

The Board of Directors (the “Board”) of Swank International Manufacturing Company Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2003 with comparative figures as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	Six months ended 30 June	
		2003 HK\$'000 (unaudited)	2002 HK\$'000 (unaudited)
Turnover	3	102,242	128,507
Cost of sales		<u>(86,088)</u>	<u>(98,151)</u>
Gross profit		16,154	30,356
Other revenue		1,691	2,065
Selling and distribution costs		(6,615)	(8,122)
Administrative expenses		(10,529)	(16,862)
Other operating expenses		<u>(3,024)</u>	<u>(3,010)</u>
Profit/(loss) from operating activities	5	(2,323)	4,427
Finance costs	6	(7,895)	(8,425)
Share of profits less losses of associates		<u>1,333</u>	<u>3,972</u>
		(8,885)	(26)
Waive of accrued interest on bank loans and overdrafts		–	16,917
Waive of bank overdrafts		–	349
Restructuring cost		<u>(1,152)</u>	<u>(8,022)</u>
Profit/(loss) before tax		(10,037)	9,218
Tax	7	<u>–</u>	<u>–</u>
Profit/(loss) before minority interests		(10,037)	9,218
Minority interests		<u>207</u>	<u>12</u>
Net profit/(loss) from ordinary activities attributable to shareholders		<u>(9,830)</u>	<u>9,230</u>
Earning/(loss) per share	8		
Basic		<u>(0.4 cent)</u>	<u>0.5 cent</u>
Diluted		<u>N/A</u>	<u>N/A</u>

CONDENSED CONSOLIDATED BALANCE SHEET

		As at	
		30 June 2003	31 December 2002
	Notes	HK\$'000 (unaudited)	HK\$'000 (audited)
NON-CURRENT ASSETS			
Fixed assets		113,929	120,360
Interests in associates		33,709	30,894
Rental deposits		455	455
Other receivables		–	–
		148,093	151,709
CURRENT ASSETS			
Cash and bank balances		21,960	23,715
Time deposits		378	368
Accounts receivable	9	59,055	53,864
Bills receivable		4,842	903
Prepayments, deposits and other receivables		2,758	4,047
Inventories		29,683	32,011
		118,676	114,908
CURRENT LIABILITIES			
Due to a shareholder, Probest	10	133,352	75,457
Due to associates		8,271	8,848
Accounts payable	11	24,091	20,958
Accrued liabilities and other payables		16,266	16,313
Tax payable		842	839
		182,822	122,415
NET CURRENT LIABILITIES		(64,146)	(7,507)
TOTAL ASSETS LESS CURRENT LIABILITIES		83,947	144,202

CONDENSED CONSOLIDATED BALANCE SHEET (continued)

		As at	
		30 June 2003	31 December 2002
Notes		HK\$'000 (unaudited)	HK\$'000 (audited)
TOTAL ASSETS LESS CURRENT LIABILITIES		83,947	144,202
NON-CURRENT LIABILITIES			
Due to a shareholder, Probest	10	137,500	187,500
Provision for long service payments		712	712
		<u>138,212</u>	<u>188,212</u>
MINORITY INTERESTS		<u>45,725</u>	45,932
		<u>(99,990)</u>	<u>(89,942)</u>
CAPITAL AND RESERVES			
Share capital	12	446,409	446,409
Reserves		(546,399)	(536,351)
		<u>(99,990)</u>	<u>(89,942)</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2003

	Reserves							
	Share capital	Share premium account	Property revaluation reserve	Exchange fluctuation reserve	Capital reserve	Accumulated losses	Total reserves	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
At 1 January 2003	446,409	715,132	21,169	10,354	8	(1,283,014)	(536,351)	(89,942)
Exchange adjustments on translation of foreign subsidiaries	—	—	—	(218)	—	—	(218)	(218)
Net gains and losses not recognised in the profit and loss account	—	—	—	(218)	—	—	(218)	(218)
Net loss for the period	—	—	—	—	—	(9,830)	(9,830)	(9,830)
At 30 June 2003	<u>446,409</u>	<u>715,132</u>	<u>21,169</u>	<u>10,136</u>	<u>8</u>	<u>(1,292,844)</u>	<u>(546,399)</u>	<u>(99,990)</u>

