

USI HOLDINGS LIMITED INTERIM REPORT 2003

FINANCIAL RESULTS

The Board of Directors (the “Directors”) of USI Holdings Limited (the “Company”) present the interim report and unaudited financial statements for the six months ended 30 June 2003 of the Company and its subsidiaries (the “Group”).

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2003

	Notes	Six months ended 30 June	
		2003 HK\$'M (Unaudited)	2002 HK\$'M (Unaudited)
Turnover	3	518.7	615.7
Cost of sales		(392.7)	(463.2)
Gross profit		126.0	152.5
Other operating income		15.2	20.6
Distribution costs		(32.8)	(33.4)
Administrative expenses		(107.3)	(110.6)
Reversal of losses recognised in respect of investments the underlying business of which is property development		17.7	–
Profit from operations	4	18.8	29.1
Other interest income		0.2	0.5
Finance costs		(10.6)	(10.2)
Share of results of associates		(4.2)	(6.5)
Profit before taxation		4.2	12.9
Taxation	5	(1.5)	(4.8)
Profit before minority interests		2.7	8.1
Minority interests		(1.6)	(0.1)
Net profit for the period		1.1	8.0
Earnings per share	7		
– Basic		HK 0.2 cent	HK 1.5 cents
– Diluted		N/A	HK 1.5 cents

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2003

	Notes	30.6.2003 HK\$'M (Unaudited)	31.12.2002 HK\$'M (Audited) (As restated)
Non-current assets			
Investment properties	8	579.5	579.5
Other properties, plant and equipment	9	241.5	200.0
Interests in associates		429.0	438.8
Investments in securities		495.3	490.8
Other non-current assets		3.2	4.0
		<u>1,748.5</u>	<u>1,713.1</u>
Current assets			
Inventories		149.7	132.1
Properties held for sale		143.1	173.0
Trade and other receivables and prepayments	10	130.2	168.4
Bills receivable		61.7	69.8
Amounts due from associates		32.7	30.4
Taxation recoverable		2.2	3.3
Bank balances and cash		84.7	90.4
		<u>604.3</u>	<u>667.4</u>
Current liabilities			
Trade and other payables	11	209.7	261.8
Provisions		8.9	10.8
Bills payable		12.1	20.1
Amount due to an associate		0.1	0.1
Taxation payable		3.9	3.7
Short-term bank borrowings	12	13.8	7.5
Bank loans – amount due within one year	13	47.3	53.6
		<u>295.8</u>	<u>357.6</u>
Net current assets		<u>308.5</u>	<u>309.8</u>
		<u>2,057.0</u>	<u>2,022.9</u>

		30.6.2003 HK\$'M (Unaudited)	31.12.2002 HK\$'M (Audited) (As restated)
	Notes		
Capital and reserves			
Share capital	14	258.8	258.8
Reserves	15	996.9	999.8
Shareholders' funds		1,255.7	1,258.6
Minority interests		55.7	56.2
Non-current liabilities			
Bank loans – amount due after one year	13	665.6	612.0
Other long-term loans	16	62.9	79.8
Deferred taxation		17.1	16.3
		745.6	708.1
		2,057.0	2,022.9

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2003

	Total equity	
	Six months ended 30 June	
	2003	2002
	HK\$'M	HK\$'M
At 1 January		
– as originally stated	1,272.4	1,260.9
– prior period adjustment (Note 2)	(13.8)	(13.5)
– as restated	<u>1,258.6</u>	<u>1,247.4</u>
Exchange differences arising on translation of financial statements of operations outside Hong Kong	1.9	(0.5)
Share of reserves of an associate	(0.4)	(0.1)
Deferred tax liabilities arising on change on tax rate in respect of other property revaluation reserve	<u>(0.3)</u>	<u>–</u>
Net gains (losses) not recognised in the consolidated income statement	1.2	(0.6)
	<u>1,259.8</u>	<u>1,246.8</u>
Net profit for the period	1.1	8.0
Dividend paid	<u>(5.2)</u>	<u>(12.9)</u>
At 30 June	<u>1,255.7</u>	<u>1,241.9</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2003

	Six months ended 30 June	
	2003	2002
	HK\$'M	HK\$'M
	(Unaudited)	(Unaudited)
Net cash from (used in) operating activities	7.4	(51.0)
Net cash used in investing activities	(29.4)	(224.3)
Net cash from financing activities	23.1	254.8
Net increase (decrease) in cash and cash equivalents	1.1	(20.5)
Cash and cash equivalents at beginning of the period	83.2	62.2
Effect of foreign exchange rate changes	0.2	0.2
Cash and cash equivalents at end of the period	84.5	41.9
Analysis of the balances of cash and cash equivalents:		
– Bank balances and cash	84.7	44.2
– Bank overdrafts	(0.2)	(2.3)
	84.5	41.9

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2003

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with the Statement of Standard Accounting Practice No. 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties and investments in securities.

