

INTERIM REPORT

2001 • 二零零一年中期報告

USI HOLDINGS LIMITED

富聯國際集團有限公司

# Corporate Information

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## **Directors** 董事會成員

CHENG Wai Chee, Christopher, JP *Chairman*  
鄭維志 · JP 主席

CHENG Wai Sun, Edward *Chief Executive*  
鄭維新 行政總裁

CHENG Man Piu, Francis  
鄭文彪

NG Tak Wai, Frederick  
吳德偉

CHENG Wai Keung  
鄭維強

KWOK Ping Sheung, Walter  
郭炳湘

KWOK Ping Kwong, Thomas  
郭炳江

KWOK Ping Luen, Raymond  
郭炳聯

Simon MURRAY, CBE  
馬世民 · CBE

FANG Hung, Kenneth, JP  
方鏗 · JP

WONG Yick Kam, Michael  
黃奕鑑

*Alternate to Walter Kwok Ping Sheung, Thomas Kwok Ping Kwong and Raymond Kwok Ping Luen*  
郭炳湘、郭炳江及郭炳聯之代董事

## **Audit Committee** 審核委員會

Simon MURRAY, CBE *Chairman*  
馬世民 · CBE 主席

FANG Hung, Kenneth, JP  
方鏗 · JP

## **Company Secretary** 公司秘書

AU Hing Lun, Dennis  
區慶麟

## **Auditors** 核數師

Deloitte Touche Tohmatsu  
德勤 · 關黃陳方會計師行

## **Solicitors** 律師

Slaughter and May  
司力達律師樓

## **Principal Bankers** 主要往來銀行

The Hongkong and Shanghai Banking Corporation Limited  
香港上海滙豐銀行有限公司

Standard Chartered Bank  
渣打銀行

## **Registrars** 股份過戶及登記處

### *Principal Register*

主要過戶及登記處

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

### *Branch Register*

香港過戶及登記處

Standard Registrars Limited  
5th Floor, Wing On Centre  
111 Connaught Road Central  
Hong Kong

標準證券登記有限公司

香港干諾道中一百一十一號  
永安中心五樓

## **Registered Office** 註冊辦事處

Cedar House, 41 Cedar Avenue  
Hamilton HM12, Bermuda

## **Head Office** 總辦事處

25th Floor, Unimix Industrial Centre  
2 Ng Fong Street, San Po Kong  
Kowloon, Hong Kong  
香港九龍新蒲崗五芳街二號  
裕美工業中心二十五樓

## FINANCIAL RESULTS

The Directors of USI Holdings Limited (the "Company") present their interim report and the unaudited financial statements for the six months ended 30th June 2001 of the Company and its subsidiaries (the "Group").

### CONSOLIDATED INCOME STATEMENT

*For the six months ended 30th June 2001*

		<b>Unaudited</b>	
		<b>Six months ended 30th June</b>	
	NOTES	<b>2001</b> <b>HK\$'M</b>	2000 HK\$'M
Turnover	2	<b>673.2</b>	737.1
Cost of sales		<b>(474.5)</b>	(515.5)
Gross profit		<b>198.7</b>	221.6
Other revenue		<b>33.3</b>	34.1
Distribution costs		<b>(28.5)</b>	(35.1)
Administrative expenses		<b>(149.2)</b>	(162.5)
Restructuring costs and others		<b>(9.4)</b>	(2.3)
Profit from operations	3	<b>44.9</b>	55.8
Other interest income		<b>0.4</b>	0.3
Finance costs		<b>(20.3)</b>	(35.5)
Share of results of associates		<b>(4.4)</b>	2.4
Profit before taxation		<b>20.6</b>	23.0
Taxation	4	<b>(10.1)</b>	(8.0)
Profit before minority interests		<b>10.5</b>	15.0
Minority interests		<b>(2.4)</b>	(0.2)
Profit attributable to shareholders		<b>8.1</b>	14.8
Earnings per share	5		
Basic		<b>HK cents 1.6</b>	HK cents 2.9
Diluted		<b>HK cents 1.6</b>	HK cents 2.8