For the six months ended 30 June 2002

	Reserves							
	Share capital	Share premium account	Property revaluation reserve	Exchange fluctuation reserve	Capital reserve	Accumulated losses	Total reserves	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
At 1 January 2002	146,409	715,132	21,231	11,768	8	(1,293,155)	(545,016)	(398,607)
Issue of shares	300,000	—	—	—	—	—	—	300,000
Exchange adjustments on translation of foreign subsidiaries	—	—	—	(54)	—	—	(54)	(54)
Net gains and losses not recognised in the profit and loss account	—	—	—	(54)	—	—	(54)	(54)
Net profit for the period	—	—	—	—	—	9,230	9,230	9,230
At 30 June 2002	<u>446,409</u>	<u>715,132</u>	<u>21,231</u>	<u>11,714</u>	<u>8</u>	<u>(1,283,925)</u>	<u>(535,840)</u>	<u>(89,431)</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Net cash inflow/(outflow) from operating activities	(1,156)	3,480
Net cash outflow from investing activities	(589)	(1,128)
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Net cash inflow/(outflow) before financing activities	(1,745)	2,352
Net cash outflow from financing activities	-	-
	<hr/>	<hr/>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(1,745)	2,352
Cash and cash equivalents at beginning of period	24,083	9,688
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CASH AND CASH EQUIVALENTS AT END OF PERIOD	22,338	12,040
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ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	21,960	12,110
Time deposits with original maturity of less than three months when acquired	378	30
Bank overdrafts	-	(100)
	<hr/>	<hr/>
	22,338	12,040
	<hr/>	<hr/>

Notes :

1 Basis of presentation

The condensed consolidated interim financial statements have been prepared on a going concern basis, notwithstanding that the Group had net current liabilities of HK\$64,146,000 and a deficiency in assets of HK\$99,990,000 as at 30 June 2003. The asset disposal agreement and the loan restructuring agreement entered into between the Company, Probest Holdings Inc. (“Probest”), a wholly-owned subsidiary of the Company’s ultimate holding company, Tomorrow International Holdings Limited (“Tomorrow”), and Tomorrow on 4 March 2003 were terminated on 27 August 2003. On 3 September 2003, the Company, Probest and Tomorrow entered into a conditional share sale agreement (the “Share Sale Agreement”). The Company and Probest also entered into a conditional loan settlement agreement (the “Loan Settlement Agreement”). The Share Sale Agreement and the Loan Settlement Agreement are proposed to restructure the principal loan of HK\$250 million and the accrued loan interest thereon since 1 March 2002 up to the effective date of the Loan Settlement Agreement due to Probest. Moreover, the Company also proposes to raise not less than HK\$37.7 million before expenses by way of the open offer on the basis of 13 offer shares at HK\$0.013 each for every existing share of HK\$0.01 each in the issued share capital of the Company held by the shareholders, who have addresses in Hong Kong on the register of members of the Company (the “Qualifying Shareholders”), as at 16 October 2003, being the date to which entitlements under the open offer will be determined (the “Record Date”). Net proceeds from the open offer of approximately HK\$37.0 million will be used to repay partly the loan due to Probest. The Board is of the opinion that, in light of the measures taken today, together with ongoing negotiation with Probest, the Group will have sufficient cash resources to finance its future capital requirement and other financing requirements. Accordingly, the financial statements have been prepared on a going concern basis.

Should going concern basis be not applicable, adjustments would have to be made to restate the value of assets to their break up values, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

2. Basis of preparation

The interim financial statements are unaudited, but have been reviewed by the Audit Committee.

The condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice (“SSAP”) No. 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants. The same accounting policies as adopted in the 2002 annual report have been applied to these interim financial statements.

In addition, the Group has adopted SSAP 12 (Revised) “Income Taxes”. SSAP12 (Revised) principally prescribes the accounting treatment and disclosures for deferred tax. In prior periods, deferred tax is provided using the income statement liability method on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognized until its realization is assured beyond reasonable doubt. SSAP12 (Revised) requires the adoption of the balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively.

