

MAINLAND



Mainland Headwear Holdings Limited

2001 • INTERIM REPORT

headwear

For the six months ended 30 June 2001 **2001 INTERIM RESULTS**

The Board of Directors (the "Directors") of Mainland Headwear Holdings Limited (the "Company") is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30th June 2001 (the "Period") together with the comparative figures for the corresponding period in 2000, and such interim results have been reviewed by the audit committee of the Company. This is the first interim report after the Group has been successfully listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 13 December 2000.

01



For the six months ended 30 June 2001
**CONDENSED CONSOLIDATED
 INCOME STATEMENT**

02

		Six months ended 30 June 2001 (unaudited) HK\$'000	Six months ended 30 June 2000 (unaudited) HK\$'000
	Note		
Turnover	4	148,236	126,259
Cost of sales		<u>(99,788)</u>	<u>(87,527)</u>
Gross profits		48,448	38,732
Other revenue		2,161	807
Distribution costs		(3,273)	(2,300)
Administrative expenses		<u>(13,434)</u>	<u>(8,834)</u>
Profit from operations		33,902	28,405
Finance costs	5	(18)	(1,020)
Share of results of associates		3,048	(1,526)
Profit before taxation	5	36,932	25,859
Taxation	6	(3,977)	(2,343)
Profit attributable to shareholders		<u>32,955</u>	<u>23,516</u>
Dividends	7	<u>4,800</u>	<u>8,000</u>
Earnings per share			
Basic	8	<u>HK13.73 cents</u>	<u>HK13.06 cents</u>
Diluted	8	<u>HK13.72 cents</u>	<u>N/A</u>

At 30 June 2001

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	30 June 2001 (unaudited) HK\$'000	31 December 2000 (audited) HK\$'000
Non-current assets			
Property, plant and equipment	9	74,108	72,214
Interests in associates	10	16,587	15,066
		<u>90,695</u>	<u>87,280</u>
Current assets			
Inventories		20,637	22,091
Trade and other receivables	11	48,783	39,548
Bank balances and cash		59,257	61,685
		<u>128,677</u>	<u>123,324</u>
Current liabilities			
Trade and other payables	11	33,882	47,331
Current portion of interest-bearing borrowings		150	150
Taxation		7,576	7,441
		<u>41,608</u>	<u>54,922</u>
Net current assets		<u>87,069</u>	<u>68,402</u>
Total assets less current liabilities		<u>177,764</u>	<u>155,682</u>
Non-current liabilities			
Long-term interest bearing borrowings		-	73
Deferred taxation		4,435	4,435
		<u>4,435</u>	<u>4,508</u>
Net Assets		<u>173,329</u>	<u>151,174</u>
Capital and reserves			
Share capital		24,000	24,000
Reserves	12	144,529	116,374
Proposed dividend	12	4,800	10,800
		<u>173,329</u>	<u>151,174</u>

03



For the six months ended 30 June 2001
**CONDENSED CONSOLIDATED
 CASH FLOW STATEMENT**

04

	Note	Six months ended 30 June 2001 (unaudited) HK\$'000
Net cash inflow from operating activities	13	<u>17,679</u>
Returns on investments and servicing of finance		
Hire purchase interest		(10)
Interest received		1,066
Interest paid		(8)
Dividend paid		<u>(10,800)</u>
Net cash outflow from returns on investment and servicing of finance		<u>(9,752)</u>
Taxation		
Hong Kong profits tax paid		<u>(2,629)</u>
Tax paid		<u>(2,629)</u>
Investing activities		
Purchase of assets		<u>(7,653)</u>
Net cash outflow from investing activities		<u>(7,653)</u>
Net cash outflow before financing		<u>(2,355)</u>
Financing activities		
Repayment of obligations under Hire purchase contract		<u>(73)</u>
Net cash outflow from financing activities		<u>(73)</u>
Decrease in cash and cash equivalents		<u>(2,428)</u>
Cash and cash equivalent at beginning of period		<u>61,685</u>
Cash and cash equivalent at end of period		<u><u>59,257</u></u>
Analysis of the balances of cash and cash equivalents		
Bank balances and cash		<u><u>59,257</u></u>

Notes TO THE FINANCIAL STATEMENTS

1. GROUP REORGANIZATION

The Company was incorporated in the Bermuda on 2 February 2000 as an exempted company with limited liability under the Company Act 1981 of Bermuda. Pursuant to a Group reorganization scheme to rationalize the Group structure in preparation for the public listing of the Company's share on Stock Exchange, the Company became the holding company of the companies now comprising the Group. This was accomplished by acquiring the entire issued share capital of Rhys Trading Limited, the then holding company of the subsidiaries, in consideration for the allotment and issue of shares of the Company to the then shareholder of Rhys Trading Limited on 16 November 2000 and the Company became the holding company of the Group. Further details of the Group reorganization are set out in the Company's year 2000 annual report and in the Company's prospectus dated 28 November 2000.