# CONSOLIDATED BALANCE SHEET

At 30th June 2001

		<b>Unaudited 30th June</b>	Audited 31st December
	NOTES	<b>2001 HK\$'M</b>	2000 (As restated) HK\$'M
<b>Non-current assets</b>			
Investment properties		<b>600.6</b>	600.6
Properties under development		<b>214.9</b>	180.7
Other properties, plant and equipment		<b>205.4</b>	218.0
Interests in associates		<b>250.5</b>	421.1
Investments in securities		<b>501.9</b>	494.8
Other non-current assets		<b>7.6</b>	6.7
		<b>1,780.9</b>	1,921.9
<b>Current assets</b>			
Inventories		<b>183.0</b>	152.3
Trade and other receivables and prepayments	6	<b>173.2</b>	275.8
Bills receivable		<b>109.2</b>	68.0
Investments in securities		<b>—</b>	18.6
Amounts due from associates		<b>36.8</b>	33.2
Taxation recoverable		<b>2.3</b>	4.8
Bank balances and cash		<b>72.0</b>	72.0
		<b>576.5</b>	624.7
<b>Current liabilities</b>			
Trade and other payables	7	<b>280.0</b>	308.8
Bills payable		<b>9.0</b>	13.2
Amount due to an associate		<b>0.2</b>	0.2
Taxation payable		<b>13.0</b>	7.3
Short-term bank borrowings	8	<b>240.9</b>	211.1
Bank loans — amount due within one year	11	<b>146.9</b>	48.5
		<b>690.0</b>	589.1
<b>Net current (liabilities)/assets</b>		<b>(113.5)</b>	35.6
		<b>1,667.4</b>	1,957.5

# CONSOLIDATED BALANCE SHEET

At 30th June 2001

		<b>Unaudited 30th June</b>	Audited 31st December
	NOTES	<b>2001 HK\$'M</b>	2000 (As restated) HK\$'M
<b>Capital and reserves</b>			
Share capital	9	<b>258.8</b>	258.8
Reserves	10	<b>949.6</b>	944.7
<b>Shareholders' funds</b>		<b>1,208.4</b>	1,203.5
<b>Minority interests</b>		<b>73.5</b>	75.6
<b>Non-current liabilities</b>			
Bank loans — amount due after one year	11	<b>343.1</b>	637.0
Other long-term loans	12	<b>41.8</b>	40.8
Deferred taxation		<b>0.6</b>	0.6
		<b>385.5</b>	678.4
		<b>1,667.4</b>	1,957.5

## STATEMENT OF RECOGNISED GAINS AND LOSSES

*For the six months ended 30th June 2001*

	Unaudited Six months ended 30th June	
	2001 HK\$'M	2000 HK\$'M
Exchange differences arising on translation of financial statements of overseas operations	(5.4)	(8.7)
Share of reserves of an associate	2.2	4.4
Net losses not recognised in the income statement	(3.2)	(4.3)
Net profit for the period	8.1	14.8
Total recognised gains	4.9	10.5

## CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June 2001

	Unaudited Six months ended 30th June	
	2001 HK\$'M	2000 HK\$'M
<b>Net cash (outflow) inflow from operating activities</b>	<b>(37.1)</b>	30.0
<b>Net cash outflow from returns on investments and servicing of finance</b>	<b>(24.2)</b>	(41.7)
<b>Net cash (outflow) inflow from taxation</b>	<b>(0.4)</b>	0.8
<b>Net cash inflow from investing activities</b>	<b>225.2</b>	2.6
<b>Net cash inflow (outflow) before financing</b>	<b>163.5</b>	(8.3)
<b>Net cash (outflow) inflow from financing</b>	<b>(110.5)</b>	19.4
<b>Increase in cash and cash equivalents</b>	<b>53.0</b>	11.1
Cash and cash equivalents at 1st January	<b>(0.1)</b>	(26.3)
Effect of foreign exchange rate changes	<b>0.4</b>	(4.2)
<b>Cash and cash equivalents at 30th June</b>	<b>53.3</b>	(19.4)

	Unaudited Six months ended 30th June	
	2001 HK\$'M	2000 HK\$'M
<b>Analysis of the balance of cash and cash equivalents</b>		
Bank balances and cash	<b>72.0</b>	69.0
Trust receipts and import loans	<b>(9.1)</b>	(75.5)
Bank overdrafts	<b>(9.6)</b>	(12.9)
Balance at 30th June	<b>53.3</b>	(19.4)

# NOTES TO THE INTERIM FINANCIAL STATEMENTS

## 1. Accounting policies

These unaudited consolidated condensed interim financial statements have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 25, "Interim Financial Reporting", issued by the Hong Kong Society of Accountants, (as applicable to condensed interim accounts), and Appendix 16 of the Listing Rules of The Stock Exchange of Hong Kong Limited.

The accounting policies and methods of computation used in the preparation of these interim financial statements are consistent with those used in the annual financial statements for the year ended 31st December 2000.

In 2001, the Group adopted the following revised or new SSAPs issued by the Hong Kong Society of Accountants:

SSAP 9 (revised)	Events after the balance sheet date
SSAP 26	Segment reporting
SSAP 28	Provisions, contingent liabilities and contingent assets
SSAP 29	Intangible assets
SSAP 30	Business combinations
SSAP 31	Impairment of assets
SSAP 32	Consolidated financial statements and accounting for investments in subsidiaries

The adoption of these SSAPs has no changes in the accounting policies of the Group except for the following:

- (a) In accordance with the SSAP 9 (revised), dividends proposed or declared after the balance sheet date are no longer recognised as liabilities at the balance sheet. The change in accounting policy has no effect to the interim financial statements for the period.
- (b) Under the Employment Ordinance, the Group is required to make long service payments to its employees upon the termination of their employment or retirement when the employees fulfil certain conditions and termination meets the required circumstances. In accordance with the SSAP 28, long service payments are recognised on an accrual basis.