The retrospective adoption of this new standard has not resulted in any significant effect on the financial statements in the prior periods and, accordingly, no prior periods adjustment has been made.

3. Turnover

The principal activity of the Group remained unchanged during the period and is the design, manufacture and sale of optical products. Turnover represents the net invoiced value of goods sold, net of returns and allowances.

4. Segment information

Business segment information is chosen as the primary reporting format because the business segment is considered as the primary source of the Group's risks and returns.

Business segments

The Group has only one business segment and is the manufacture and sale of optical products. Therefore, no separate analysis of business segment information is prepared as all the information has been disclosed in the unaudited condensed consolidated interim financial statements.

5. Profit/(loss) from operating activities

The Group's profit/(loss) from operating activities is arrived at after charging/(crediting):

	Six months ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Depreciation	7,052	7,056
Provision against inventories	1,462	2,035
Provision for doubtful accounts receivable	24	173
Interest income	(31)	(15)
Exchange gains, net	(91)	(612)
	<u>7,895</u>	<u>7,427</u>

6. Finance costs

	Six months ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Interest on bank loans, overdrafts and other loans wholly repayable within five years	–	2,654
Interest on loan from a shareholder, Probest	7,895	5,771
	<u>7,895</u>	<u>8,425</u>

7. Tax

No provision for Hong Kong profits tax and overseas tax has been provided for both the current and prior periods as the Group has either available tax losses brought forward from prior years to offset the assessable profits generated during the period, or has sustained losses for tax purposes.

8. Earning/(loss) per share

The calculation of basis earning/(loss) per share is based on the net loss from ordinary activities attributable to shareholders for the period of HK\$9,830,000 (2002: net profit of HK\$9,230,000) and the weighted average of 2,232,044,805 (2002: 1,743,094,529) ordinary shares in issue during the period.

The capital reorganisation was completed on 29 July 2003. As adjusted for the capital reorganisation completed subsequent to the balance sheet date, the basic loss per share for the six months ended 30 June 2003 is adjusted to HK4.4 cents. Accordingly, the basic earning per share in the prior period is adjusted to HK5.3 cents. The adjusted weighted average of the ordinary shares in issue during the period, after taking into account the retrospective impact of the capital reorganisation, was 223,204,480 shares (2002 : 174,309,452).

There were no potential dilutive shares in issue during the period ended 30 June 2003 and 30 June 2002 and, accordingly, the diluted earning/(loss) per share is not shown.

9. Accounts receivable

The aged analysis of the Group's accounts receivable, based on payment due date and net of provisions, is as follows:

	As at	
	30 June 2003 HK\$'000 (unaudited)	31 December 2002 HK\$'000 (audited)
Current to 30 days overdue	50,377	47,650
31 to 60 days overdue	4,265	2,595
61 to 90 days overdue	2,198	2,238
More than 90 days overdue	2,215	1,381
	<u>59,055</u>	<u>53,864</u>

The normal credit period granted by the Group to customers ranges from 30 days to 120 days.

10. Due to a shareholder, Probest

The amount due to a shareholder, Probest, of HK\$270,852,000 comprises the loan principal of HK\$250,000,000 and interest payable of HK\$20,852,000. The amount due to Probest is repayable as follows:

	As at	
	30 June 2003 HK\$'000 (unaudited)	31 December 2002 HK\$'000 (audited)
Loan interest repayable on demand	<u>20,852</u>	<u>12,957</u>
Loan principal repayable:		
Within one year	112,500	62,500
In the second year	62,500	50,000
In the third to fifth years, inclusive	<u>75,000</u>	<u>137,500</u>
	<u>250,000</u>	<u>250,000</u>
Amount due to Probest	270,852	262,957
Portion classified as current liabilities	<u>(133,352)</u>	<u>(75,457)</u>
Non-current portion	<u>137,500</u>	<u>187,500</u>

The amount due to Probest is unsecured and interest-bearing at 1% per annum over the Hong Kong prime rate on the loan principal.

