

# USI HOLDINGS LIMITED

(Stock Code: 369)

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INTERIM REPORT 2006

## CHAIRMAN'S STATEMENT

For the six months ended 30 June 2006, USI scored net profit attributable to the shareholders of the Company of HK\$585.3 million. The extraordinary performance represented a more than seven-fold increase from the same period last year and the second record results in a row, following a full year net profit of HK\$368.5 million for 2005. The outstanding results epitomise our insight, perseverance and uncompromising determination to make our mark in the property industry as a focused and dynamic niche player. It also sets a brilliant beginning for a new phase of development.

Under Wing Tai Asia, the well-respected brand for quality property development, we have launched a number of prestigious residential projects since 1999. Through Lanson Place, our hospitality investment and management arm and new growth engine, we invested in and managed serviced residences in Hong Kong, Shanghai, Singapore and Malaysia. With our aspiration to deliver the best product, our effective marketing strategy and our quality management, we are adding value to each and every piece of land we invest in.

Our strategic direction now is to achieve further growth by adding value with quality and flair under our two established brands of Wing Tai Asia and Lanson Place. Looking ahead, we will expand our portfolio from residential property to include commercial and retail properties. For residential property, we have acquired a site at Argyle Street and will develop it into a luxurious residence. For commercial properties, we have also acquired the former Bank of East Asia Building at Hennessy Road, Wanchai. Upon the completion of renovation in 2007, the grade A offices and upscale retail space will expand the revenue stream for the Group.

We will seek to extend the Lanson Place brand into the fast growing China market and other Asian cities. We have already made entries into the two gateway cities, Shanghai and Beijing. We have recently joint ventured with Hongkong Land and Vantone to acquire Tower 15 of Central Park, a luxurious residential development in Beijing. The Tower will be operated as serviced residences and will be managed by Lanson Place. The Tower is scheduled to be completed and handed over in March 2008 and in time for the Beijing Olympics.

In terms of the apparel business, the Group has been re-engineering the manufacturing process to enhance production efficiency and shifting to higher margin customers and products, which have enabled us to minimise the impact of trade restrictions in the past year. The Group is now focused on building a sustainable platform for future growth in anticipation of the lifting of the quantitative restrictions imposed by the US and the EU in 2007 and 2008 respectively.

We will continue to expand our business scope and geographical coverage. Our experience in brand building and coping with the changing and highly competitive market landscape will sustain our growth in the property market. Our quality, creativity and credibility will help us bring the business to the next level and perpetuate the USI success story.

**Cheng Wai Chee, Christopher**

*Chairman*

Hong Kong, 25 September 2006

## INTERIM RESULTS

The Board of Directors (the “Directors”) of USI Holdings Limited (the “Company”) presents the interim report and the unaudited condensed consolidated interim financial information of the Company, its subsidiaries and its jointly controlled entities (the “Group”) for the six months ended 30 June 2006.

## CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2006

	NOTES	Unaudited Six months ended 30 June	
		2006 HK\$'M	2005 HK\$'M
Turnover	4	<b>1,860.9</b>	551.8
Cost of sales		<b>(980.8)</b>	(421.2)
Gross profit		<b>880.1</b>	130.6
Other operating income		<b>4.4</b>	8.4
Distribution costs		<b>(62.0)</b>	(44.6)
Administrative expenses		<b>(147.1)</b>	(123.6)
Change in fair value of investment properties		<b>36.4</b>	26.8
Gain on disposal of strategic investments		<b>–</b>	67.1
Profit from operations	5	<b>711.8</b>	64.7
Finance charges		<b>(23.8)</b>	(9.8)
Finance income		<b>3.1</b>	0.6
Net finance charges		<b>(20.7)</b>	(9.2)
Share of results of associates		<b>17.9</b>	12.8
Profit before taxation		<b>709.0</b>	68.3
Taxation	6	<b>(127.8)</b>	(1.6)
Profit for the period		<b>581.2</b>	66.7
Attributable to:			
Shareholders of the Company		<b>585.3</b>	72.3
Minority interests		<b>(4.1)</b>	(5.6)
		<b>581.2</b>	66.7
Dividends	7	<b>55.2</b>	17.1
Earnings per share for profit attributable to the shareholders of the Company	8		
– Basic		<b>HK\$1.11</b>	HK\$0.14
– Diluted		<b>HK\$1.11</b>	HK\$0.14

The notes on page 8 to 20 are an integral part of this condensed consolidated interim financial information.

# CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2006

	NOTES	Unaudited 30 June 2006 HK\$'M	Audited 31 December 2005 HK\$'M
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Leasehold land and land use rights		<b>778.4</b>	780.4
Investment properties	9	<b>1,350.0</b>	1,311.6
Properties under development		<b>103.7</b>	89.5
Other properties, plant and equipment	10	<b>293.2</b>	287.2
Interests in associates		<b>206.7</b>	199.5
Strategic investments		<b>525.7</b>	418.4
Other non-current assets		<b>0.4</b>	0.5
		<b>3,258.1</b>	3,087.1
<b>Current assets</b>			
Inventories		<b>126.0</b>	123.9
Properties under development for sale		<b>273.1</b>	803.2
Trade and other receivables and prepayments	11	<b>682.1</b>	460.9
Bills receivable		<b>60.7</b>	27.0
Derivative financial instruments		<b>2.6</b>	2.7
Sales proceeds held in stakeholders' accounts		<b>57.8</b>	113.6
Amounts due from associates		<b>12.2</b>	9.3
Taxation recoverable		<b>3.2</b>	2.7
Bank balances and cash		<b>340.7</b>	137.9
		<b>1,558.4</b>	1,681.2

# CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

As at 30 June 2006

	NOTES	Unaudited 30 June 2006 HK\$'M	Audited 31 December 2005 HK\$'M
<b>Current liabilities</b>			
Trade, other payables and accruals	12	364.7	365.5
Bills payable		14.0	15.2
Properties presale proceeds received		–	902.5
Amount due to an associate		4.9	4.8
Taxation payable		158.7	39.2
Bank borrowings in respect of bills		11.4	9.3
Short-term bank borrowings and overdrafts	13	5.4	4.3
Bank loans – amount due within one year	14	126.1	310.5
		<b>685.2</b>	1,651.3
<b>Net current assets</b>			
		<b>873.2</b>	29.9
<b>Total assets less current liabilities</b>			
		<b>4,131.3</b>	3,117.0
<b>Non-current liabilities</b>			
Bank loans – amount due after one year	14	1,231.7	777.8
Other long-term loans	15	177.0	279.5
Deferred taxation		82.0	75.6
		<b>1,490.7</b>	1,132.9
<b>NET ASSETS</b>			
		<b>2,640.6</b>	1,984.1
<b>EQUITY</b>			
Equity attributable to the shareholders of the Company			
Share capital	16	263.1	263.1
Reserves		2,253.7	1,593.5
		<b>2,516.8</b>	1,856.6
Minority interests		123.8	127.5
<b>TOTAL EQUITY</b>			
		<b>2,640.6</b>	1,984.1

The notes on page 8 to 20 are an integral part of this condensed consolidated interim financial information.