In the current period, the Group has adopted, for the first time, the Statement of Standard Accounting Practice No. 12 (Revised) "Income taxes" ("SSAP 12 (Revised)") issued by the Hong Kong Society of Accountants. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax.

In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount 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. Comparative amount for 2002 have been restated accordingly. As a result of this change in policy, the opening balance on the Group's other distributable reserves and other property revaluation reserve at 1 January 2003 has been decreased by HK\$10.3 million and HK\$3.5 million (1 January 2002: HK\$10.0 million and HK\$3.5 million) respectively after adjusting for minority interests' share, and there is no material effect on the consolidated income statement in the current or prior period.

Other than as described above, the accounting policies adopted in the preparation of the condensed financial statements are consistent with those followed in the preparation of the Group's annual audited financial statements for the year ended 31 December 2002.

3. TURNOVER AND SEGMENT INFORMATION

Business segment

The Group is organised into five operating divisions. These divisions are the basis on which the Group reports its primary segment information. The principal activities of the five operating divisions, namely garment manufacturing and trading, branded products distribution, property rental and management, property development and investing activities.

	Garment manufacturing and trading	Branded products distribution	Property rental and management	Property development	Investing activities	Elimination	Consolidated
For the period ended 30 June 2003	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M
TURNOVER							
External sales	365.5	86.1	29.2	32.2	5.7	–	518.7
Inter-segment sales	–	–	3.0	–	–	(3.0)	–
Total revenue	<u>365.5</u>	<u>86.1</u>	<u>32.2</u>	<u>32.2</u>	<u>5.7</u>	<u>(3.0)</u>	<u>518.7</u>
RESULT							
Profit from operations	15.2	(5.0)	9.9	16.2	(17.5)	–	18.8
Other interest income							0.2
Finance costs							(10.6)
Share of results of associates							(4.2)
Profit before taxation							<u>4.2</u>
Taxation							(1.5)
Profit before minority interests							<u>2.7</u>
Minority interests							(1.6)
Net profit for the period							<u>1.1</u>

Inter-segment sales are charged at prevailing market rates.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2003

For the period ended 30 June 2002	Garment	Branded	Property	Property	Investing	Elimination	Consolidated
	manufacturing and trading	products distribution	rental and management	development	activities		
	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M
TURNOVER							
External sales	419.8	73.1	28.7	88.3	5.8	–	615.7
Inter-segment sales	–	–	2.2	–	–	(2.2)	–
Total revenue	<u>419.8</u>	<u>73.1</u>	<u>30.9</u>	<u>88.3</u>	<u>5.8</u>	<u>(2.2)</u>	<u>615.7</u>
RESULT							
Profit from operations	29.3	(4.5)	15.4	5.4	(16.5)	–	29.1
Other interest income							0.5
Finance costs							(10.2)
Share of results of associates							(6.5)
Profit before taxation							<u>12.9</u>
Taxation							(4.8)
Profit before minority interests							<u>8.1</u>
Minority interests							(0.1)
Net profit for the period							<u>8.0</u>

Inter-segment sales are charged at prevailing market rates.

Geographical segment

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

	Turnover by geographical market	
	Six months ended 30 June	
	2003 HK\$'M	2002 HK\$'M
North America	256.6	309.9
United Kingdom	108.2	84.0
Hong Kong	81.1	128.4
Other European countries	46.0	67.1
Other areas	26.8	26.3
	<u>518.7</u>	<u>615.7</u>

4. PROFIT FROM OPERATIONS

	Six months ended 30 June	
	2003	2002
	HK\$'M	HK\$'M
Profit from operations has been arrived at after charging:		
Amortisation of		
– trademark (included in administrative expenses)	0.1	0.1
– permanent textile quota entitlements (included in cost of sales)	0.7	1.1
Cost of temporary textile quota entitlements	17.6	10.4
Depreciation and amortisation of other properties, plant and equipment	10.3	10.8