At 30 June 2003, the loan principal amounting to HK\$62,500,000 and the accrued loan interest of HK\$20,852,000 were overdue.

11. Accounts payable

The aged analysis of the Group's accounts payable, based on payment due date, is as follows:

	As at	
	30 June 2003 HK\$'000 (unaudited)	31 December 2002 HK\$'000 (audited)
Current to 30 days overdue	17,378	17,746
31 to 60 days overdue	4,512	1,497
61 to 90 days overdue	287	242
More than 90 days overdue	1,914	1,473
	<u>24,091</u>	<u>20,958</u>

12. Share capital

	As at 30 June 2003	
	No. of shares	HK\$'000
Authorised:		
Ordinary shares of HK\$0.20 each	<u>15,000,000,000</u>	<u>3,000,000</u>
Issued and fully paid:		
At beginning of period	2,232,044,805	446,409
Issued of shares upon exercise of share options	<u>5</u>	<u>0</u>
At end of period	<u><u>2,232,044,810</u></u>	<u><u>446,409</u></u>

During the period, 5 shares were issued upon exercise of share options at an exercise price of HK\$0.20 per share.

13. Share option scheme

Pursuant to the Company's share option scheme (the "Scheme") adopted on 28 May 2002 for a period of 10 years, on 12 June 2003, the Company granted 5 share options to an employee with an exercise period ranging from 12 June 2003 to 11 July 2003. These 5 share options were exercised at an exercise price of HK\$0.20 per share on 12 June 2003. The Stock Exchange of Hong Kong Limited (the "Stock Exchange") closing price of the Company's shares on the trading day immediately prior to the date of the grant of the share options was HK\$0.01. The Stock Exchange closing price of the Company's shares at the date of the exercise of the share options was HK\$0.01.

The Board considers that it is not appropriate to state the theoretical value of the options granted during the period under the Scheme. The Board believes that any calculation of the value of share options may not be meaningful as the exercise price is greater than the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options and also the share options were exercised at the same day of the grant of the options.

Apart from the above, no other options were granted by the Company during the period. The Company has no share options outstanding as at the balance sheet date.

14. Related party and connected transactions

As at 30 June 2003, the Group has the following material transactions with related and connected parties during the period:

	Note	Six months ended 30 June	
		2003 HK\$'000 (unaudited)	2002 HK\$'000 (unaudited)
Sales of finished goods to associates		4,087	10,790
Purchases of raw materials and finished goods from associates		6,207	14,147
Management fee income from associates		1,559	1,793
Loan from a shareholder, Probest	(i)	250,000	250,000
Interest expense charged by a shareholder, Probest	(i)	7,895	5,771

The transaction included in note (i) above constituted a connected party transaction as defined in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The loan from a shareholder, Probest, is unsecured and interest bearing at 1% per annum over the Hong Kong prime rate and is repayable in accordance with the repayment term set out in note 10 to the interim financial statements. As at 30 June 2003, the Group and the Company had an outstanding loan, including accrued interest, due to Probest of HK\$270,852,000 (31 December 2002: HK\$262,957,000).

Amounts due to associates are disclosed in the unaudited condensed consolidated balance sheet. Amounts due from associates at 30 June 2003 amounted to HK\$3,376,000 (31 December 2002: HK\$1,894,000). These balances are non-interest bearing and have no fixed terms of repayment.

15. Contingent liabilities

At 30 June 2003, the Company and the Group had no material contingent liabilities.