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2006

	Equity attributable to the shareholders of the Company											
	Share capital HK\$'M	Share premium HK\$'M	Hedging reserve HK\$'M	Investment revaluation reserve HK\$'M	Employee share-based compensation reserve HK\$'M	Other property revaluation reserve HK\$'M	Translation reserve HK\$'M	Contributed surplus HK\$'M	Other distributable reserve HK\$'M	Total HK\$'M	Minority interests HK\$'M	Total equity HK\$'M
At 1 January 2005	263.1	441.0	0.3	-	-	18.1	(10.3)	626.6	73.5	1,412.3	61.8	1,474.1
Transfer	-	-	-	48.1	-	-	-	-	(48.1)	-	-	-
Surplus arising on revaluation	-	-	-	151.9	-	-	-	-	-	151.9	-	151.9
Decrease in hedging reserve	-	-	(1.3)	-	-	-	-	-	-	(1.3)	-	(1.3)
Realised on disposal	-	-	-	(67.1)	-	-	-	-	-	(67.1)	-	(67.1)
Exchange differences arising on translation of financial statements of operations outside Hong Kong	-	-	-	-	-	-	(5.6)	-	-	(5.6)	-	(5.6)
Share of reserves by minority shareholders	-	-	-	-	-	-	0.1	-	-	0.1	(0.1)	-
Net profit for the six months ended 30 June 2005	-	-	-	-	-	-	-	-	72.3	72.3	(5.6)	66.7
2004 final dividend paid	-	-	-	-	-	-	-	(9.2)	-	(9.2)	-	(9.2)
At 30 June 2005	263.1	441.0	(1.0)	132.9	-	18.1	(15.8)	617.4	97.7	1,553.4	56.1	1,609.5
Surplus arising on revaluation	-	-	-	11.2	-	-	-	-	-	11.2	-	11.2
Increase in hedging reserve	-	-	3.7	-	-	-	-	-	-	3.7	-	3.7
Adjustment of other property revaluation reserve in respect of leasehold land	-	-	-	-	-	(6.0)	-	-	-	(6.0)	-	(6.0)
Exchange differences arising on translation of financial statements of operations outside Hong Kong	-	-	-	-	-	-	5.4	-	-	5.4	-	5.4
Share of reserves by minority shareholders	-	-	-	-	-	-	0.1	-	-	0.1	(0.1)	-
Value of employee services in respect of share options/incentive shares granted	-	-	-	-	0.5	-	-	-	-	0.5	-	0.5
Net profit for the six months ended 31 December 2005	-	-	-	-	-	-	-	-	296.2	296.2	71.5	367.7
2005 interim dividend paid	-	-	-	-	-	-	-	(7.9)	-	(7.9)	-	(7.9)
At 31 December 2005 and 1 January 2006	263.1	441.0	2.7	144.1	0.5	12.1	(10.3)	609.5	393.9	1,856.6	127.5	1,984.1
Surplus arising on revaluation	-	-	-	95.2	-	-	-	-	-	95.2	-	95.2
Decrease in hedging reserve	-	-	(0.1)	-	-	-	-	-	-	(0.1)	-	(0.1)
Exchange differences arising on translation of financial statements of operations outside Hong Kong	-	-	-	-	-	-	7.8	-	-	7.8	-	7.8
Share of reserves by minority shareholders	-	-	(0.4)	-	-	-	-	-	-	(0.4)	0.4	-
Value of employee services in respect of share options/incentive shares granted	-	-	-	-	1.3	-	-	-	-	1.3	-	1.3
Net profit for the six months ended 30 June 2006	-	-	-	-	-	-	-	-	585.3	585.3	(4.1)	581.2
2005 final dividend paid	-	-	-	-	-	-	-	(28.9)	-	(28.9)	-	(28.9)
<b>At 30 June 2006</b>	<b>263.1</b>	<b>441.0</b>	<b>2.2</b>	<b>239.3</b>	<b>1.8</b>	<b>12.1</b>	<b>(2.5)</b>	<b>580.6</b>	<b>979.2</b>	<b>2,516.8</b>	<b>123.8</b>	<b>2,640.6</b>

The contributed surplus includes HK\$26.3 million (31 December 2005: HK\$28.9 million) representing the declared interim dividend for the period (31 December 2005: proposed 2005 final dividend).

The notes on page 8 to 20 are an integral part of this condensed consolidated interim financial information.

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2006

	Unaudited	
	Six months ended 30 June	
	2006	2005
	HK\$'M	HK\$'M
Net cash from operating activities	<b>81.4</b>	545.3
Net cash used in investing activities	<b>(10.0)</b>	(188.0)
Net cash generated from/(used in) financing activities	<b>128.3</b>	(252.2)
Effect of foreign exchange rate changes	<b>2.2</b>	(2.4)
Net increase in cash and cash equivalents	<b>201.9</b>	102.7
Cash and cash equivalents at beginning of the period	<b>137.7</b>	139.3
Cash and cash equivalents at end of the period	<b>339.6</b>	242.0
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	<b>340.7</b>	247.5
Bank overdrafts	<b>(1.1)</b>	(5.5)
	<b>339.6</b>	242.0

The notes on page 8 to 20 are an integral part of this condensed consolidated interim financial information.



# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

## 1. General information

The Company is a limited liability company incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited.

The Company, its subsidiaries and its jointly controlled entities (collectively referred to herein as the “Group”) is engaged in garment manufacturing and trading, branded products distribution, property investment and management, property development and other investing activities.