5. TAXATION

	Six months ended 30 June	
	2003	2002
	HK\$'M	HK\$'M
Taxation of the Company and its subsidiaries		
– Hong Kong Profits Tax	1.0	4.0
– Taxation in other jurisdictions	–	0.8
	1.0	4.8
Deferred taxation	0.5	–
	1.5	4.8

Hong Kong Profits Tax is calculated at 17.5% (1 January 2002 to 30 June 2002: 16%) on the estimated assessable profits for the period. Taxation in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2003

6. DIVIDEND

During the six months ended 30 June 2003, a final dividend of HK1.0 cent per share in respect of the year ended 31 December 2002 (HK2.5 cents in respect of the year ended 31 December 2001) was approved at the Company's annual general meeting held on 10 June 2003 and paid to the shareholders during the period.

The directors do not recommend the payment of an interim dividend in respect of the six months ended 30 June 2003.

7. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the net profit for the period of HK\$1.1 million (1 January 2002 to 30 June 2002: HK\$8.0 million) and the 517,625,339 shares in issue throughout both periods.

No diluted earnings per share is presented for the current period as the exercise price of the options was higher than the average market price per share. Thus, no exercise of the Company's outstanding option is assumed.

The computation of diluted earnings per share for the six months ended 30 June 2002 is as follows:

Earnings for the purpose of calculating diluted earnings per share	<u>HK\$8.0 million</u>
Number of shares in issue during the period for the purpose of calculating basic earnings per share	517,625,339
Effect of dilutive potential shares issuable under the Company's share option scheme	<u>203,545</u>
Number of shares for the purpose of calculating diluted earnings per share	<u>517,828,884</u>

8. INVESTMENT PROPERTIES

There was no change in the Group's investment properties during the period.

The Group's investment properties are stated at revalued amounts based on professional valuations at 31 December 2002 on an open market value basis.

9. OTHER PROPERTIES, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK\$49.8 million (1 January 2002 to 30 June 2002: HK\$12.5 million) on acquisition of other properties, plant and equipment.

10. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

The Group allows different credit periods to its trade customers. Credit periods vary from 30 to 90 days in accordance with the industry practice.

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

	30.6.2003	31.12.2002
	HK\$'M	HK\$'M
0 – 30 days	47.1	82.5
31 – 90 days	28.0	25.6
Over 90 days	23.1	17.3
	98.2	125.4
Other receivables and prepayments (Note)	32.0	43.0
Total	130.2	168.4

Note:

Included in the balance of other receivables and prepayments at 31 December 2002 was an amount of HK\$10.4 million (30 June 2003: nil), representing consideration receivables from disposal of properties.

11. TRADE AND OTHER PAYABLES

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

	30.6.2003	31.12.2002
	HK\$'M	HK\$'M
0 – 30 days	49.9	66.9
31 – 90 days	20.6	22.8
Over 90 days	6.3	8.3
	76.8	98.0
Other payables	132.9	163.8
Total	209.7	261.8

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2003

12. SHORT-TERM BANK BORROWINGS

	30.6.2003 HK\$'M	31.12.2002 HK\$'M
Bank overdrafts	0.2	7.2
Trust receipts and import loans	13.6	0.3
	13.8	7.5
Analysed as:		
– secured	–	3.5
– unsecured	13.8	4.0
	13.8	7.5

13. BANK LOANS

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

	30.6.2003 HK\$'M	31.12.2002 HK\$'M
Within one year	47.3	53.6
Between one to two years	248.3	437.9
Between two to five years	398.8	146.1
After five years	18.5	28.0
	712.9	665.6
Less: Amount due within one year shown under current liabilities	(47.3)	(53.6)
Amount due after one year	665.6	612.0
Analysed as:		
– secured	434.0	371.6
– unsecured	278.9	294.0
	712.9	665.6

14. SHARE CAPITAL

	30 June 2003 & 31 December 2002	
	Number of shares	Amount HK\$'M
Authorised:		
Shares of HK\$0.50 each	<u>1,320,000,000</u>	<u>660.0</u>
Issued and fully paid:		
Shares of HK\$0.50 each	<u>517,625,339</u>	<u>258.8</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2003