16. Post balance sheet events

- (i) On 4 March 2003, the Company, Probest and Tomorrow entered into a conditional asset disposal agreement and a conditional loan restructuring agreement to restructure the principal loan of HK\$250 million and the accrued loan interest due to Probest. Subsequently, the above two mentioned agreements were terminated on 27 August 2003.
- (ii) On 4 March 2003, the directors also proposed a capital reorganisation including share capital reduction, capital increase and share consolidation (the "Capital Reorganisation"). The Capital Reorganisation was completed on 29 July 2003. The authorized share capital of the Company after the Capital Reorganisation will be HK\$3,000,000,000 comprising 300,000,000,000 shares of HK\$0.01 each, of which 223,204,481 shares of HK\$0.01 each will be in issue and fully paid or credited as fully paid.
- (iii) On 3 September 2003, the Company, Probest and Tomorrow entered into the Share Sale Agreement pursuant to which Probest would acquire a 30% equity interest in a wholly-owned subsidiary of the Company and 30% of loan owing by that subsidiary to the Company for a consideration of HK\$3 million.
- (iv) In addition, the Company and Probest entered into the Loan Settlement Agreement pursuant to which Probest agreed to waive the repayment of the outstanding principal loan of HK\$47 million due by the Company and the accrued loan interest thereon since 1 March 2002 up to the effective date of the Loan Settlement Agreement.
- (v) Moreover, the Company also proposes to raise not less than HK\$37.7 million before expenses by way of the open offer on the basis of 13 offer shares at HK\$0.013 each for every existing share of HK\$0.01 each in the issued share capital of the Company held by the Qualifying Shareholders on the Record Date (the "Open Offer"). Net proceeds from the Open Offer of approximately HK\$37.0 million will be used to repay partly the loan due to Probest. On 3 September 2003, the Company, Probest and Tomorrow also entered into an underwriting agreement in relation to the underwriting of the Open Offer.
- (vi) The outstanding principal loan of HK\$163 million due to Probest shall be repaid by three instalments in accordance with the terms of the promissory note with maturity date on 1 June 2006. The promissory note is unsecured and bears interest at a rate per annum equivalent to 1% over Hong Kong prime rate.

The Share Sale Agreement and the Loan Settlement Agreement are subject to the approval by the independent shareholders of the Company at the extraordinary general meeting of the Company and the shareholders of Tomorrow at a special general meeting of Tomorrow. The Open Offer is subject to the approval by the independent shareholders of the Company at the extraordinary general meeting of the Company. Further details are also set out in the announcement dated 9 September 2003.

17. Immediate and ultimate holding company

The Company considers Probest to be its immediate holding company and Tomorrow, a public listed company in Hong Kong which Probest is its wholly-owned subsidiary, to be its ultimate holding company.

INTERIM DIVIDENDS

The Board has resolved that no interim dividend will be declared in respect of the six months ended 30 June 2003 (2002: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Results

The Group had a net loss of HK\$9.8 million for the six months ended 30 June 2003, compared to a net profit of HK\$9.2 million recorded for the same period last year. Of the net loss of HK\$9.8 million, HK\$7.9 million was attributed to the finance cost on the shareholder's loan from Probest. Thus, the loss from operation was HK\$2.3 million effectively.

The decline in net profit this period was mostly related to a drop in revenue of 20% from the same period last year, while gross profit had also dropped from 24% of last period to 16% of this period. Orders for the current period were HK\$86.5 million, versus last period of HK\$116.6 million. This adverse impact on profit was partially offset by significantly reduced expense level resulted from staff organisation being downsized as well as tight expense control. As a result of these efforts, the profit breakeven point was further brought down from last year's level.

Due to sluggish demand for lenses in the Group's 50 percent-owned associate, Dongguan Yueheng Optical Co., Ltd., the Group has recorded a shared profit before tax of HK\$1.3 million compared with HK\$4.0 million for the same period last year.

Despite the loss from operation, earnings before interest, taxation, depreciation and amortisation remained positive for this period, at HK\$5.1 million.

Business Review

Like many companies in Hong Kong, the Group was hit by the Severe Acute Respiratory Syndrome epidemic, which has caused our sales and marketing staff having to defer many of the product programs as well as the customer visit plan in Europe and United States. Besides this, the economies in both the United States and Germany have gone through many months of lackluster demand due to focus being drawn on the Gulf War which finally took place during the period. During this same period, many of the eyewear companies in United States and Europe were either extremely cautious on reordering of the products, or were having too much inventories in the pipeline. In short, even though the worst period is hopefully over by now, it has taken the retail market a while to pick up the demand.