In previous years, the long service payments were recognised as they were incurred. The change in accounting policy has been applied retrospectively by means of a prior period adjustment and as a result, the Group's reserves as at 31st December 2000 has been reduced by HK\$13.8 million.

- (c) In accordance with the SSAP 30, goodwill arising on acquisition of subsidiaries and associates occurring on or after 1st January 2001 is included in the balance sheet as a separate asset and amortised using the straight line method over its estimated useful life of not more than twenty years.

Under the Group's previous accounting policy, goodwill on acquisitions was taken directly to reserves. In adopting the new SSAP 30, goodwill previously written off directly to reserves has been reinstated and amortised using the straight-line method over its estimated useful life. This change in accounting policy has no effect to the interim financial statements for the period.

## 2. Turnover

The Group is principally engaged in apparel manufacturing, trading and retailing, property holding, development and management, hospitality management and other investing activities.

An analysis of the Group's turnover and profit from operations for the period by geographical region and activity is as follows:

	Turnover		Profit from operations	
	Six months ended 30th June		Six months ended 30th June	
	2001 HK\$'M	2000 HK\$'M	2001 HK\$'M	2000 HK\$'M
<b>Geographical region</b>				
North America	316.1	347.8	24.5	28.5
United Kingdom	148.3	203.2	1.0	(4.1)
Other European countries	107.4	90.8	4.0	7.9
Hong Kong	54.8	67.9	11.5	20.5
Other areas	46.6	27.4	3.9	3.0
	<b>673.2</b>	737.1	<b>44.9</b>	55.8
<b>Activity</b>				
Garment manufacturing	424.4	428.7	34.9	41.5
Garment trading	45.4	106.0	(0.7)	(0.7)
Branded products distribution	149.0	138.6	0.1	(1.7)
Property rental and management	36.9	42.9	16.4	17.1
Investing activities	17.5	20.9	(5.8)	(0.4)
	<b>673.2</b>	737.1	<b>44.9</b>	55.8

## 3. Profit from operations

	Six months ended 30th June	
	2001 HK\$'M	2000 HK\$'M
Profit from operations has been arrived at after charging:		
Amortisation of		
— trademark	0.1	0.1
— permanent textile quota entitlements	3.7	2.8
Cost of temporary textile quota entitlements written off on purchase	21.0	24.3
Depreciation and amortisation of other properties, plant and equipment	12.6	12.8

#### 4. Taxation

	Six months ended 30th June	
	2001 HK\$'M	2000 HK\$'M
Company and its subsidiaries	8.6	6.0
Associates	1.5	2.0
	<b>10.1</b>	8.0

Hong Kong profits tax is calculated at 16% (2000: 16%) on the estimated assessable profits for the period. Taxation in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

#### 5. Earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK\$8.1 million (2000: HK\$14.8 million) and the 517,625,339 shares (2000: 517,625,339 shares) in issue during the period.

The diluted earnings per share is calculated as follows:

	Six months ended 30th June	
	2001	2000
Earnings for the purposes of calculating diluted earnings per share	<b>HK\$8.1 million</b>	HK\$14.8 million
<i>(Number of Shares)</i>		
Number of ordinary shares for the purpose of calculating basic earnings per share	<b>517,625,339</b>	517,625,339
Dilutive potential ordinary shares issuable under the Company's share option scheme	<b>1,441,564</b>	5,848,463
Number of ordinary shares for the purpose of calculating diluted earnings per share	<b>519,066,903</b>	523,473,802
Diluted earnings per share	<b>HK cents 1.6</b>	HK cents 2.8

## 6. Trade and other receivables and prepayments

The Group allows different credit periods to its trade customers. Credit periods vary from 30 to 90 days.