This condensed consolidated interim financial information was approved for issue on 25 September 2006.

## 2. Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2006 has 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 (“HKICPA”). The interim condensed financial report should be read in conjunction with the annual financial statements for the year ended 31 December 2005.

The interim results for the six months ended 30 June 2006 are unaudited, but reviewed in accordance with the Statement of Auditing Standard 700 “Engagements to review interim financial reports” issued by the HKICPA by the Company’s auditors. The interim results have also been reviewed by the Company’s audit committee.

### **3. Accounting policies**

The accounting policies adopted are consistent with those of and as described in the annual financial statements for the year ended 31 December 2005.

The following new standards, amendments to standards and interpretations are mandatory for financial year ending 31 December 2006:

- Amendment to HKAS 19, 'Actuarial gains and losses, group plans and disclosures';
- Amendment to HKAS 39, 'The fair value option';
- Amendment to HKAS 21, 'Net investment in a foreign operation';
- Amendments to HKAS 39 and HKFRS 4, 'Financial guarantee contracts'; and
- HKFRS-Int 4, 'Determining whether an arrangement contains a lease'.

The Group considered these amendments do not have significant impact on how its results of operations and financial position are prepared and presented.

### **3. Accounting policies** (Continued)

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2006 and have not been early adopted:

- HK(IFRIC)-Int 7, 'Applying the Restatement Approach under HKAS 29', effective for annual periods beginning on or after 1 March 2006;
- HK(IFRIC)-Int 8, 'Scope of IFRS 2', effective for annual periods beginning on or after 1 May 2006;
- HK(IFRIC)-Int 9, 'Reassessment of Embedded Derivatives', effective for annual periods beginning on or after 1 June 2006; and
- HKFRS 7, 'Financial instruments: Disclosures', effective for annual periods beginning on or after 1 January 2007. Amendment to HKAS 1, 'Capital disclosures', effective for annual periods beginning on or after 1 January 2007.

The Group is in the process of assessing the impact of these new standards, amendments to standards and interpretations on its results of operation and financial position.

#### 4. Turnover and segment information

The Group is currently organised into five operating divisions – garment manufacturing and trading, branded products distribution, property investment 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 2006	Garment manufacturing and trading HK\$'M	Branded products distribution HK\$'M	Property investment and management HK\$'M	Property development HK\$'M	Investing activities HK\$'M	Elimination HK\$'M	Consolidated HK\$'M
<b>Turnover</b>							
External sales	313.2	117.4	53.1	1,374.6	2.6	-	1,860.9
Inter-segment sales	-	-	5.4	-	-	(5.4)	-
Total	<u>313.2</u>	<u>117.4</u>	<u>58.5</u>	<u>1,374.6</u>	<u>2.6</u>	<u>(5.4)</u>	<u>1,860.9</u>
<b>Results</b>							
Segment results before change in fair value of investment properties	(32.0)	(1.2)	14.1	689.9	30.8	-	701.6
Change in fair value of investment properties	-	-	36.4	-	-	-	36.4
Segment results	<u>(32.0)</u>	<u>(1.2)</u>	<u>50.5</u>	<u>689.9</u>	<u>30.8</u>	<u>-</u>	<u>738.0</u>
Unallocated corporate expenses							<u>(26.2)</u>
Profit from operations							711.8
Finance charges							(23.8)
Finance income							3.1
Net finance charges							(20.7)
Share of results of associates							17.9
Profit before taxation							709.0
Taxation							(127.8)
Profit for the period							<u>581.2</u>

#### 4. Turnover and segment information (Continued)

##### **Business segment** (Continued)

For the period ended 30 June 2005	Garment manufacturing and trading HK\$'M	Branded products distribution HK\$'M	Property investment and management HK\$'M	Property development HK\$'M	Investing activities HK\$'M	Elimination HK\$'M	Consolidated HK\$'M
<b>Turnover</b>							
External sales	386.5	112.3	35.0	15.7	2.3	-	551.8
Inter-segment sales	-	-	2.7	-	-	(2.7)	-
<b>Total</b>	<b>386.5</b>	<b>112.3</b>	<b>37.7</b>	<b>15.7</b>	<b>2.3</b>	<b>(2.7)</b>	<b>551.8</b>
<b>Results</b>							
Segment results before change in fair value of investment properties and gain on disposal of strategic investments	(26.1)	2.0	11.7	3.7	1.7	-	(7.0)
Change in fair value of investment properties	-	-	26.8	-	-	-	26.8
Gain on disposal of strategic investments	-	-	-	-	67.1	-	67.1
<b>Segment results</b>	<b>(26.1)</b>	<b>2.0</b>	<b>38.5</b>	<b>3.7</b>	<b>68.8</b>	<b>-</b>	<b>86.9</b>
Unallocated corporate expenses							(22.2)
Profit from operations							64.7
Finance charges							(9.8)
Finance income							0.6
Net finance charges							(9.2)
Share of results of associates							12.8
Profit before taxation							68.3
Taxation							(1.6)
<b>Profit for the period</b>							<b>66.7</b>

#### 4. Turnover and segment information (Continued)

##### **Geographical segment**

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

	<b>Turnover by geographical market</b>	
	<b>Six months ended 30 June</b>	
	<b>2006</b>	2005
	<b>HK\$'M</b>	HK\$'M
North America	<b>184.2</b>	247.3
United Kingdom	<b>199.3</b>	129.9
Hong Kong	<b>1,376.8</b>	54.9
Other European countries	<b>59.3</b>	61.6
Other areas	<b>41.3</b>	58.1
	<b>1,860.9</b>	551.8

#### 5. Profit from operations

	<b>Six months ended 30 June</b>	
	<b>2006</b>	2005
	<b>HK\$'M</b>	HK\$'M
Profit from operations has been arrived at after charging:		
Amortisation of trademark	<b>0.1</b>	–
Depreciation and amortisation of leasehold land and land use rights and other properties, plant and equipment	<b>13.4</b>	12.7
Provision for bad debts	<b>4.0</b>	–
Provision for slow-moving and obsolete inventories	<b>1.5</b>	1.3
Employee share-based compensation expenses	<b>1.3</b>	–

## 6. Taxation

Hong Kong profits tax is calculated at 17.5% (2005: 17.5%) of the estimated assessable profits for the period. Taxation on overseas profits has been calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the countries in which the Group operates.