Besides the decrease in general demand for both sunglasses and optical products, the market was also flooded with products which barely met quality standard but were sold at extremely low prices. This has created significant pricing pressure on our gross margin, in addition to the high Euro exchange rate which has hit us hard on our imported material cost.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Business Review (continued)

In dealing with these adverse external conditions, the Group has taken effective measures to lower the profit breakeven point. Besides reducing administrative expenses, the Group also launched a downsizing program in the second quarter of this year, which has resulted in an annual savings of approximately HK\$5.8 million on the bottom line. This downsizing program was effectively carried out and supported by the staff, which resulted in cost saving being accomplished without hurting the Group's ongoing operating capability.

Future Outlook

Cutting cost was only one of the many initiatives to improve the bottom line. There are many initiatives which have been completed in the past six months to drive up the Group's competitive strengths, in addition to those completed last year. These include:

- Strengthening the Group's product management organisations by bringing on board staff with excellent track record in eyewear design.
- Using the Group's strong information backbone, track and analyze all new product designs to ensure good follow-through on product development.
- Continuing to raise the Group's technological competence and product know-how by analyzing the Group's Equipment, Process, and Technology (EPT) to ensure proper benchmarking against competitors and synchronized catch-up on investments.

Even though the results for the period were disappointing, we are on track with our plans to revitalize the Group's revenue generating abilities. As a result of these efforts, we have already started to see exciting product programs due to come out from our product development team, and number of new products exceeding the same period last year. All these are good indicators that we are on the success path, just pending a recovery of the economy and the revenue to pick up from our new product life cycles.

We believe the tough time is behind us. The efforts which our staff have put in will pay off in terms of better results further down the path. Let us take this opportunity to thank our shareholders for being patient with us, as well as our staff for having worked through this difficult time with us.

Liquidity and Financial Review

The Group mainly finances its day to day operations with internally generated cash flow. As at 30 June 2003, the current ratio of the Group was 0.65: 1. The low current ratio is due to HK\$112.5 million of loan due to a shareholder, Probest, payable within one year or on demand.

During the period, the Group recorded a cash outflow from operating activities of HK\$1.2 million. As at 30 June 2003, the Group has recorded an overdue interest of HK\$20.9 million on loan due to Probest.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Liquidity and Financial Review (continued)

At 30 June 2003, the loan principal of HK\$62.5 million and the accrued loan interest of approximately of HK\$20.9 million have been overdue. The Board is now considering other fund raising or other possible settlement arrangement with Probest in relation to the overdue loan principal and loan interest.

The Group conducts its business transactions mainly in Hong Kong Dollars, US Dollars, Euro and RMB. The Group did not arrange any forward currency contracts for hedging purposes. Whilst most of the Group's cash is denominated in currencies directly and indirectly linked to the US dollars, the exposure to exchange fluctuation, gains and losses, is minimal. The Group's loan from Probest bear interest at a rate per annum equivalent to 1% over Hong Kong prime rate. The Group's borrowings are mainly denominated in Hong Kong dollars.

The gearing of the Group, measured as total debts to total assets, with 137% as at 30 June 2003, comparing with 134% as at 31 December 2002.

Capital Structure

On 4 March 2003, the Company, Probest and Tomorrow entered into a conditional asset disposal agreement (the "Asset Disposal Agreement") and a conditional loan restructuring agreement (the "Loan Restructuring Agreement") to restructure the principal loan of HK\$250 million and the accrued loan interest due to Probest. Further details of the Asset Disposal Agreement and the Loan Restructuring Agreement are set out in a circular to shareholders dated 7 April 2003. Subsequently, the above two mentioned agreements were terminated on 27 August 2003.

On 4 March 2003, the directors also proposed a capital reorganisation including share capital reduction, capital increase and share consolidation (the "Capital Reorganisation"). The Capital Reorganisation was completed on 29 July 2003. The authorized share capital of the Company after the Capital Reorganisation will be HK\$3,000,000,000 comprising 300,000,000,000 shares of HK\$0.01 each, of which 223,204,481 shares of HK\$0.01 each will be in issue and fully paid or credited as fully paid.