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

	<b>30th June 2001 HK\$'M</b>	31st December 2000 HK\$'M
0 to 30 days	<b>61.4</b>	78.4
31 to 90 days	<b>37.1</b>	62.4
Over 90 days	<b>13.0</b>	15.8
	<b>111.5</b>	156.6
Other receivables and prepayments	<b>61.7</b>	119.2
Total	<b>173.2</b>	275.8

## 7. Trade and other payables

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

	<b>30th June 2001 HK\$'M</b>	31st December 2000 (As restated) HK\$'M
0 to 30 days	<b>59.2</b>	65.9
31 to 90 days	<b>27.4</b>	36.5
Over 90 days	<b>7.5</b>	7.5
	<b>94.1</b>	109.9
Other payables	<b>185.9</b>	198.9
Total	<b>280.0</b>	308.8

## 8. Short-term bank borrowings

	<b>30th June 2001 HK\$'M</b>	31st December 2000 HK\$'M
Trust receipts and import loans	<b>9.1</b>	58.1
Short-term bank loans	<b>222.2</b>	139.0
Bank overdrafts	<b>9.6</b>	14.0
	<b>240.9</b>	211.1
Analysed as:		
— secured	<b>94.8</b>	56.0
— unsecured	<b>146.1</b>	155.1
	<b>240.9</b>	211.1

## 9. Share capital

	30th June 2001 & 31st December 2000	
	Number of shares	Amount HK\$'M
Authorised:		
Ordinary shares of HK\$0.50 each	1,320,000,000	660.0
Issued and fully paid:		
Ordinary shares of HK\$0.50 each	517,625,339	258.8

## 10. Reserves

(HK\$'M)	Share premium	Investment property revaluation reserve	Other property revaluation reserve	Translation deficit	Non- distributable deficit	Contributed surplus	Other distributable deficit	Total
The Group								
At 1st January 2000								
— as previously reported	438.4	23.6	21.9	(21.4)	(0.2)	649.9	(92.5)	1,019.7
— prior period adjustment (note 1(b))	—	—	—	—	—	—	(13.8)	(13.8)
— as restated	438.4	23.6	21.9	(21.4)	(0.2)	649.9	(106.3)	1,005.9
Surplus arising on revaluation	—	19.2	—	—	—	—	—	19.2
Exchange difference arising on translation of financial statements of overseas operations	—	—	—	(16.6)	—	—	—	(16.6)
Share of reserves of an associate	—	—	—	4.9	(0.8)	—	—	4.1
Share of reserves by minority shareholders	—	(2.4)	—	3.4	—	—	—	1.0
Loss for the year	—	—	—	—	—	—	(68.9)	(68.9)
At 31st December 2000								
— as restated (note 1(b))	438.4	40.4	21.9	(29.7)	(1.0)	649.9	(175.2)	944.7
Exchange reserve arising on translation of financial statements of overseas operations	—	—	—	(7.0)	—	—	—	(7.0)
Share of reserves of an associate	—	—	—	3.5	(1.3)	—	—	2.2
Share of reserves by minority shareholders	—	—	—	1.6	—	—	—	1.6
Profit for the period	—	—	—	—	—	—	8.1	8.1
At 30th June 2001	438.4	40.4	21.9	(31.6)	(2.3)	649.9	(167.1)	949.6

## 11. Bank loans

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

	<b>30th June 2001 HK\$'M</b>	31st December 2000 HK\$'M
Within one year	<b>146.9</b>	48.5
Between one to two years	<b>106.9</b>	52.6
Between two to five years	<b>154.1</b>	491.2
After five years	<b>82.1</b>	93.2
	<b>490.0</b>	685.5
Less: Amount due within one year shown under current liabilities	<b>(146.9)</b>	(48.5)
	<b>343.1</b>	637.0
Analysed as:		
— secured	<b>307.0</b>	435.0
— unsecured	<b>183.0</b>	250.5
	<b>490.0</b>	685.5

## 12. Other long-term loans

	<b>30th June 2001 HK\$'M</b>	31st December 2000 HK\$'M
Interest bearing loans	<b>24.5</b>	23.5
Interest free loan	<b>17.3</b>	17.3
	<b>41.8</b>	40.8

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

### 13. Operating lease commitments

At the balance sheet date, the Group's subsidiaries were committed under certain non-cancelable operating leases to make the following payments:

	<b>30th June 2001 HK\$'M</b>	31st December 2000 HK\$'M
(a) Land and buildings		
In respect of leases expiring		
— within one year	<b>0.5</b>	1.8
— between one to five years	<b>3.5</b>	12.8
— after five years	<b>12.5</b>	3.8
	<b>16.5</b>	18.4
(b) Equipment and motor vehicles		
In respect of leases expiring		
— within one year	<b>0.2</b>	0.5
— between one to five years	<b>0.3</b>	1.0
	<b>0.5</b>	1.5
Total	<b>17.0</b>	19.9

### 14. Capital commitments

	<b>30th June 2001 HK\$'M</b>	31st December 2000 HK\$'M
Capital expenditure contracted for but not provided in the financial statements in respect of:		
— Property development	<b>103.1</b>	118.7
— Acquisition of other properties, plant and equipment	—	2.1
	<b>103.1</b>	120.8

## 15. Contingent liabilities

	30th June 2001 HK\$'M	31st December 2000 HK\$'M
Export bills discounted with recourse	2.9	17.9
Guarantees given to banks in respect of utilised credit facilities extended to associates	74.8	60.6

Note:

At 30th June 2001, the Company's share of several and proportionate guarantees in respect of unutilised credit facilities granted to associates engaged in property development amounted to HK\$106.5 million (31st December 2000: HK\$146.8 million).