The amounts of taxation charged to the income statement represent:

	Six months ended 30 June	
	2006	2005
	HK\$'M	HK\$'M
Taxation of the Company, its subsidiaries and jointly controlled entities		
– Hong Kong profits tax	121.1	1.6
– Taxation in other jurisdictions	0.3	–
	121.4	1.6
Deferred taxation	6.4	–
	127.8	1.6

## 7. Dividends

During the six months ended 30 June 2006, a final dividend of HK5.5 cents per share in respect of the year ended 31 December 2005 was approved at the Company's annual general meeting held on 16 June 2006 and paid to the shareholders during the period.

The Directors declared the payment of an interim dividend of HK5.0 cents per share in respect of the six months ended 30 June 2006.

## 8. Earnings per share

The calculation of the basic and diluted earnings per share for profit attributable to the shareholders of the Company is based on the following data:

	Six months ended 30 June	
	2006	2005
	HK\$'M	HK\$'M
Profit attributable to the shareholders of the Company for the purposes of calculating basic and diluted earnings per share	<b>585.3</b>	72.3
Number of shares in issue		
Weighted average number of shares for the purposes of calculating basic earnings per share	<b>526,255,339</b>	526,255,339
Effect of dilutive potential shares issuable under the Company's share option and share incentive schemes	<b>1,070,186</b>	281,544
Weighted average number of shares for the purposes of calculating diluted earnings per share	<b>527,325,525</b>	526,536,883

The Group's earnings for the period attributable to the shareholders of the Company is HK\$585.3 million, which includes change in fair value of investment properties of certain subsidiaries and an associate company (net of minority interests and deferred taxation) of HK\$48.6 million. The Group earnings for the period attributable to the shareholders of the Company after exclusion of the net valuation gain mentioned above is HK\$536.7 million which is equivalent to HK\$1.02 per share on both a basic and a fully diluted basis.

## 9. Investment properties

The Group's investment properties are stated at revalued amounts based on professional valuations at 30 June 2006 on an open market value basis.

## 10. Other properties, plant and equipment

During the period, the Group spent approximately HK\$15.5 million (2005: HK\$23.3 million) on acquisition of other properties, plant and equipment.



## 11. Trade and other receivables and prepayments

	<b>30 June 2006 HK\$'M</b>	31 December 2005 HK\$'M
Trade receivables	<b>640.9</b>	399.9
Less: provision for impairment	<b>(19.6)</b>	(16.3)
Trade receivables – net of provision	<b>621.3</b>	383.6
Other receivables and prepayments	<b>60.8</b>	77.3
Total	<b>682.1</b>	460.9

The Group allows different credit periods to its trade customers. Credit periods vary from 30 to 90 days in accordance with the industry practice. The following is an aged analysis of the Group's trade receivables at the report date:

	<b>30 June 2006 HK\$'M</b>	31 December 2005 HK\$'M
0 – 30 days	<b>46.3</b>	76.6
31 – 90 days	<b>8.0</b>	286.2
Over 90 days	<b>586.6</b>	37.1
	<b>640.9</b>	399.9

The carrying values of net trade and other receivables and prepayments approximate their fair values.

## 12. Trade, other payables and accruals

	<b>30 June 2006 HK\$'M</b>	31 December 2005 HK\$'M
Trade payables	<b>80.2</b>	100.6
Other payables and accruals	<b>284.5</b>	264.9
	<b>364.7</b>	365.5

## 12. Trade, other payables and accruals (Continued)

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

	<b>30 June 2006 HK\$'M</b>	31 December 2005 HK\$'M
0 – 30 days	<b>53.1</b>	67.2
31 – 90 days	<b>11.6</b>	21.3
Over 90 days	<b>15.5</b>	12.1
	<b>80.2</b>	100.6

The carrying values of trade, other payables and accruals approximate their fair values.

## 13. Short-term bank borrowings

	<b>30 June 2006 HK\$'M</b>	31 December 2005 HK\$'M
Trust receipts and import loans	<b>4.3</b>	4.1
Bank overdrafts	<b>1.1</b>	0.2
	<b>5.4</b>	4.3

Trust receipts and import loans are secured by related inventories.

## 14. Bank loans

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

	<b>30 June 2006 HK\$'M</b>	31 December 2005 HK\$'M
Within one year	<b>126.1</b>	310.5
Between one to two years	<b>381.6</b>	333.9
Between two to five years	<b>478.1</b>	410.5
After five years	<b>372.0</b>	33.4
	<b>1,357.8</b>	1,088.3
Less: Amount due within one year shown under current liabilities	<b>(126.1)</b>	(310.5)
Amount due after one year	<b>1,231.7</b>	777.8

#### 14. Bank loans (Continued)

Except for bank loans of HK\$377.0 million (31 December 2005: HK\$300.9 million) which are unsecured, the remaining bank loans are secured by investment properties, freehold properties, leasehold land, leasehold building, properties under development and properties under development for sale with carrying value of HK\$1,346.4 million (31 December 2005: HK\$1,308.0 million), HK\$62.8 million (31 December 2005: HK\$59.5 million), HK\$769.1 million (31 December 2005: HK\$298.4 million), HK\$94.8 million (31 December 2005: HK\$96.2 million), HK\$103.7 million (31 December 2005: HK\$4.5 million) and HK\$184.9 million (31 December 2005: HK\$802.9 million) respectively.

The carrying values of bank loans approximate their fair values.

#### 15. Other long-term loans

	<b>30 June 2006 HK\$'M</b>	31 December 2005 HK\$'M
Interest bearing loans	<b>165.4</b>	267.9
Interest-free loans	<b>11.6</b>	11.6
	<b>177.0</b>	279.5

The loans are from minority shareholders of certain subsidiaries. All the loans are unsecured and have no fixed repayment terms, and the interest bearing loans carry interest at market rates. 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.

The carrying values of other long-term loans approximate their fair values.

