dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch registrars in Hong Kong, Standard Registrars Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not later than 4:00 p.m. on 4 October 2005.

MANAGEMENT DISCUSSION AND ANALYSIS

Results

For the first half of 2005, the Group reported a consolidated net profit of HK\$72.3 million, compared with HK\$13.3 million reported for the same period in 2004. Turnover for the Group was HK\$551.8 million for the period ended 30 June 2005, compared with HK\$584.1 million for the first half of 2004.

The increase in the Group's net profit was due mainly to a profit of HK\$67.1 million on the disposal of the Group's investment in SUNDAY Communications Limited and the better performance of the property division.

Property

The property market in Hong Kong continued to perform well in the first half of 2005, with residential, office, commercial, retail and industrial properties recording healthy growth in capital values as well as rentals. On the back of this strong market, the Group's property division, which includes residential development projects and investment properties, recorded profits of HK\$54.1 million as compared to HK\$38.1 million for the same period in 2004.

Profits for the division can be attributed to two main sources:

1. gain recognised from the sales of the Group's remaining residential inventory in three completed projects, namely the Waterfront, Bloomsville, and Hillgrove; and
2. gain in the change in fair value of remaining residential units and our investment properties.

Residential Properties

The Group was able to capture the upswing in property prices in early 2005 by launching the strata-sale of Tower V on Union Square. To date, we have sold over 70% of the residential units in Tower V, achieving an average of HK\$8,000 per square foot for gross revenue totalling HK\$1,545 million. In addition, the Group was able to sell all of the remaining units in two other completed projects, Bloomsville and Hillgrove.

On the development side, The Giverny, in which the Group has a 50% interest, has been completed and a certificate of compliance was obtained from the government in August 2005. The Group is now in the process of marketing the development for sale. The construction of the Grandville, in which the Group has a 40% interest, is progressing according to plan and is expected to be completed in 2006. Presales of the Grandville began in late 2004 and have been very successful, with approximately 90% of the development pre-sold at an average price of HK\$7,500 per square foot. In line with the Group's accounting policy, contributions from this project will be recognised in 2006.

On the international front, Kovan Melody, a joint-venture project in Singapore in which the Group has a 12% interest, was launched for sale in 2004. Up to 30 June 2005, 55% of the development had been pre-sold. As with the Grandville project in Hong Kong, contributions from this development will be reported in 2006 upon project completion. The development of the Lancaster Gate project in London, in which the Group has a 47.5% interest, has been completed and sales are now in progress. With the property market in the United Kingdom going through a period of adjustment and consolidation, the Group is taking a slower approach to the sale of this development.

In January 2005, the Group acquired a site at 157 Argyle Street in Kowloon's traditional luxury residential area. The Group is currently applying to the government for a lease modification to allow the development of a high-rise residential property on the site. In July 2005, the Group completed the disposal of a 20% interest in the project to Winsor Properties Holdings Limited, which was approved by our respective independent shareholders in April 2005.

Investment Properties

The refurbishment of the 133 Leighton Road property, a joint venture with Morgan Stanley Real Estate Funds ("Morgan Stanley"), has entered its final phase. The high-end luxury boutique hotel/serviced residences complex will be managed by the Group's hospitality management division, Lanson Place, and is expected to commence business in the last quarter of 2005.

In June 2005, the Group acquired from Morgan Stanley a 23.4% interest in a building in the prestigious Xin Tian Di area of Shanghai. The building is now being furnished and, upon completion, will be managed by Lanson Place as high-end serviced apartments. Leasing of this property is expected to commence towards the end of the year. This project is the Group's first property investment in the PRC and provides a stepping stone for entry into the Mainland's buoyant property market.

In July 2005, the Group acquired the Bank of East Asia Building situated at 314 – 324 Hennessy Road, Wanchai from the Bank of East Asia for HK\$529.1 million. The current plan is to refurbish the building as a commercial and retail property to capture the expected upward trend in these activities in the Wan Chai and Causeway Bay districts.

With the improvement in local business sentiment, we have noted a gradual recovery in property rental. Occupancy rates at the Group's three industrial properties at Shui Hing Centre, Unimix Industrial Centre and 81 Hung To Road were close to 90% for the first half of 2005.