## 16. Related party transactions

During the period ended 30th June 2001, property management fee income from associates and interests income received and receivable from associates amounted to HK\$9.6 million (2000: HK\$14.0 million) and HK\$15.8 million (2000: HK\$19.1 million) respectively. These transactions were carried out on terms similar to those applicable to transactions with independent third parties.

The Group's advances to associates at 30th June 2001 amounted to HK\$289.5 million (at 31st December 2000: HK\$458.0 million). These advances are subordinated to the loan facilities extended by certain financial institutions to the associates. The associates are engaged in property development. The Group's advances to the associates are assigned, and the shares in these associates beneficially owned by the Group are pledged, to the financial institutions.

## 17. Post balance sheet events

- (a) In June 2001, the Group entered into a conditional agreement for the disposal of its 71.2% attributable interest in Chivers Communications plc for a cash consideration of approximately £5.9 million. The disposal was completed in July 2001, giving rise to a profit of approximately HK\$40 million.
- (b) In July 2001, the Group entered into an agreement for the disposal of its 29% attributable interest and the benefit of certain loan note together with the accrued interest of Lee Cooper Group Limited for an aggregate cash consideration of approximately £7.3 million. The disposal was completed in July 2001, giving rise to a profit of approximately HK\$40 million.

## **INTERIM DIVIDEND**

The Directors do not recommend the payment of an interim dividend for the six months ended 30th June 2001 (2000: Nil).

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Results**

For the first half of 2001, the Group reported a consolidated profit after taxation and minority interests of HK\$8.1 million compared with a profit of HK\$14.8 million for the same period in 2000. Turnover for the Group was HK\$673.2 million for the period ended 30th June 2001 compared with HK\$737.1 million in the first half of 2000. The decrease in consolidated profit after taxation and minority interests was mainly due to the pick-up of the losses (as compared to a breakeven position for the same period in 2000) incurred by a subsidiary and an associate before the disposal of their interests which were completed in July 2001.

### **Apparel**

Our apparel operations consist of two key areas: garment manufacturing and branded products distribution.

In the first half of 2001, the Hong Kong garment industry faced a diminishing demand from buyers mainly due to the slow down in the U.S. economy and keen offshore competition. This was reflected by the decreased garment export figures being published for the first half of 2001. However, the Group's garment manufacturing operations, including both the Shui Hing Group and the Unimix Group, showed a profit after taxation of HK\$29.0 million in the first half of 2001. This was comparable to that of the same period in 2000 (HK\$30.8 million) when six consecutive years of profit growth was achieved. The Group has continued its strategy to expand offshore production in Cambodia and Mainland China to strengthen the Group's competitiveness in the industry and stabilise its profitability in spite of this adverse market environment.

The 88,000 square foot production facility in Cambodia, which started operations in 1998, achieved an annual production output of 260,000 dozens of shirts and blouses in 2001. We plan to further increase its capacity to 300,000 dozens per annum and to target European market which offers preferential GSP (the Generalised System of Preferences) treatment on Asean fabric.

The construction of the 90,000 square foot factory at Ruyuan in the northern part of Guangdong Province was completed in early July 2001. The new factory started operation immediately and is scheduled to produce 120,000 dozens of sweaters per annum by 2002.

The construction of the 100,000 square foot fine knit and sweater factory in Antananarivo, Madagascar is in progress. The new factory is scheduled to be operational in the first quarter of 2002. We plan to produce an annual output of 140,000 dozens of fine knit and 80,000 dozens of sweaters in this new factory.

The Group's branded products distribution mainly includes Gieves & Hawkes plc ("Gieves") and Lee Cooper Group Limited ("Lee Cooper"). Interest in Lee Cooper was disposed in July 2001 (see major events subsequent to 30th June 2001 below).

The retail market in the U.K. for Gieves' business remains difficult. The down-dressing trend has continued affecting the salability of traditional formal dressing. However, the profit from operations of Gieves is on a par with the first half of 2000 in spite of the difficult environment. The Gieves range and casual clothing line have performed well, and the new stores at Sloane Square and Bicester Village which were opened in the last year have been trading at planned levels.

## **Property**

### ***Property Development***

#### *The Waterfront*

The Waterfront, our luxurious property development at Kowloon Station has been completed. The Consent to Assign for Phase II was obtained in late March 2001 and the Phase II sold units were handed over to the buyers in April 2001.