15. RESERVES

	Share premium HK\$'M	Investment property revaluation reserve HK\$'M	Other property revaluation reserve HK\$'M	Translation reserve HK\$'M	Contributed surplus HK\$'M	Other distributable reserve (deficit) HK\$'M	Total HK\$'M
At 1 January 2002							
– as originally stated	438.4	34.8	21.9	(42.3)	649.9	(100.6)	1,002.1
– prior period adjustment (note 2)	–	–	(3.5)	–	–	(10.0)	(13.5)
– as restated	438.4	34.8	18.4	(42.3)	649.9	(110.6)	988.6
Exchange differences arising on translation of financial statements of operations outside Hong Kong	–	–	–	(0.5)	–	–	(0.5)
Share of reserves of an associate	–	–	–	(0.1)	–	–	(0.1)
Net profit for the six months ended 30 June 2002	–	–	–	–	–	8.0	8.0
2001 final dividend paid	–	–	–	–	(12.9)	–	(12.9)
At 30 June 2002 and 1 July 2002							
– as restated	438.4	34.8	18.4	(42.9)	637.0	(102.6)	983.1
Deficit arising on revaluation	–	(4.8)	–	–	–	–	(4.8)
Exchange differences arising on translation of financial statements of operations outside Hong Kong	–	–	–	8.0	–	–	8.0
Share of reserves of an associate	–	–	–	(0.8)	–	–	(0.8)
Share of reserves by minority shareholders	–	(2.0)	–	–	–	–	(2.0)
Realised on disposal of properties	–	(7.0)	–	7.8	–	–	0.8
Realised on cessation of operations outside Hong Kong	–	–	–	3.0	–	–	3.0
Net profit for the six months ended 31 December 2002	–	–	–	–	–	12.5	12.5
At 31 December 2002 and 1 January 2003							
– as restated	438.4	21.0	18.4	(24.9)	637.0	(90.1)	999.8
Exchange differences arising on translation of financial statements of operations outside Hong Kong	–	–	–	1.9	–	–	1.9
Share of reserves of an associate	–	–	–	(0.4)	–	–	(0.4)
Net profit for the six months ended 30 June 2003	–	–	–	–	–	1.1	1.1
Deferred tax liabilities arising on change in tax rate	–	–	(0.3)	–	–	–	(0.3)
2002 final dividend paid	–	–	–	–	(5.2)	–	(5.2)
At 30 June 2003	438.4	21.0	18.1	(23.4)	631.8	(89.0)	996.9

16. OTHER LONG-TERM LOANS

	30.6.2003	31.12.2002
	HK\$'M	HK\$'M
Interest bearing loans	35.1	34.4
Interest free loan	27.8	45.4
	<u>62.9</u>	<u>79.8</u>

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. The loans are therefore shown in the balance sheet as non-current liabilities.

17. CAPITAL COMMITMENTS

	30.6.2003	31.12.2002
	HK\$'M	HK\$'M
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	<u>5.8</u>	<u>—</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2003

18. CONTINGENT LIABILITIES

	30.6.2003	31.12.2002
	HK\$'M	HK\$'M
Export bills discounted with recourse	<u>31.0</u>	<u>28.4</u>
Guarantees given to banks in respect of utilised credit facilities extended to associates	<u>182.4</u>	<u>172.1</u>

At 30 June 2003, 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\$339.6 million (31 December 2002: HK\$389.9 million).

19. RELATED PARTY TRANSACTIONS

During the period ended 30 June 2003, property management fee income and interest income received and receivable by the Group from its associates amounted to HK\$3.9 million (1 January 2002 to 30 June 2002: HK\$2.6 million) and HK\$3.7 million (1 January 2002 to 30 June 2002: HK\$2.8 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 30 June 2003 amounted to HK\$506.4 million (31 December 2002: HK\$511.0 million). The Group's advances to the associates at 30 June 2003 include amounts of HK\$408.0 million (31 December 2002: HK\$405.1 million) which are subordinated to the loan facilities of the associates and are assigned to the financial institutions. These associates are engaged in property development. The shares in these associates beneficially owned by the Group are also pledged to the financial institutions.

INDEPENDENT REVIEW REPORT

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TO THE BOARD OF DIRECTORS OF USI HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

INTRODUCTION

We have been instructed by USI Holdings Limited (the “Company”) to review the interim financial report set out on pages 1 to 16.