On 3 September 2003, the Company, Probest and Tomorrow entered into the Share Sale Agreement pursuant to which Probest would acquire a 30% equity interest in a wholly-owned subsidiary of the Company and 30% of loan owing by that subsidiary to the Company for a consideration of HK\$3 million.

In addition, the Company and Probest entered into the Loan Settlement Agreement pursuant to which Probest agreed to waive the repayment of the outstanding principal loan of HK\$47 million due by the Company and the accrued loan interest thereon since 1 March 2002 up to the effective date of the Loan Settlement Agreement.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Capital Structure (continued)

Moreover, the Company also proposes to raise not less than HK\$37.7 million before expenses by way of the Open Offer on the basis of 13 offer shares at HK\$0.013 each for every existing share of HK\$0.01 each in the issued share capital of the Company held by the Qualifying Shareholders on the Record Date. Net proceeds from the Open Offer of approximately HK\$37.0 million will be used to repay partly the loan due to Probest. On 3 September 2003, the Company, Probest and Tomorrow also entered into an underwriting agreement in relation to the underwriting of the Open Offer.

The outstanding principal loan of HK\$163 million due to Probest shall be repaid by three instalments in accordance with the terms of the promissory note with maturity date on 1 June 2006. The promissory note is unsecured and bears interest at a rate per annum equivalent to 1% over Hong Kong prime rate.

The Share Sale Agreement and the Loan Settlement Agreement are subject to the approval by the independent shareholders of the Company at the extraordinary general meeting of the Company and the shareholders of Tomorrow at a special general meeting of Tomorrow. The Open Offer is subject to the approval by the independent shareholders of the Company at the extraordinary general meeting of the Company. Further details are also set out in the announcement dated 9 September 2003.

Significant Investments, Material Acquisitions and Disposals

During the period ended 30 June 2003, there was no material changes on the investment held and also no material acquisition or disposal of any subsidiary and associate of the Group.

Capital Commitment, Charge on Group Assets and Contingent liabilities

As at 30 June 2003, the Group has no material capital commitment and had no charge on the Group's assets. The Group also had no material contingent liabilities.

Human Resources

As at 30 June 2003, the Group had 2,090 employees. The remuneration policy and package of the Group's employees are based on their performance, experience, prevailing industry practice and market rates. In addition to the basic salaries and contributions to the provident fund, the Group also provides staff benefits including discretionary bonus to staff and medical insurance scheme. The Group also provides appropriate training for the employees' better personal development and growth.

Mr. Lim Huat Joo resigned as Executive Director of the Company with effect from 28 June 2003 and Mr. Cheung Wah Hing was appointed as Executive Director of the Company with effect from 30 June 2003.

Pursuant to the Company's share option scheme adopted on 28 May 2002 for a period of 10 years, the Company may offer to any employee of the Group options to subscribe for shares in the Company. During the period, 5 share options were granted to an employee who had already exercised the share options at an exercise price of HK\$0.20 per share. No share options were outstanding as at 30 June 2003.

DIRECTORS' INTEREST IN SHARES AND UNDERLYING SHARES

1. Interests in the Company

One of the directors who held office at 30 June 2003 had the following interests in the shares and underlying shares of the Company as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO") or notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") :

Name of Director	Nature of interest	Number of shares
Mr. Cheung Wah Hing	Personal	256,000

2. Interests in the associated corporation

Tomorrow International Holdings Limited ("Tomorrow")

At 30 June 2003, the interests of the directors of the Company in the shares and underlying shares of Tomorrow, the ultimate holding company of the Company and whose shares are listed on the Stock Exchange, as recorded in the register maintained by Tomorrow pursuant to Section 352 of the SFO or notified to Tomorrow pursuant to the Model Code were as follows:

Name of Director	Notes	Nature of interest	Number of shares
Mr. Yau Tak Wah, Paul	1	Corporate	14,847,400*
Mr. Tam Ping Wah	2	Corporate	8,000*

Notes :

1. These shares were held through Pacific Shore Profits Limited, a company beneficially owned by Mr. Yau Tak Wah, Paul.
2. These shares were held through Strong Trend International Limited, a company beneficially owned by Mr. Tam Ping Wah.