Year-to-date sales total 168 units generating approximately HK\$1.1 billion revenue. As at 30th June 2001, approximately HK\$6.4 billion of sales were made, achieving an average price of around HK\$6,400 per square foot.

#### *Siu Lam project*

Superstructure works at the 237,000 square foot development at Castle Peak in Siu Lam, consisting of superior, low-rise residential apartments is progressing as scheduled. We are preparing for the possibility of launching the project towards the end of 2001.

#### *Kowloon Tong project*

The development progress of our Kowloon Tong project is on schedule. Superstructure work has begun and the project is scheduled for completion in the middle of 2002. Similar to the Siu Lam project, we are preparing for the possibility of launching the project towards the end of 2001.

### *Sai Kung project*

We have successfully acquired a piece of land in Sai Kung at the Government Land Auction held on 13th August 2001 at a price of HK\$148 million. The project is equally-owned between USI and Nan Fung Development Limited. The land will be developed into high-end residential project with 60–70 two-storey houses totalling approximately 115,000 square foot gross floor area.

### **Investment Property**

The Hong Kong rental market remained weak but stable in the first half of 2001. The occupancy level of the Group's three Hong Kong high grade industrial properties at Shui Hing Centre, Unimix Industrial Centre and 81 Hung To Road has slightly improved. Together with the decline in interest rate, there was a slight improvement in profit for the period ended 30th June 2001. Given the possibility of further decline in interest rate, we anticipate that the rental market for the second half of the year will remain stable and may show some additional improvement.

### **Property Management Services**

In Singapore, the occupancy rate of Lanson Place, Winsland achieved a record high of 93% compared with 87% for the previous year. A higher daily rental level was also recorded.

In Kuala Lumpur, the Lanson Place Ambassador Row serviced residence showed a significant improvement in occupancy (approximately 71%) as compared to that of the same period in 2000 (around 49%). Our luxury residential apartments at Kondominium #8 Ampang Hilir, also managed by Lanson Place, had an occupancy rate of 82% for the half-year of 2001.

Serviced apartments have become the favorite property choice for expatriates with shorter stays and this has impacted somewhat the residential property market. However, indications are pointing to an improved market with the stability experienced currently in the economy.

### **SUNDAY Communications Limited**

SUNDAY announced its 2001 interim results on 9th August 2001. It achieved an EBITDA of HK\$42 million for the first half of 2001, compared with an EBITDA loss of HK\$79 million in the same period last year. Net loss for the period also reduced by 59% to HK\$114 million. The number of mobile subscribers grew by 63% to 485,000 as compared with the corresponding period of 2000. Average revenue per user (ARPU) decreased to HK\$220 compared to HK\$277 in the same period last year due to intense price competition. It is believed that this still outperformed most of the other operators.

## **Prospects**

The current weakness in the U.S. economy will have some adverse impact on our operations, but this is not expected to be substantial for the balance of this year. Whether the weakness in the U.S. economy will continue remains to be seen. But, the continual downward trend in interest rates should help stabilising property prices in Hong Kong and motivate potential buyers.

Year 2001 is a year to consolidate our investment and to strengthen our cash position. In addition to recouping funds from our property development projects, the Group considered it to be the optimum time to dispose of its interests in Chivers and Lee Cooper to appropriate purchasers who could take the two investments to their next stage. The Group's interests in the two investments were sold for cash in July 2001. All these would enable the Group to allocate resources to other investment opportunities that potentially could generate more benefits to the shareholders in the long run.

Overall, we look forward to a bright future for USI that will benefit our shareholders as we strengthen our financial position in preparation for new growth opportunities.

## **Liquidity and Financial Resources**

The Group's shareholders' funds were HK\$1,208.4 million as at 30th June 2001 as compared to HK\$1,203.5 million at the end of 2000. The increase was mainly due to the profit for the first half of 2001.

The Group's bank borrowing was reduced substantially by cash generated from operating activities and cash recouped from The Waterfront project. As at 30th June 2001, the Group had a total bank borrowing of HK\$730.9 million as compared to HK\$896.6 million as at 31st December 2000. Bank borrowing was further reduced to approximately HK\$580 million with cash received from the disposal of a subsidiary and an associate in July 2001. This represents a 35% reduction in bank borrowing since the end of 2000.

Included in the Group's bank borrowings was an amount of approximately HK\$387.8 million repayable within one year. This was reduced to approximately HK\$240 million by cash proceeds from the disposal of a subsidiary and an associate in July 2001.

## **Foreign Currencies**

The Group continues to do most of its business in US\$ and HK\$. Payments to factories are also in US\$ or HK\$. For transactions in other foreign currency, we have a policy to hedge most of such transactions. In addition, the majority of our assets is in Hong Kong. Thus, our exposure to exchange rate fluctuations is minimal.