2. BASIS OF PRESENTATION

These unaudited interim financial statements have been prepared in accordance with the principal accounting policies set out in the Group's year 2000 annual financial statements, except for changes in accounting policies as described below. These interim financial statements comply with Statement of Standard Accounting Practice (the "SSAP") No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants (the "HKSA") except that:

- (i) separate statement of recognized gains and losses required by SSAP25 issued by the HKSA has not been prepared as the only component of such statement is the net profit for the Period; and
- (ii) comparative figures are not presented for the condensed consolidated cash flow statement, being the first cash flow statement to be included in the interim report relating to accounting period ended on or after 1 July 2000. Such departure from SSAP 25 is permitted under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Several new accounting standards issued by HKSA become effective for the Period. The change to the Group's accounting policies arises from the adoption of SSAP9 (revised).

The adoption of SSAP9 (revised) "Events after the balance sheet date" results in a change in accounting policy whereby dividends proposed after the balance date are no longer recognized as a liability at the balance sheet date. This change has been applied retrospectively and comparatives have been restated. The opening total reserves at 1 January 2001 has increased by HK\$10.8 million as a result of the reversal of the previous year's proposed dividend. Proposed dividends are now separately disclosed in the balance sheet within shareholders' funds.

3. COMPARATIVE FIGURES

The financial information relating to the financial year ended 31 December 2000 included in the interim results does not constitute the Company's statutory accounts for that financial year but is derived from those accounts.

4. SEGMENTAL INFORMATION

The Group is primarily engaged in the business of manufacture and sales of headwear products.

Geographical Segments:

	Turnover		Contribution to Operating results	
	For the six months ended		For the six months ended	
	30 June 2001 Unaudited HK\$'000	30 June 2000 Unaudited HK\$'000	30 June 2001 Unaudited HK\$'000	30 June 2000 Unaudited HK\$'000
United States	133,982	111,383	43,789	34,168
Europe	7,624	11,972	2,492	3,673
Others	6,630	2,904	2,167	891
	<u>148,236</u>	<u>126,259</u>	<u>48,448</u>	<u>38,732</u>
Unallocated corporate revenues (expenses)				
Other revenue			2,161	807
Distribution costs			(3,273)	(2,300)
Administrative expenses			(13,434)	(8,834)
Profit from operations			<u>33,902</u>	<u>28,405</u>

No segmental analysis by business is shown as all the turnover and contribution to operating results are derived from the manufacture and sales of headwear products.

5. PROFIT BEFORE TAXATION

Profit before taxation is stated after charging:

(a) Finance costs	Six months ended 30 June 2001 Unaudited HK\$'000	Six months ended 30 June 2000 Unaudited HK\$'000
Interest on bank borrowing	8	1,020
Finance charge on obligations under hire purchase contract	10	—
	<u>18</u>	<u>1,020</u>
(b) Other items		
Staff costs	12,912	9,138
Cost of inventories	99,788	87,527
Amortization of goodwill	315	157
Depreciation	<u>5,758</u>	<u>3,949</u>

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6. TAXATION

	Six months ended 30 June 2001 Unaudited HK\$'000	Six months ended 30 June 2000 Unaudited HK\$'000
Hong Kong Profits Tax	2,710	1,680
PRC income tax	55	329
Deferred taxation	-	333
	2,765	2,342
Share of associates' taxation	1,212	1
	3,977	2,343

Hong Kong Profits Tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profits arising in Hong Kong for the Period. Provisions for the taxation of profits of subsidiaries operating overseas have been calculated at the rates applicable in the respective jurisdictions and based on prevailing legislation, interpretations, and practices in respect thereof.