Property Management Services

Lanson Place has established a reputation in the region's luxury leasing market as one of the most preferred serviced apartment brands.

Compared to the first six months of 2004, our Lanson Place operations achieved better occupancy in the first half of 2005. Occupancy at Lanson Place Winsland in Singapore for the 2005 interim period was at 85%, as compared to 80% for the same period last year. In Kuala Lumpur, Lanson Place Ambassador Row recorded 71% occupancy versus 73% for the same period last year, whereas Lanson Place Kondo 8 was able to maintain its leading position in the Ampang area and achieved full occupancy in the 2005 interim period. In Hong Kong, the Lanson Place operation at Tower V added significant value to the property, which was launched for strata-sales in early 2005, achieving an average price of HK\$8,000 per square foot.

The 133 Leighton Road and Shanghai projects, acquired in 2004 and June 2005 respectively, will allow Lanson Place to further strengthen its operations in Greater China.

The Group will continue to develop its Lanson Place operation at strategic locations and to seek promising opportunities in Greater China.

Apparel

The long-awaited quota-free era finally arrived on January 1, 2005. Unfortunately, the European Commission and the government of the USA quickly invoked anti-surge safeguards and re-introduced quotas on key Chinese textile products before the first half of the year had passed. Confusion reigned in the market, with millions upon millions of Chinese-made garments piling up on European docks and buyers and manufacturers frantically switching production from Chinese factories to offshore plants, all of which added costs and contributed to further erosion of margins.

With lower textile prices and higher production costs, particularly in fuel and electricity, the Group's garment manufacturing operations recorded a loss in the first half of 2005. Shui Hing Textiles International Limited and Unimix Holdings Limited together reported an operating loss of HK\$18.3 million, excluding restructuring and other closure costs, as compared to an operating profit of HK\$8.2 million for the 2004 interim period. Turnover for the period ended 30 June 2005 was slightly higher at HK\$352.7 million, as compared with HK\$344.6 million for the same period last year.

Market conditions should improve in the second half of the year. With the reintroduction of a quota system, a more orderly market with more stable prices will hopefully emerge. Furthermore, the second half of the year is the peak season for sweater products. Barring any unforeseen events, the Group's garment manufacturing operation should be profitable in the second half of the year, offsetting the loss incurred during the first half-year period.

Gieves & Hawkes plc

The turnover of Gieves & Hawkes plc for the first half of 2005 was HK\$112 million, as compared to HK\$105 million last year. The launch of a wholesale division and the appointment of a new licensee for Japan provided a healthy stream of income and boosted turnover in 2005. The London bombings, which occurred in July, have slowed tourism and retail. With the opening of a new concession store at House of Fraser, Manchester in July 2005, we should capture the shift of retail footfall away from London to other major cities in the United Kingdom.

With an improved overhead base and turnover, the first half of 2005 saw an operating profit of HK\$1.2 million, as compared to a HK\$3.9 million loss for the same period in 2004.

Strategic Investments

SUNDAY Communications Limited

On 13 June 2005, the Group sold its investments in SUNDAY Communications Limited to PCCW for cash consideration of approximately HK\$266.6 million. Profit on the disposal, amounting to HK\$67.1 million, is reported for the first half of 2005. Details of the disposal are set out in a circular to shareholders dated 6 July 2005.

Mission System Consultant Limited

The Group owns 42.5% of Mission System Consultant Limited ("MSC"), a software provider offering Enterprise Resources Planning solutions to garment manufacturers and traders.

MSC continued to develop its international presence and customer base, along with its physical and human resource infrastructure, in the first half of 2005. The firm has benefited from more widespread recognition of the value of supply chain sourcing and manufacturing solutions within the industry, and a subsequent increase in the adoption of enterprise solutions of this nature. Turnover in the first half of 2005 was significantly higher than the corresponding period last year, with new contracts from sizeable apparel manufacturers.

PROSPECTS

In the second half of the year, the property division will focus on the sales launch of the Giverny, which is expected to be well received in the market given its superior location, with breathtaking views within a rare natural setting. In addition, sales of the remaining units of Tower V on Union Square should continue to do well. We are confident that the property division will continue to make a healthy contribution to the profitability of the Group in the second half of the year.