## 16. Share capital

	Number of shares	Amount HK\$'M
Ordinary shares of HK\$0.50 each		
Authorised:		
At 1 January 2005, 31 December 2005 and 30 June 2006	<u>1,320,000,000</u>	<u>660.0</u>
Issued and fully paid:		
At 1 January 2005, 31 December 2005 and 30 June 2006	<u>526,255,339</u>	<u>263.1</u>

## 17. Capital commitments

	30 June 2006 HK\$'M	31 December 2005 HK\$'M
Capital expenditure in respect of properties under development		
– contracted but not provided for	9.5	48.1
– authorised but not contracted for	8.3	0.6
Capital expenditure in respect of acquisition of other properties, plant and equipment		
– contracted but not provided for	0.7	9.3
– authorised but not contracted for	–	1.1
	<u>18.5</u>	<u>59.1</u>

## 18. Contingent liabilities

	30 June 2006 HK\$'M	31 December 2005 HK\$'M
Guarantees given to banks	<u>1.8</u>	<u>1.6</u>

## 19. Related party transactions

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

	Six months ended 30 June	
	2006	2005
	HK\$'M	HK\$'M
Key management compensation		
Salaries and other benefits	6.0	5.3
Retirement benefits costs	0.2	0.3
	<b>6.2</b>	<b>5.6</b>
Interest income from associates	2.4	1.2
Project management fee income from associates	3.9	8.1
Project management fee income from a subsidiary of the Group's investee company	0.9	0.9

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

## 20. Post balance sheet events

Subsequent to 30 June 2006, the Group entered into an agreement with a third party to acquire Tower 15 of Central Park, a luxurious residential development in Beijing. The Tower will be operated as serviced residences and the Group's investment in the project will be approximately HK\$195 million.

## **INTERIM DIVIDEND**

The directors declared the payment of an interim dividend of HK5.0 cents per share for the six months ended 30 June 2006 (2005: HK1.5 cents). The interim dividend will be paid on 20 October 2006 to the shareholders whose names appear on the register of members of the Company on 13 October 2006.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Results**

For the first half of 2006, the Group reported a consolidated net profit of HK\$585.3 million, representing a remarkable increase of 710% over the HK\$72.3 million reported for the same period in 2005. Turnover for the Group was HK\$1,860.9 million for the period ended 30 June 2006, representing a 237% increase as compared with HK\$551.8 million for the first half of 2005.

The record profit of the Group was due to the significant improvement in the results of its property division, driven primarily by profit from The Grandville, the luxury residential project in Shatin.

### **Property**

The outstanding performance of the Group in the first half of 2006 reflected the success of the Group's decade-long strategy of investment in residential property development and hospitality investment and management, which have increasingly become the Group's business focus. The overall performance of the Hong Kong economy in the first half of 2006 was encouraging despite low property transaction volume under the increasing interest rate environment and financial market volatility.

The Group's property division, which includes residential development projects, hospitality investment and management, and investment properties, recorded profits of HK\$645.9 million, representing an increase of 1,094% as compared with HK\$54.1 million for the same period in 2005. The substantial increase is, as mentioned above, mainly attributed to the profit for The Grandville.

## **Residential Property Development**

The Group has successfully established the Wing Tai Asia brand as a leader in the property industry for quality product development and delivery, innovative marketing and excellent customer service. Since 1995, the Group has launched various residential developments and all these developments have been well received as a guarantee of high quality, and achieved record selling prices.

In the first half of 2006, management's prime focus was to complete The Grandville, which was successfully pre-sold at the end of 2004. The occupation permits and certificate of compliance were obtained in January and July 2006 respectively, as a result, HK\$1,283.3 million of turnover and HK\$555.6 million of profit attributable to the Group were recognised in accordance with the Group's accounting policy.

In October 2005, the Group launched the first phase of The Giverny, a luxurious villa development in Hebe Haven, Sai Kung. Up to 30 June 2006, the Group has sold 21 villas and HK\$10.1 million of profit attributable to the Group was reported for the first half of 2006. During the period under review, the management continued to add value to the estate in preparation for the next launch and closely monitor the regular maintenance of the premises to ensure that they are maintained with the highest quality and are in perfect conditions on delivery.

Kovan Melody, a residential development in Singapore joint ventured with Wing Tai Holdings Limited, has pre-sold about 70%. This project is scheduled to be completed by the end of 2006.

The Group acquired a site at 157 Argyle Street in 2005. The gross floor area of this project is expected to be approximately 90,000 square feet. Basic terms of the lease modification have been agreed with the government and the Group is currently in negotiation on the land premium.

## ***Hospitality Investment and Management***

Lanson Place has established a reputation in the region's leasing market among expatriates as one of the most preferred serviced apartment brands. Lanson Place now manages a total of 720 units in five properties in Hong Kong, Shanghai, Singapore and Kuala Lumpur.

In Hong Kong, the Lanson Place Boutique Hotel and Residences at 133 Leighton Road commenced operation in December 2005 and has a total of 194 suites. Performance has exceeded the investment budget since opening and the business outlook is positive. During August, the operation achieved 86% occupancy. It has also become the first boutique hotel in Hong Kong to be listed as one of the prestigious Small Luxury Hotels in the World for its unsurpassed level of quality, service and luxury.

In Shanghai, Lanson Place Jin Lin Tian Di Residences, a luxury serviced apartment project in the prime Xin Tian Di area with a total of 106 apartments, commenced operation in December 2005. During August, the operation achieved 80% occupancy at an average monthly rental of around US\$6,000. With demand for high-end serviced apartments continuing to be keen in Shanghai, the future performance of this operation looks promising.

Meanwhile, the occupancy of Lanson Place Winsland Singapore increase to 88% for the 2006 interim period. In Kuala Lumpur, Lanson Place Ambassador Row maintained 70% occupancy, whereas Lanson Place Kondo 8 was able to reinforce its leading position in the Ampang area with 97% occupancy in the 2006 interim period.

Lanson Place Jin Lin Tian Di Residences is the Group's first investment and management project in China. The Group will continue to look for expansion opportunities at strategic locations in Greater China and other gateway cities in Asia while strengthening its position and competitiveness in existing markets.

In this connection, the Group recently joint ventured with Hongkong Land and Vantone to acquire Tower 15 of Central Park, a luxurious residential development in Beijing. The Tower will be operated as serviced residences and will be managed by Lanson Place. Delivery for Tower 15 is scheduled in March 2008, just ahead of the Beijing Olympics.



## ***Property Investment and Management***

The Group gradually expanded its business scope from residential property development to include property investment and management. Its portfolio comprises commercial properties, industrial properties, and investment properties in the Group's hospitality business.