7. DIVIDENDS

	30 June 2001 Unaudited HK\$'000	30 June 2000 Unaudited HK\$'000
Special dividend	-	8,000
Interim dividend declared of HK2 cents per share (2000: HK\$ Nil)	4,800	-
	4,800	8,000

The special dividend of HK\$8,000,000 were paid by certain subsidiaries of the Group to their then shareholders prior to the Group reorganization in year 2000.

The Directors recommend the payment of an interim dividend of HK2 cents per share in respect of the Period to all shareholders whose name appears on the register of members on 28 September 2001.

8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the six months ended 30 June 2001 attributable to shareholders of HK\$32,955,000 (2000: HK\$23,516,000) and the weighted average number of ordinary shares of 240,000,000 (2000: assuming 180,000,000 shares were in issue throughout the period).

The calculation of diluted earnings per share is based on the profit for the half-year period ended 30 June 2001 attributable to shareholders of HK\$32,955,000 and the weighted average number of ordinary shares of 240,215,660 after adjusting for the number of dilutive potential ordinary shares under the employee share option scheme.

9. ADDITION TO PROPERTY, PLANT AND EQUIPMENT

During the Period, the Group spent approximately HK\$8 million on addition to manufacturing plant in the PRC, in order to further upgrade its manufacturing capabilities.

10. INTEREST IN ASSOCIATES

	30 June 2001	31 December 2000
	Unaudited	Audited
	HK\$'000	HK\$'000
Share of net assets other than goodwill	11,080	9,244
Goodwill	5,507	5,822
	16,587	15,066

11. DEBTORS AND CREDITORS

The Group's income and expenditure streams are mainly denominated in Hong Kong dollars, United States dollars, and China yuans. Forward foreign exchange contracts are employed as required to manage risks associated with significant movements in exchange rates.

The Group maintained a defined credit policy with its customers. Credit evaluations of customers are performed from time to time to minimize any credit risk associated with receivables. In addition, upfront cash payments from new customers are sometimes required.

The ageing of trade receivables of the Group at end of the Period is analysed as follows:

	30 June 2001	31 December 2000
	Unaudited	Audited
	HK\$'000	HK\$'000
0 – 30 days	26,237	16,655
31 – 60 days	14,645	9,349
61 – 90 days	2,302	6,786
Over 90 days	1,862	1,703
	<u>45,046</u>	<u>34,493</u>

The ageing of trade payables of the Group at end of the Period is analysed as follows:

	30 June 2001	31 December 2000
	Unaudited	Audited
	HK\$'000	HK\$'000
0 – 30 days	11,134	7,345
31 – 60 days	8,494	7,278
61 – 90 days	1,050	3,272
	<u>20,678</u>	<u>17,895</u>

12. RESERVES

An analysis of the reserves at end of the Period is as follows:

	Share Premium HK\$'000	Contributed Surplus HK\$'000	Accumulated Profits HK\$'000	Proposed Dividend HK\$'000	Total HK\$'000
Opening balance reported	23,200	25,878	67,296	-	116,374
Change in accounting policy	-	-	10,800	-	10,800
Proposed dividend separately disclosed in the balance sheet	-	-	(10,800)	10,800	-
Opening balance as restated	23,200	25,878	67,296	10,800	127,174
Profits attributable to shareholders	-	-	32,955	-	32,955
2000 final dividend paid	-	-	-	(10,800)	(10,800)
2001 interim dividend proposed	-	-	(4,800)	4,800	-
	<u>23,200</u>	<u>25,878</u>	<u>95,451</u>	<u>4,800</u>	<u>149,329</u>

13. RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	Six months ended 30 June 2001 Unaudited HK\$'000
Profit before taxation	36,932
Hire purchase contract interest	10
Interest income	(1,066)
Interest expense	8
Amortisation of goodwill	315
Depreciation	5,758
Share of loss less profits of associates	(3,048)
Change in working capital :	
Inventories	1,454
Trade and other receivables	(9,235)
Trade and other payables	(13,449)
	<u>17,679</u>

14. RELATED PARTY TRANSACTIONS

The Group had certain transactions with related parties as follows:

	Six months ended 30 June 2001 Unaudited HK\$'000	Six months ended 30 June 2000 Unaudited HK\$'000
Rental paid in respect of land and building to a director	150	150
Rental paid in respect of land and building to a company controlled by a director	660	660
Sales of goods to associates	<u>56,541</u>	<u>34,408</u>

Interim **DIVIDEND**

The Directors have declared an interim dividend of HK2 cents per share. The interim dividend will be payable on or after 12 October 2001 to shareholders whose names appear on the register of members of the Company at the close of the business on 28 September 2001.