Market conditions for our manufacturing operation will continue to be extremely challenging for the remainder of 2005. High oil prices and electricity and labour shortages in China will continue to put pressure on prices and the profit margin. With the reintroduced quota system, a more orderly market will hopefully emerge. Despite the short-term downturn in profitability for our manufacturing operation, we remain confident in the long-term outlook of our garment manufacturing business.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's shareholders' funds were HK\$1,553.4 million as at 30 June 2005 as compared to HK\$1,363.9 million at the end of 2004. The increase in shareholders' funds was mainly due to the profit for the period ended 30 June 2005 and surplus arising on revaluation of strategic investments, net of the distribution of the 2004 final dividends.

As at 30 June 2005, the Group's net bank borrowings (total bank borrowings net of cash and bank balances) was HK\$687.1 million (as at 31 December 2004: HK\$1,012.3 million), representing 44.2% of the Group's shareholders' funds, as compared to 74.2% as at the end of 2004. Interest for the Group's bank borrowings was mainly on a floating rate basis. Most (around 63%) of the Group's bank borrowings were repayable in periods beyond one year, and the Group had unutilised banking facilities in excess of HK\$700 million as at 30 June 2005.

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 2005, the Group has contingent liabilities in respect of guarantees given to banks for HK\$1.9 million. In addition, the Group provides proportionate guarantees to banks for credit facilities extended to jointly controlled entities. Pursuant to the adoption of HKAS 31, the Group's contingent liabilities in this respect are now replaced by the inclusion of the Group's proportionate share of the jointly controlled entities' bank borrowings in the consolidated balance sheet.

PLEDGE OF ASSETS

As at 30 June 2005, certain of the Group's investment properties, leasehold land, properties for own use and properties under development with carrying value of HK\$565.0 million, HK\$185.8 million, HK\$165.8 million and HK\$253.6 million respectively were pledged to secure credit facilities for the Group.

The Group's advances to associates/jointly controlled entities, which are engaged in property development, as at 30 June 2005 of HK\$159.6 million, are subordinated to the banking facilities of associates/jointly controlled entities. These advances to the associates/jointly controlled entities include amounts of HK\$134.0 million which are assigned, and the shares in these associates/jointly controlled entities beneficially owned by the Group are pledged, to financial institutions.

In addition to the above, HK\$634.9 million of properties under development for sale included in the consolidated balance sheet of the Group represents the Group's proportionate share in jointly controlled entities which are pledged as security for bank facilities extended to the jointly controlled entities.

EMPLOYEES

As at 30 June 2005, 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.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at 30 June 2005, the interests of the directors and the chief executive of the Company in shares and underlying shares 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 Issuers ("Model Code") were as follows:

1. Long position in the shares of the Company

Name of director	Number of shares held					Percentage of the Company's issued share capital
	Personal interests	Family interests	Corporate interests	Other interests	Total	
Cheng Wai Chee, Christopher	2,075,999	–	150,409,086 Note (a)	110,595,862 Note (b)	263,080,947	50.00%
Cheng Wai Sun, Edward	2,000,000	–	–	110,595,862 Note (b)	112,595,862	21.40%
Cheng Man Piu, Francis	–	–	–	110,595,862 Note (b)	110,595,862	21.02%
Cheng Wai Keung	–	–	–	110,595,862 Note (b)	110,595,862	21.02%
Ng Tak Wai, Frederick	968,000	762,000	–	–	1,730,000	0.33%
Au Hing Lun, Dennis	384,000	–	–	–	384,000	0.07%
Simon Murray	–	–	–	Note (c)	–	–

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.

- (c) Mr. Simon Murray had outstanding options to subscribe for 1,000,000 shares of the Company under the share option scheme of the Company which was approved by the shareholders of the Company on 10 June 2003. The options were granted to Mr. Simon Murray on 19 April 2005 at an exercise price of HK\$2.125 per share. The options can be exercised in stages within a period of one to five years from the date of grant.

2. Share options of the Company

Name of director	Date of grant	Exercise price per share (HK\$)	Number of share options	
			Granted during the period	Outstanding at 30.6.2005
Simon Murray	19.04.2005	2.125	1,000,000	1,000,000

The share options were granted pursuant to the Share Option Scheme adopted by the Company on 10 June 2003. The share options granted are exercisable in stages within a period of one to five years from the date of grant. No options were exercised by the Company's directors during the six months ended 30 June 2005.