Renovation of the former Bank of East Asia Building situated at 314-324 Hennessy Road, Wanchai is expected to be completed in 2007. This property will provide upscale retail and grade A office space with a gross floor area of approximately 120,000 square feet to capture the upswing in the retail and office market in Hong Kong and provide a stable source of income to the Group. The Group has already brought together a team of international and local consultants to look into the design, marketing and tenancy mix of the property with a view to create a new landmark in that area.

Infiniti, a joint venture retail mall on the prime Huai Hai Road area in Shanghai is being renovated and will be transformed into a modern and innovative lifestyle shopping and meeting place. From September, customers can have an interactive experience of the innovation by visiting the marketing suite, Infiniti Pavilion. To promote the property, a roadshow has been held in Shanghai and Hong Kong in July 2006. The renovation of this project is expected to be completed by the end of 2006. The Group's portfolio of quality commercial properties will be further expanded.

The Group now owns 15% of Winsor Properties Holdings Limited, a listed company in Hong Kong, principally engaged in property rental and management, logistics management and property development.

One of the key assets held by Winsor in Hong Kong is a prime office site at 102 How Ming Street in Kwun Tong, which will be developed into grade A office towers with a gross area of approximately 1,300,000 square feet. Our subsidiary, USI Property Management Ltd, is the project manager of the development. Foundation works of the development are close to completion and superstructure construction is set to commence before the end of the year.

With the improvement in local business sentiment, the Group noted a gradual recovery in property rentals for its industrial buildings. Occupancy rates at the Group's industrial properties were similar to last year at around 90% for the first half of 2006. In the first half of 2006, the Group has entered into a preliminary sale and purchase agreement (expected to be completed in October 2006) to dispose of the property at 81 Hung To Road for HK\$105 million. The surplus of the disposal value to the carrying value of the property of HK\$17 million has been reported as a gain on fair value of the property in the interim accounts. The Group's other industrial buildings record a fair value gain of HK\$19.4 million for the first half of 2006.

## **Apparel**

The apparel business has always been a stable source of cashflow for the Group. During the first half of 2006, the new China textile quota agreements with the U.S. and the E.U. have vastly expanded the capacity of China textile exports. Hong Kong based garment manufacturers are now competing head on with Mainland competitors which are often bigger in scale and with inherent cost advantages.

For the half year under review, price competition remained keen, if not intensifying, while all major production costs continued to inflate.

The Group was able to minimise the impact thanks to the strategic re-engineering process formulated to enhance the production efficiency internally and shift its customer and product profiles toward the higher end. In the longer term, the Group will continue to invest in design and development, logistics and technology and achieve closer collaboration and process integration with key customers.

The Group's garment manufacturing operations, through Shui Hing Textiles International Limited and Unimix Holdings Limited reported a turnover of HK\$283.7 million for the half year ended 30 June 2006, as compared to turnover of HK\$352.7 million for the 2005 interim period. An operating loss of HK\$25.9 million was reported, as compared with an operating loss of HK\$18.3 million for the same period last year. Barring any unforeseen events, results for the second half of the year is expected to improve.

### ***Gieves & Hawkes plc***

The turnover of Gieves & Hawkes plc (“G&H”) for the first half of 2006 was HK\$117.4 million, as compared to HK\$112.3 million last year.

In the first half of 2006, G&H opened seven new retail points in UK (one own store and six concessions) and incurred some one-time costs for the start-up phase. As a result, an operating loss of HK\$1.2 million was reported for the first half of 2006, as compared to a HK\$2.5 million profit for the same period in 2005.

In line with the Group’s strategy, G&H will continue to invest in the Gieves & Hawkes and Gieves brands and to develop its license operations as well as expand the retail network at strategic locations.

## **PROSPECTS**

For the remainder of 2006, the Group continues to be confident of the economy of Hong Kong and Mainland China. Hong Kong economic fundamentals are solid, and limited supply, pay increases and stabilising mortgage interest rates should boost demand for residential properties. On the other hand, demand for Grade A office space and upscale retail mall space remains strong. The Group expects the robust economic growth in Mainland China will continue and the newly announced monetary-based tightening measures will help ensure the long term sustainability and stability of economic growth.

With sold units delivered to buyers, the management’s prime focus for the remainder of 2006 will be to monitor the market conditions and be geared up for the re-launch of the remaining units in both The Giverny and The Grandville.

Hospitality investment and management is expected to be the growth engine for the Group in the near term. Management will commence initial planning and co-ordination with our partners on the new serviced residences project in Beijing. Meanwhile, management will continue to focus on enhancing the occupancy rate of both the Lanson Place in Hong Kong and Shanghai.

The apparel market will continue to face unfavorable factors such as high energy costs and material prices, increasing labour costs and further market adjustment and consolidation in 2006 and 2007. The Group’s long term goal is for its Apparel Division to become a dynamic global apparel specialist preferred for premium service, quality and product value. During this period of market adjustment, the Group will continue to invest and focus on building its infrastructure to provide a platform for further growth.

## **LIQUIDITY AND FINANCIAL RESOURCES**

The Group's equity attributable to the shareholders of the Company totalled HK\$2,516.8 million as at 30 June 2006 as compared to HK\$1,856.6 million as at the end of 2005. The increase in equity attributable to the shareholders of the Company was mainly due to the profit for the period ended 30 June 2006 and surplus arising on revaluation of strategic investments, offset by the distribution of the 2005 final dividend.

As at 30 June 2006, the Group's net bank borrowings (total bank borrowings net of cash and bank balances) was HK\$1,033.9 million (as at 31 December 2005: HK\$964.0 million), representing 39.2% of the Group's net assets, as compared to 48.6% as at the end of 2005. Interest for the Group's bank borrowings was mainly on a floating rate basis. A majority (around 89.6%) of the Group's bank borrowings were repayable in periods beyond one year, and the Group had unutilised banking facilities in excess of HK\$370 million as at 30 June 2006.

## **FOREIGN CURRENCIES**

The Group continues to conduct its business mainly in United States Dollar and Hong Kong Dollar and our policy is to hedge most transactions in other foreign currencies. 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 2006, the Group's contingent liabilities were guarantees given to banks of HK\$1.8 million.