* The number of shares were adjusted in accordance with the capital reorganisation of Tomorrow which took effect on 30 June 2003.

DIRECTORS' INTEREST IN SHARES AND UNDERLYING SHARES (continued)**2. Interests in the associated corporation** (continued)

Tomorrow International Holdings Limited ("Tomorrow") (continued)

At 30 June 2003, certain directors of the Company have been granted options to subscribe for shares in Tomorrow. The details of share options granted to directors which remained outstanding as at 30 June 2003 were as follows :

Directors	Date of grant of share options	Exercise period of share options	Exercise price	Exercise price	Number of	Number of
			of share options at 1 January 2003 HK\$	of share options at 30 June 2003 HK\$	share options outstanding at 1 January 2003 '000	share options outstanding at 30 June 2003 '000
Ms. Louie Mei Po	11 February 2000	11 August 2000 to 10 August 2003	0.227	2.27	23,700	2,370
	20 March 2000	20 September 2000 to 19 September 2003	0.163	1.63	19,800	1,980
	2 May 2000	2 November 2000 to 1 November 2003	0.09	0.90	9,000	900
					52,500	5,250
Ms. Wong Shin Ling, Irene	20 March 2000	20 September 2000 to 19 September 2003	0.163	1.63	10,800	1,080
	2 May 2000	2 November 2000 to 1 November 2003	0.09	0.90	19,200	1,920
					30,000	3,000
Mr. Tam Ping Wah	2 May 2000	2 November 2000 to 1 November 2003	0.09	0.90	9,000	900
					9,000	900
					91,500	9,150

Save as disclosed herein, none of the directors or their associates held any interests or short positions in any shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

The Company had a share option scheme approved on 28 May 2002 under which the directors might grant options to eligible participants to subscribe up to 10% of the nominal amount of the issued share capital of the Company. As at 30 June 2003, the Company has no share options outstanding.

Save as disclosed herein, none of the directors or their associates held any interests or short positions in any shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS

At 30 June 2003, the following interests of 5% or more in the issued share capital of the Company was recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO.

Name	Number of ordinary shares held	Percentage of the Company's issued share capital
(i) Winspark Venture Limited ("Winspark Venture")	1,291,638,651	57.9%
(ii) Tomorrow	1,291,638,651	57.9%
(iii) Fortune Dynamic Group Corp. ("Fortune Dynamic")	1,291,638,651	57.9%
(iv) Probest	1,291,638,651	57.9%

Winspark Venture was (or was deemed to be) interested in 1,291,638,651 ordinary shares in the Company by virtue of its 58% shareholding in Tomorrow, which in turn, held 100% shareholding in Fortune Dynamic. Fortune Dynamic held 100% shareholding in Probest, which in turn, held 1,291,638,651 shares of the Company. The entire issued share capital of Winspark Venture is beneficially owned by Mr. Chan Yuen Ming. Accordingly, the interests disclosed by parties (i), (ii) (iii) and (iv) above are in respect of the same shareholding.

Save as disclosed above, the directors of the Company are not aware of any person who is, directly or indirectly, interested in 5% or more of the issued share capital of the Company, has short positions on the shares or underlying shares, or has any rights to subscribe for shares in respect of such capital.

PURCHASE, REDEMPTION OR SALE OF SECURITIES

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's securities during the six months ended 30 June 2003.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules during the six months ended 30 June 2003, except that the independent non-executive directors of the Company are not appointed for specific terms, but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's Bye-laws.

REVIEW BY AUDIT COMMITTEE

The 2003 interim report has been reviewed by the Audit Committee which comprises of two independent non-executive directors of the Company. One of the independent non-executive director, Mr. Kwong Wai Tim, William resigned with effect from 1 August 2003 and Miss Shum Wai Ting, Rebecca was appointed as independent non-executive director of the Company with effect from 6 August 2003.

By order of the Board
Yau Tak Wah, Paul
Executive Director

Hong Kong, 18 September 2003