Save as disclosed above, as at 30 June 2005, none of the directors nor the chief executive 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 and the chief executive (including their spouses and children under the age of 18) had, as at 30 June 2005, 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 2005, the following persons (other than the directors and the chief executive 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	20.21 (Note 1)
Wing Tai Holdings Limited	110,595,862	21.02 (Note 2)
Deutsche Bank International Trust Co. (Jersey) Limited	110,595,862	21.02 (Note 2)
Deutsche Bank International Trust Co. (Cayman) Limited	110,595,862	21.02 (Note 2)
Wing Tai Asia Holdings Limited	110,595,862	21.02 (Note 2)
Wing Sun Development Private Limited	110,595,862	21.02 (Note 2)
Terebene Holdings Inc.	110,595,862	21.02 (Note 2)
Winlyn Investment Pte Ltd.	110,595,862	21.02 (Note 2)
Bestime Resources Limited	68,747,996	13.06 (Note 3)
Pofung Investments Limited	66,698,122	12.67 (Note 3)
Wing Tai Corporation Limited	135,446,118	25.74 (Note 3)
Wesmore Limited	83,316,158	15.83 (Note 4)
Sun Hung Kai Properties Limited	100,762,150	19.15 (Note 4)
Lo Yuk Sui	51,676,000	9.82 (Note 5a)
Century City International Holdings Limited	51,676,000	9.82 (Note 5a)

Name of shareholder	Number of shares beneficially held	% of shareholding
Century City BVI Holdings Limited	51,676,000	9.82 (Note 5b)
Paliburg Holdings Limited	51,676,000	9.82 (Note 5b)
Paliburg Development BVI Holdings Limited	51,676,000	9.82 (Note 5b)
Paliburg International Holdings Limited	51,676,000	9.82 (Note 5b)
Paliburg BVI Holdings Limited	51,676,000	9.82 (Note 5b)
Regal Hotels International Holdings Limited	51,676,000	9.82 (Note 5b)
Regal International (BVI) Holdings Limited	51,676,000	9.82 (Note 5b)
Real Chance Profits Limited	51,676,000	9.82 (Note 5b)
HK 168 Limited	51,676,000	9.82 (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 Real 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 2005, the Company is not aware of any other person (other than the directors and the chief executive 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

Under the Share Option Scheme of the Company adopted on 10 June 2003 ("2003 Scheme"), the Board of the Company may, in its absolute discretion, grant options to directors and employees of the Group to subscribe for shares of the Company, subject to a maximum of 51,762,534 representing 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.

Details of the share options outstanding as at 30 June 2005 which have been granted under the 2003 Scheme are as follows:

	Date of grant	Exercise price per share (HK\$)	Number of share options	
			Granted during the period	Outstanding at 30.6.2005
Directors	19.04.2005	2.125	1,000,000	1,000,000

Notes :

- (1) 1,000,000 share options were granted under the 2003 Scheme during the six months period ended 30 June 2005.
- (2) The closing price of the shares of the Company quoted on the Stock Exchange on 18 April 2005, being the date immediately before the date on which share options were granted, was HK\$2.125 per share.
- (3) The options granted are exercisable in stages within a period of one to five years from the date of grant.

- (4) The Group has computed the fair value of the options granted during the six months period ended 30 June 2005 using the Black-Scholes option pricing model and the following assumptions:

Risk-free interest rate :	3%
Expected dividend yield :	2%
Expected volatility of the market price of the Company's shares :	42%
Expiration of options :	5 years from the date of grant

The Black-Scholes option pricing model requires the input of highly subjectively assumptions, including the volatility of share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the directors' opinion, the existing model does not necessarily provide a reliable singly measure of the fair value of the options. The fair value of the options granted during the six months period ended 30 June 2005 was computed as approximately HK\$43,000.

- (5) No charge is recognised in the income statement in respect of the value of options granted under the 2003 Scheme during the period. Share options granted are not recognised in the financial statements of the Company until such options are exercised. Upon exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of such shares, and the excess of the exercise price over the nominal value of the shares issued is recorded by the Company in the share premium account.