## **PLEDGE OF ASSETS**

At 30 June 2006, certain of the Group's investment properties, freehold properties, leasehold land, leasehold building and properties under development with carrying value of HK\$1,346.4 million, HK\$62.8 million, HK\$769.1 million, HK\$94.8 million and HK\$103.7 million respectively were pledged to secure credit facilities for the Group.

In addition to the above, HK\$184.9 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.

A subsidiary's advance to a jointly controlled entity at 30 June 2006 include amounts of HK\$75.4 million which is subordinated to the loans facilities of a jointly controlled entity and which is assigned, and the shares in this jointly controlled entity beneficially owned by the subsidiary are pledged to the financial institutions. The jointly controlled entity is engaged in property development.

## **EMPLOYEES**

As at 30 June 2006, the Group had in excess of 6,000 staff and workers. The Group offers comprehensive remuneration and benefit packages to its employees, which are structured according to the prevailing salary levels in the market, individual merit and performance. The Group has a mandatory provident fund scheme to provide retirement benefits for all of its employees in Hong Kong. In addition, there is a defined contribution top-up scheme for qualifying employees of certain Hong Kong subsidiaries of the Group. The Group also operates a funded defined benefit pension scheme for certain overseas employees engaged prior to May 2001.

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

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2006, 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. Interests in shares of the Company

Name of director	Number of shares held				Total	% of the Company's issued share capital
	Personal interests	Family interests	Corporate interests	Other interests		
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%

- (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 (through Wing Tai (Cheng) Holdings Limited, Renowned Development Limited and Wing Tai Corporation Limited). 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. Details are set out under "Substantial Shareholders' Interests" below.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND UNDERLYING SHARES OF THE COMPANY (Continued)

### 2. Interests in underlying shares of the Company

#### (a) Share Options

Details of the share options granted to an independent non-executive director under the Share Option Scheme of the Company and outstanding as at 30 June 2006 were as follows:–

Name of director	Date of grant	Exercise price per share HK\$	Number of share options			Exercisable period
			As at 1.1.2006	Exercised during the period	As at 30.6.2006	
Simon Murray	19.4.2005	2.125	1,000,000	–	1,000,000	19.4.2006 to 18.4.2010

The options granted are exercisable during the period from 19 April 2006 to 18 April 2010 and subject to a vesting scale in tranches of 25 per cent per annum starting from the first anniversary of the date of grant. No options were exercised during the six months ended 30 June 2006.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND UNDERLYING SHARES OF THE COMPANY (Continued)

### 2. Interests in underlying shares of the Company (Continued)

#### (b) Incentive Shares

Details of the incentive shares awarded to certain executive directors under the Share Incentive Scheme of the Company are as follows:–

Name	Date of Award	Number of incentive shares			As at 30.6.2006	Vesting period
		As at 1.1.2006	Awards made during the period	Awards vested during the period		
Cheng Wai Chee, Christopher	13.9.2005	600,000	–	–	600,000	13.9.2006 to 12.9.2009
	25.4.2006	–	546,000	–	546,000	12.1.2007 to 11.1.2010
Cheng Wai Sun, Edward	13.9.2005	600,000	–	–	600,000	13.9.2006 to 12.9.2009
	25.4.2006	–	546,000	–	546,000	12.1.2007 to 11.1.2010
Ng Tak Wai, Frederick	13.9.2005	90,000	–	–	90,000	13.9.2006 to 12.9.2009
	25.4.2006	–	59,000	–	59,000	12.1.2007 to 11.1.2010
Au Hing Lun, Dennis	13.9.2005	150,000	–	–	150,000	13.9.2006 to 12.9.2009
	25.4.2006	–	110,000	–	110,000	12.1.2007 to 11.1.2010

Note:

Fund for subscription price (at nominal value of HK\$0.5 per share) will be provided by the Company at the time when the executive directors exercise their right to subscribe for shares of the Company.

All the interests in shares and underlying shares of the Company disclosed above under this section represent long position in shares and underlying shares of the Company.



## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND UNDERLYING SHARES OF THE COMPANY (Continued)

Save as disclosed above, as at 30 June 2006, none of the directors nor the chief executive of the Company had or was deemed to have any interest or short position in 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 2006, 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 2006, 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	% in the issued share capital of the Company
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)

## SUBSTANTIAL SHAREHOLDERS' INTERESTS (Continued)

Name of shareholder	Number of shares beneficially held	% in the issued share capital of the Company
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)
Renowned Development Limited	135,446,118	25.74% (Note 3)
Wing Tai (Cheng) Holdings Limited	150,409,086	28.58% (Note 4)
Wesmore Limited	83,316,158	15.83% (Note 5)
Sun Hung Kai Properties Limited	100,762,150	19.15% (Note 5)
Lo Yuk Sui	52,668,000	10.01% (Note 6)
Century City International Holdings Limited	52,668,000	10.01% (Note 6)
Century City BVI Holdings Limited	52,668,000	10.01% (Note 6)
Paliburg Holdings Limited	52,668,000	10.01% (Note 6)
Paliburg Development BVI Holdings Limited	52,668,000	10.01% (Note 6)
Paliburg International Holdings Limited	52,668,000	10.01% (Note 6)
Paliburg BVI Holdings Limited	52,668,000	10.01% (Note 6)
Regal Hotels International Holdings Limited	52,668,000	10.01% (Note 6)
Regal International (BVI) Holdings Limited	52,668,000	10.01% (Note 6)
Real Chance Profits Limited	51,676,000	9.82% (Note 6)
HK168 Limited	51,676,000	9.82% (Note 6)

## SUBSTANTIAL SHAREHOLDERS' INTERESTS (Continued)

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 28.13% 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 interest in them.  
  
By virtue of the corporate interest of Renowned Development Limited in Wing Tai Corporation Limited, the former was deemed to be interested in the latter's interest in the shares of the Company.
- (4) By virtue of the corporate interest of Wing Tai (Cheng) Holdings Limited in Renowned Development Limited and Broxbourne Assets Limited, Wing Tai (Cheng) Holdings Limited was deemed to be interested in the interest of Renowned Development Limited and Broxbourne Assets Limited in the shares of the Company. Broxbourne Assets Limited beneficially owned 14,962,968 shares of the Company.
- (5) 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.
- (6) 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 HK168 Limited ("HK168"), in which shares Real Chance Profits Limited was deemed to have an interest through its direct shareholding interests in HK168. 992,000 shares of the Company were beneficially owned by a company controlled by Regal International (BVI) Holdings Limited ("Regal BVI").