## **Employees**

As at 30th June 2001, the Group had a total number of staff and workers of more than 6,500. The Group offers comprehensive remuneration and benefit packages to its employees. The Group has a mandatory provident fund scheme to provide retirement benefits for all its employees in Hong Kong. In addition, there is a defined contribution top-up scheme for qualifying employees of certain Hong Kong subsidiaries in the Group. The Group also operates a funded defined benefit pension scheme for certain of its overseas employees.

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

## **Major Events Subsequent to 30th June 2001**

### ***Disposal of the entire interest in Chivers Communications plc***

In early July 2001, the Group completed the disposal of its entire interest in Chivers Communications plc ("Chivers") to BBC Worldwide Limited for a total consideration of £5.9 million which was settled in cash. Prior to July 2001, Chivers was a 71.2% owned subsidiary of the Group in the business of publishing large print and unabridged audio books, and the development of distribution channels for digitised spoken word recordings over the radio and Internet.

### ***Disposal of the Group's interest in Lee Cooper Group Limited***

In mid-July 2001, the Group completed the disposal of its 29% interest together with the loan note and accrued interest from Lee Cooper to Matalan plc, a listed U.K. company, for a net consideration of £7.3 million which was settled in cash. Lee Cooper was an associate of the Group which manufactures and distributes jeans and casual clothing.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

At 30th June 2001, as notified to the Company pursuant to the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), the interests of the directors and the chief executive in the shares of the Company were as follows:

Name of director	Personal interests	Number of shares held Family interests	Corporate interests	Other interests
CHENG Wai Chee, Christopher	75,999	—	150,409,086 Note (a)	110,595,862 Notes (b) & (c)
CHENG Wai Sun, Edward	—	—	—	110,595,862 Notes (b) & (d)
CHENG Man Piu, Francis	—	—	—	110,595,862 Note (b)
NG Tak Wai, Frederick	26,000	762,000	—	Note (e)
CHENG Wai Keung	—	—	—	110,595,862 Note (b)
KWOK Ping Sheung, Walter	—	—	—	—
KWOK Ping Kwong, Thomas	—	—	—	—
KWOK Ping Luen, Raymond	—	—	—	—
Simon MURRAY	—	—	—	Note (f)
FANG Hung, Kenneth	—	—	—	—
WONG Yick Kam, Michael (Alternate to Walter KWOK, Thomas KWOK and Raymond KWOK)	—	—	—	—

Notes:

- (a) By virtue of the SDI Ordinance, Mr. CHENG Wai Chee, Christopher was interested in 150,409,086 shares of the Company beneficially owned by Bestime Resources Limited, Pofung Investments Limited and Broxbourne Assets 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 as set out under "Substantial Shareholders" below.
- (c) Mr. CHENG Wai Chee, Christopher had outstanding options to subscribe for 2,000,000 shares of the Company as set out below under "Directors' and Chief Executive's rights to acquire Shares or Debentures" pursuant to the share option scheme of the Company.
- (d) Mr. CHENG Wai Sun, Edward had outstanding options to subscribe for 9,255,555 shares of the Company as set out below under "Directors' and Chief Executive's rights to acquire Shares or Debentures" pursuant to the share option scheme of the Company.
- (e) Mr. NG Tak Wai, Frederick had outstanding options to subscribe for 1,623,333 shares of the Company as set out below under "Directors' and Chief Executive's rights to acquire Shares or Debentures" pursuant to the share option scheme of the Company.
- (f) Mr. Simon MURRAY had outstanding options to subscribe for 1,111,111 shares of the Company as set out below under "Directors' and Chief Executive's rights to acquire Shares or Debentures" pursuant to the share option scheme of the Company.

Save as disclosed above, at 30th June 2001, none of the directors or the chief executive has (i) any interest in, or any deemed interest in, pursuant to Section 28 of the SDI Ordinance or under Section 31 or Part I of the Schedule to the SDI Ordinance, the shares of the Company or any associated corporation (within the meaning of the SDI Ordinance) or (ii) any interest which is required to be entered in the register kept by the Company pursuant to Section 29 of the SDI Ordinance or (iii) any interest which is required to be disclosed, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), to the Company and The Stock Exchange of Hong Kong Limited.

## DIRECTORS' AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Under the Company's share option scheme, certain directors of the Company have personal interests in share options which had been granted to them to subscribe for shares in the Company.

Name of director	Date of grant	Number of share options	
		Exercise price per share (HK\$)	Outstanding as at 30.6.2001
CHENG Wai Chee, Christopher	15.11.1999	0.800	2,000,000
CHENG Wai Sun, Edward	26.7.1996	2.151	833,333
	30.8.1997	2.330	1,000,000
	15.11.1999	0.800	2,000,000
	18.8.2000	2.025	5,422,222
NG Tak Wai, Frederick	26.7.1996	2.151	333,333
	30.8.1997	2.330	430,000
	15.11.1999	0.800	860,000
Simon MURRAY	29.7.1996	2.151	1,111,111

No option was exercised by the Company's directors during the six months ended 30th June 2001.