Closure **OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from 26 September 2001 to 28 September 2001 (both dates inclusive). In order to qualify for the interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Registrar, Tengis Limited, at 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong for registration not later than 4 p.m. on 25 September 2001.



Business **REVIEW AND PROSPECTS**

RESULTS

The Group achieved a profit attributable to shareholders for the six months ended 30 June 2001 of HK\$32,955,000, as compared with HK\$23,516,000 for the same period last year. This result was achieved principally due to continuing fulfillment of marketing and manufacturing targets.

BUSINESS REVIEW

The Group's first-class services, top quality products and a highly dedicated management team have contributed to the increase of sales revenue which grew approximately 17.4% over the same period last year.

The Group's performance is very encouraging, achieving a profit growth of approximately 40.1% compared with the corresponding period of the previous year. Despite the economic slowdown in the United States, the headwear industry remains strong, particularly in the product categories and market segments that the Group has been serving. Our business growth in Europe and Australia are also encouraging.

During the period under review, the Group has won additional manufacturing rights of leading sportswear brands Nike, Reebok, Umbro, and the popular denim-wear Wrangler. Our participation in the Hong Kong Gifts and Premium Fair in April 2001 was also a success, resulting in business relationships with new customers who expressed great interest in our newly acquired worldwide patent rights of "Perfect Fit", a special type of elastic sweatband which is an exciting new technology in the headwear industry.

In addition to our profitable digitized embroidery division, the Group has expanded its research and development department, further enhancing its services and business opportunities. The Group fulfilled its previously projected business plans which included the completion of the knitted hat production line and an additional cap production line. Early this year, the Group has commenced the construction of its new 8-storey factory, which is adjacent to its existing factory building, in order to meet the increasing volume of business from new brand names.

PROSPECTS

Looking ahead, the Group will continue to maintain its healthy growth by providing top quality services and products. The Group will also continue its efforts to gain larger market share worldwide, especially in the United States where the Group believes has the highest growth potential for its ongoing business development.

Furthermore, apart from identifying more brand and license opportunities and widening its customer base, the Group will seize every opportunity such as the 2008 Olympic Games in Beijing to promote its headwear products. The Group has been and will continue to monitor the progress of China's accession into the World Trade Organization which will bring tremendous business opportunities to the Group and further strengthen its market share and competitive edge. The Group's additional new factory building is expected to be completed by the end of this year and start increasing production output in the second quarter of 2002.

LIQUIDITY AND FINANCIAL RESOURCES

The core business of the Group is design, manufacture and trading of headwear products. The Group continues to finance its operations from internally generated cashflow. Out of the bank credit facilities of approximately HK\$65 million granted from various banks, the Group utilized approximately HK\$0.5 million at 30 June 2001. The Group's cash on hand reaches approximately HK\$59 million. Funding and treasury policies of existing subsidiaries of the Group are centrally managed and controlled by the top management in Hong Kong.

The Group's gearing ratio at 30 June 2001, defined as the net borrowings of less than HK\$1 million divided by total shareholder's equity of approximately HK\$173 million, was close to zero.

CAPITAL STRUCTURE

At 30 June 2001, the capital structure was in the form of shareholders' equity of approximately HK\$173 million (31 December 2000: HK\$151 million as restated) and the cash held by the Group was deposited with banks as follows:

	Equivalent Amount HK\$ million	Percentage %
RMB	1	2
HK\$	19	32
US\$	39	66
	<u>59</u>	<u>100</u>

INCREASE IN SHAREHOLDINGS IN THE ASSOCIATES

Effective 31 May 2001, both associates of the Group, Drew Pearson Marketing, Inc. ("DPM") and Drew Pearson International, Inc. ("DPI") re-purchased the entire shareholding from another common shareholder such that the shareholding of the Group in DPM and DPI were deemed increased from 25% and 21.42% to 28.57% and 25% respectively. As the top management remained unchanged, this transaction has no significant impact on the operations of both DPM and DPI. DPM and DPI are principally engaged in the trading of licensed headwear in the United States and internationally respectively.

CAPITAL COMMITMENT AND CONTINGENT LIABILITIES

The Group did not have significant capital commitment nor contingent liabilities at 30 June 2001.