SHARE INCENTIVE SCHEME

At a special general meeting of the Company held on 17 June 2005, a Share Incentive Scheme ("2005 Scheme") was approved by shareholders. Under the 2005 Scheme, the Board of the Company may, in its absolute discretion, make offer of awards to selected employees (including executive directors) of the Group ("Eligible Employees") to subscribe in cash at par for shares of the Company. The maximum number of shares of the Company which may be issued in response to the awards and any other incentive and option schemes of the Company (excluding lapsed awards and options) shall not in aggregate exceed 52,625,533 representing 10% of the issued share capital of the Company as at 17 June 2005.

The 2005 Scheme is a long-term incentive arrangement for the Eligible Employees, the purpose of which is to recognise, motivate and provide incentives to those who make contributions to the Group, to help the Group retain its existing employees and recruit additional employees who will be valuable to the Group to provide existing and future employees with direct economic interests in the long-term development and growth of the Group.

Offer of awards must be accepted within 28 days from the date of offer. The subscription price for each share which is the subject of an award shall be an amount equal to its nominal value. Each subscription under the 2005 Scheme shall be in cash at the subscription price. The Company will provide to the Eligible Employees the funds required to subscribe for the shares issued under the 2005 Scheme. The 2005 Scheme will end on 16 June 2015.

DISCLOSURE PURSUANT TO RULE 13.22 OF THE LISTING RULES

At 30 June 2005, the aggregate amount of financial assistance to and guarantees given for facilities granted to affiliated companies by the Group amounting to HK\$453.5 million which exceeded 8% of the percentage ratios as defined in Rule 14.07 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 2005 are presented below:

(HK\$'M)	Pro-forma combined balance sheet	Group's attributable interest
Non-current assets	3,921.9	886.1
Current assets	2,353.5	703.1
Current liabilities	(2,648.4)	(1,041.0)
Non-current liabilities	(3,279.5)	(520.4)
Net assets	<u>347.5</u>	<u>27.8</u>

AUDIT COMMITTEE

The Audit Committee of the Company comprises three 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 2005. 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 2005 for public release.

CORPORATE GOVERNANCE

The Company has complied throughout the six months ended 30 June 2005 with the Code Provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") except that:

1. the non-executive directors of the Company have not been 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.
2. the directors have not been required by the Company's bye-laws to retire by rotation at least once every three years. However, in accordance with the Company's bye-laws, at each annual general meeting one-third of the directors for the time being, or, if their number is not three or a multiple of three, then the number nearest one-third, shall retire from office by rotation provided that no director holding office as Chairman or managing director shall be subject to retirement by rotation or be taken into account in determining the number of directors to retire.

The Board will ensure the retirement of each director by rotation at least once every three years in order to comply with the Code Provisions of the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF THE COMPANY

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Listing Rules as its code of conduct for securities transactions by directors of the Company.

The Company has made specific enquiry of all directors regarding any non-compliance with the Model Code during the period, and received confirmation from all the directors that they had fully complied with the required standard set out in the Model Code throughout the period.

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

During the six months ended 30 June 2005, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

CHANGE OF AUDITORS

At an annual general meeting of the Company held on 17 June 2005, PricewaterhouseCoopers were appointed auditors of the Company in place of the retiring auditors to hold office until the conclusion of the next annual general meeting.

By Order of the Board

Au Hing Lun, Dennis

Executive Director and

Company Secretary

Hong Kong, 13 September 2005

DIRECTORS

Cheng Wai Chee, Christopher *GBS 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 *GBS JP* *

Yeung Kit Shing, Jackson *

non-executive directors

* independent non-executive directors

AUDIT COMMITTEE

Yeung Kit Shing, Jackson *Chairman*

Simon Murray *CBE*

Fang Hung, Kenneth *GBS JP*

Wong Yick Kam, Michael

Hong Pak Cheung, William

(alternate to Wong Yick Kam, Michael)

REMUNERATION COMMITTEE

Simon Murray *CBE*

Fang Hung, Kenneth *GBS JP*

Yeung Kit Shing, Jackson

Cheng Wai Chee, Christopher *GBS JP*

Cheng Wai Sun, Edward

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Au Hing Lun, Dennis

AUDITORS

PricewaterhouseCoopers

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

369