Save as disclosed above, at no time during the six months ended 30th June 2001 was the Company or any of its subsidiaries a party to any arrangements to enable the directors or the chief executive of the Company to acquire benefits by means of acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate and none of the directors, the chief executive, their spouses or children under the age of 18, had any rights to subscribe for securities of the Company, or had exercised any such rights.

## SUBSTANTIAL SHAREHOLDERS

At 30th June 2001, the register kept by the Company under Section 16(1) of the SDI Ordinance showed the following persons, in addition to the directors and the chief executive as stated under "Directors' and Chief Executive's Interests in Shares", are interested in 10% or more of the nominal value of the issued share capital of the Company:

<b>Name of shareholder</b>	<b>Number of shares beneficially held</b>	
Brave Dragon Limited	106,345,862	
Wing Tai Holdings Limited	110,595,862	(Note 1)
Deutsche Bank International Trust Co. (Jersey) Limited	110,595,862	(Note 2)
Deutsche Bank International Trust Co. (Cayman) Limited	110,595,862	(Note 2)
Wing Tai Asia Holdings Limited	110,595,862	(Note 2)
Wing Sun Development Pte Limited	110,595,862	(Note 2)
Terebene Holdings Inc.	110,595,862	(Note 2)
Winlyn Investment Pte Limited	110,595,862	(Note 2)
Bestime Resources Limited	68,747,996	(Note 3)
Pofung Investments Limited	66,698,122	(Note 3)
Wing Tai Corporation Limited	135,446,118	(Note 3)
Wesmore Limited	83,316,158	(Note 4)
Sun Hung Kai Properties Limited	100,762,150	(Note 4)

Notes:

- (1) Wing Tai Holdings Limited beneficially owned 89.4% of the issued shares of Brave Dragon Limited and owned 100% of the issued shares 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 were 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% 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 Pte Limited, held 28.3% of the issued shares of Wing Tai Holdings Limited. Terebene Holdings Inc. held 59.3% of the issued shares of Winlyn Investment Pte Limited which in turn held 10.8% of the issued shares of Wing Tai Holdings Limited.
- (3) Wing Tai Corporation Limited beneficially owned 100% of the issued shares of Bestime Resources Limited and Pofung Investments Limited. Accordingly, it was deemed by the SDI Ordinance to be interested in the shares of the Company beneficially owned by Bestime Resources Limited and Pofung Investments Limited.
- (4) Sun Hung Kai Properties Limited beneficially owns 100% of the issued shares of Soundworld Limited, Techglory Limited and Wesmore Limited. It was accordingly deemed by the SDI Ordinance to be interested in the shares of the Company owned by Soundworld Limited, Techglory Limited and Wesmore Limited. Soundworld Limited was the beneficial owner of 16,260,992 shares of the Company and Techglory Limited was the beneficial owner of 1,185,000 shares of the Company.

Save as disclosed above, at 30th June 2001, there was no person recorded in the register kept pursuant to Section 16(1) of the SDI Ordinance having an interests in 10% or more of the nominal value of the issued share capital of the Company.

## PRACTICE NOTE 19 TO THE LISTING RULES

As at 30th June 2001, the aggregate amount of financial assistance provided to and guarantees given for affiliated companies by the Group amounted to HK\$467.2 million and represented approximately 38.7% of the net asset value of the Group.

An unaudited pro-forma combined balance sheet of these affiliated companies and the Group's attributable interest in these affiliated companies as at 30th June 2001 are presented below:

<b>(HK\$'M)</b>	<b>Pro-forma combined balance sheet</b>	<b>Group's attributable interest</b>
Non-current assets	558.1	176.0
Current assets	12,297.0	999.1
Current liabilities	(6,985.1)	(605.4)
Non-current liabilities	(6,096.6)	(635.1)
Net liabilities	(226.6)	(65.4)

## **AUDIT COMMITTEE**

The Audit Committee of the Company has reviewed the accounting principles and policies adopted by the Company and discussed with management the internal control and financial reporting matters in respect of the Interim Report including review of the unaudited consolidated interim financial statements of the Company for the six months ended 30th June 2001.

## **COMPLIANCE OF CODE OF BEST PRACTICE**

None of the directors of the Company is aware of information which would reasonably indicate that the Company was not in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules during the six months ended 30th June 2001.

## **PURCHASE, SALE OR REDEMPTION OF SHARES**

During the six months ended 30th June 2001, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

By Order of the Board  
**AU Hing Lun, Dennis**  
*Company Secretary*

Hong Kong, 6th September 2001