HUMAN RESOURCES

At 30 June 2001, the Group employed a total of 50 and 1,886 heads in Hong Kong and in the PRC production facilities. The expenditures for the employees during the Period was approximately HK\$13 million and the employees were remunerated based on their responsibilities and performance.

SHARE OPTION SCHEME

Pursuant to the share option scheme adopted on 16 November 2000, the board of directors has approved on 11 June 2001 to grant options to certain full time employees and to a director of the Group to subscribe for respectively 8,649,000 and 2,000,000 shares of the Company. The subscription price per share is HK\$1.228, which represents approximately 80% of the average closing prices of the shares of the five trading days preceding the date of grant of the option. The option period is eight years from 11 June 2001 and exercisable from 11 June 2002. There are additional restrictions imposed on the varying proportion of options exercisable in the initial years during the option period.

POST BALANCE SHEET EVENT

Subsequent to 30 June 2001, the Group has entered into an agreement to further invest in the associates, DPM and DPI, by acquiring further shareholdings from another common shareholder in exchange for issuance of consideration shares of the Company. Upon the completion of the transaction, the shareholding of the Group in DPM and DPI will be increased to 42.86% and 33.33% respectively.

Details of the transaction was disclosed by announcement of the Company dated 31 July 2001.

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

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

DIRECTOR'S AND CHIEF EXECUTIVE'S INTEREST IN SHARES AND OPTIONS

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(1) Shares

At 30 June 2001, the interests of the directors and the chief executives of the Group in the share capital of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI ordinance")) as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

	Number of shares beneficially held			
	Personal Interest	Corporate interest	Family interest	Other interest
Ngan Hei Keung (Note 1)	-	-	-	180,000,000
Ngan Po Ling, Pauline (Note 1)	-	-	-	180,000,000

Note 1: The shares are legally and beneficially owned by Successful Years International Company Limited, a company ultimately and beneficially owned by NHK Trust and NPL Trust as 40% and 60% respectively. These two trust are discretionary family trust settled by Mr. Ngan Hei Keung and the discretionary beneficiaries include Mr. Ngan Hei Keung, Mrs. Ngan Po Ling, Pauline, and their family members.

(2) Options

The director had personal interests in share options to subscribe for shares in the Company at an exercise price of HK\$1.228 per share exercisable from 11 June 2002 to 10 June 2009 as follows:

Name of director	Option at 30 June 2001
Chau King Nui, Helen	2,000,000

SUBSTANTIAL SHAREHOLDERS

At 30 June 2001, the following declaration of interest by shareholder holding 10% or more of the issued share capital of the Company was recorded in the register of interests pursuant to Section 16(1) of the SDI Ordinance:

	Number of shares	Percentage of shareholding
Successful Years International Co., Ltd (Note 2)	180,000,000	75%

Note 2: NHK Trust and NPL Trust own Successful Years International Company Limited in 40% and 60% respectively. These two trust are discretionary family trust settled by Mr. Ngan Hei Keung and the discretionary beneficiaries include Mr. Ngan Hei Keung, Mrs. Ngan Po Ling, Pauline, and their family members.

CODE OF BEST PRACTICE

The Company has complied throughout the Period with the Code of Best Practice as set out in Appendix 14 of the Listing Rules except that non-executive Directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election at the Company's annual general meetings in accordance with the Company's Bye-laws.

USE OF PROCEEDS

The net proceeds from the initial public offering of 60,000,000 shares of the Company, which took place in December 2000 raised about HK\$47 million, net of expenses. Out of these proceeds, approximately HK\$33 million had been applied in acquisition of plant and machinery, digitized embroidery machinery, and general working capital in year 2000. Out of the balance approximately HK\$14 million, approximately HK\$8 million was applied in acquisition of plant and machinery and approximately HK\$6 million was applied as general working capital. At 30 June 2001, the net proceeds from the initial public offering were fully applied.

REVIEW BY AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited interim financial statements for the six months ended 30 June 2001.

PUBLICATION OF DETAILED RESULT ANNOUNCEMENT ON THE WEBSITE OF THE EXCHANGE

A detailed interim results announcement of the Company containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange in due course.

By Order of the Board

MAINLAND HEADWEAR HOLDINGS LIMITED

Ngan Hei Keung

Chairman

Hong Kong, 10 September 2001

The 2001 Interim Report will also be available from the website
<http://www.mainlandheadwear.com>