## **SUBSTANTIAL SHAREHOLDERS' INTERESTS** (Continued)

Notes: (Continued)

Regal BVI, 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 the said beneficial owners of 52,668,000 shares of the Company.

All the interests in the shares of the Company disclosed above under this section represent long position in the shares of the Company. Save as disclosed above, as at 30 June 2006, 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 SCHEME

Under the Share Option Scheme of the Company adopted on 10 June 2003 (“Share Option 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 Share Option 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 Share Option Scheme will be terminated on 9 June 2013.

Details of the share options granted under the Share Option Scheme and outstanding as at 30 June 2006 were as follows:

	Date of grant	Exercise price per share HK\$	Number of share options		Fair value of share options amortised HK\$
			As at 1.1.2006	Exercised during the period	
Director	19.4.2005	2.125	1,000,000	-	100,000

Notes:

- (1) No share options were granted under the Share Option Scheme during the six months ended 30 June 2006.
- (2) The options granted are exercisable during the period from 19 April 2006 to 18 April 2010 and subject to a vesting scale in tranches of 25 per cent per annum starting from the first anniversary of the date of grant. No options were exercised during the six months ended 30 June 2006.

## SHARE INCENTIVE SCHEME

Under a Share Incentive Scheme approved by shareholders of the Company on 17 June 2005 (“Share Incentive Scheme”), the Board of Directors of the Company or a duly authorised committee thereof 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 nominal value 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 Share Incentive 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 Share Incentive 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 Share Incentive Scheme. The Share Incentive Scheme will be terminated on 16 June 2015.

## SHARE INCENTIVE SCHEME (Continued)

At 30 June 2006, the directors and employees of the Company had the following interest in awards made under the Share Incentive Scheme to subscribe for shares of the Company:

Date of award	Number of incentive shares				Fair value of incentive shares amortised HK\$	
	As at 1.1.2006	Awards made during the period	As at 30.6.2006	Vesting period		
Directors	13.9.2005	1,440,000	–	1,440,000	13.9.2006 to 12.9.2009	500,000
	25.4.2006	–	1,261,000	1,261,000	12.1.2007 to 11.1.2010	530,000
Employees	13.9.2005	225,000	–	225,000	13.9.2006 to 12.9.2009	80,000
	25.4.2006	–	213,000	213,000	12.1.2007 to 11.1.2010	89,900
	29.6.2006	–	20,000	20,000	29.6.2007 to 28.6.2010	100
Total		<u>1,665,000</u>	<u>1,494,000</u>	<u>3,159,000</u>		<u>1,200,000</u>

Note:

Fund for subscription price (at nominal value of HK\$0.5 per share) will be provided by the Company at the time when the right to subscribe for shares of the Company is exercised.

## SHARE INCENTIVE SCHEME (Continued)

The fair value of incentive shares awarded during the six months ended 30 June 2006 is determined using the Binomial Option Pricing Model (the "Model"). Key assumptions of the Model are:

<b>Share Incentive Scheme</b>	
Risk-free interest rate:	4.5%
Expected dividend yield:	2%
Expected volatility of the market price of the Company's shares:	48%
Expected life (in years):	10 years from the date of grant

The Model requires the input of subjective assumptions, including the volatility of share price. Because changes in subjective input assumptions can materially affect the fair value estimated, in the directors' opinion, the Model does not necessarily provide a reliable singly measure of the fair value of the incentive shares.

The fair value of incentive shares awarded during the six months ended 30 June 2006 determined using the Model was HK\$4,008,000, of which, the attributable amount recognised in the 2006 income statement is HK\$620,000. This value is included in the fair value of incentive shares amortised as set out in the above table.

## DISCLOSURE PURSUANT TO RULE 13.22 OF THE LISTING RULES

At 30 June 2006, the aggregate amount of financial assistance to and guarantees given for facilities granted to affiliated companies by the Group amounting to HK\$338.8 million which exceeded 8% of the assets ratio as defined in Rule 14.07(1) 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 2006 are presented below:

(HK\$'M)	<b>Pro-forma combined balance sheet</b>	<b>Group's attributable interest</b>
Non-current assets	2,892.2	435.4
Current assets	3,519.3	1,285.8
Current liabilities	(1,475.1)	(517.9)
Non-current liabilities	(2,721.2)	(418.1)
Net assets	<u>2,215.2</u>	<u>785.2</u>



## **AUDIT COMMITTEE**

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

The Committee engaged the auditors of the Company to assist them in reviewing the interim financial report of the Company for the six months ended 30 June 2006. 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 2006 for public release.

## **CORPORATE GOVERNANCE**

The Company has complied throughout the six months ended 30 June 2006 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 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.

## **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.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from 11 October 2006 to 13 October 2006, 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 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, not later than 4:00 p.m. on 10 October 2006.

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

During the six months ended 30 June 2006, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

By Order of the Board

**USI Holdings Limited**

**Chung Siu Wah, Henry**

*Company Secretary and*

*Group Legal Counsel*

Hong Kong, 25 September 2006

## DIRECTORS

Cheng Wai Chee, Christopher *GBS JP (Chairman)*

Cheng Wai Sun, Edward *JP (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)*

Fang Hung, Kenneth *GBS JP*

Wong Yick Kam, Michael

Hong Pak Cheung, William

*(alternate to Wong Yick Kam, Michael)*

## REMUNERATION COMMITTEE

Cheng Wai Chee, Christopher *GBS JP (Chairman)*

Cheng Wai Sun, Edward *JP*

Simon Murray *CBE*

Fang Hung, Kenneth *GBS JP*

Yeung Kit Shing, Jackson

## COMPANY SECRETARY

Chung Siu Wah, Henry

## QUALIFIED ACCOUNTANT

Kwan Shui Cheung, Esmond

## AUDITORS

PricewaterhouseCoopers

## PRINCIPAL BANKERS

The Hongkong and Shanghai Banking

Corporation Limited

Standard Chartered Bank (Hong Kong) Limited

## REGISTRARS

### Principal Register

The Bank of Bermuda Limited

Bank of Bermuda Building

Front Street, Hamilton

Bermuda

### Branch Register

Standard Registrars Limited

26th Floor, Tesbury Centre

28 Queen's Road East

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



WINGTAIASIA