DIRECTORS’ RESPONSIBILITIES

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the Statement of Standard Accounting Practice No. 25 “Interim financial reporting” issued by the Hong Kong Society of Accountants. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

REVIEW WORK PERFORMED

We conducted our review in accordance with the Statement of Auditing Standards 700 “Engagements to review interim financial reports” issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

REVIEW CONCLUSION

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2003.

Deloitte Touche Tohmatsu

Hong Kong, 16 September 2003

INTERIM DIVIDEND

The directors do not recommend the payment of an interim dividend (2002: nil) for the six months ended 30 June 2003.

MANAGEMENT DISCUSSION AND ANALYSIS

Results

For the first half of 2003, the Group reported a consolidated net profit of HK\$1.1 million, which was lower than the net profit of HK\$8.0 million for the same period in 2002. Turnover for the Group was HK\$518.7 million for the period ended 30 June 2003 compared with HK\$615.7 million in the first half of 2002.

The drop in turnover occurred mainly in the property development division and the garment manufacturing division. In the first half of 2003, the Group had no new property development projects ready for sale and therefore only recorded sales of completed projects. In the garment manufacturing division, the Severe Acute Respiratory Syndrome ("SARS") crisis caused a number of customers to cancel their buying trips to Hong Kong that resulted in a decrease of approximately 15% in orders in the first half of the year. The Iraq War also deterred customers from placing orders for delivery in the first half.

Apparel

The Group's garment manufacturing operations, through Shui Hing Textiles International Limited and Unimix Holdings Limited, contributed an operating profit, excluding restructuring and other costs, of HK\$18.7 million as compared to HK\$29.4 million for the 2002 interim period. Turnover for the period ended 30 June 2003 was HK\$337.4 million compared with HK\$390.0 million for the same period last year.

The Iraq War and SARS certainly added to the problems already present in the difficult economic environment prevailing at the beginning of the year. But, fortunately, for most of our larger customers the situation only served to delay the placing of orders. For a number of smaller customers, the curtailment of travel resulted in the channelling of their business to sources closer to home.

The Iraq War and SARS are now behind us and the world economy appears to be in a recovery mode. Our forward orders indicate that turnover for the garment manufacturing division during the full year 2003 will equal last year's, albeit at a lower gross margin level.

Based on the Agreement on Textiles and Clothing (ATC) as agreed in the Uruguay Round Trade Negotiation Committee of General Agreement on Tariffs and Trade (GATT), quantitative restrictions on textiles are to be eliminated as of 1 January 2005 (with the U.S. taking extensive transitional recourse and safeguards). It is our view that garment manufacturers will face increased competition in an already over-supplied market. However, we believe that we can increase sales, although at a lower margin, through customer diversification, reduced overhead and expanded production capacity.

We are constructing two additional factories in RuYuan, in the northern part of Guangdong Province in China, which will add 250,000 square feet of shop floor to the existing facilities. Construction of the two factories should be completed by the first and second quarters of 2004, respectively, with operations commencing towards the second half of next year.

Gieves & Hawkes plc

The turnover of Gieves & Hawkes plc (“G&H”) for the first half increased to about HK\$86 million (HK\$73 million last year) despite the closure in January of two loss making units. The newer G&H stores performed particularly well with Leeds and Sloane Square stores up over 20% on the prior year and the Birmingham store (opened in September 2002) up more than 20% over plan. Performance of the factory outlets was not as strong but was still ahead of the prior year.

G&H will open a concession store in the new House of Fraser City store in London in mid September 2003. A store in Glasgow, Scotland also is planned.

Property

Property Development

The property market was under severe pressure in the first half of 2003 because of the weak economy, SARS and the Iraq War. Nonetheless, we continued to sell our three development projects, namely, The Waterfront, The Hillgrove and The Bloomsville. No new projects were launched during the period.

For the first six months of 2003, the aggregate turnover generated from the three aforementioned projects amounted to HK\$264 million. The Group has an equity interest in the Po Shan Road project, which was successfully launched in December 2002. Despite the difficult market, sales of the project since launching were satisfactory, generating approximately HK\$699 million of revenue.

The development of the Sai Kung and the Shatin projects, in which the Group has a 50% and 40% interest, respectively, is on schedule. Completion of the Sai Kung project is planned for the end of 2004 while the Shatin project is expected to be completed in the second half of 2005. Conversion of the Lancaster Gate project in the United Kingdom, in which the Group has a 47.5% interest, into 14 residential units is expected to be completed by the second half of 2004.

Investment Property

With a slowing of the Hong Kong economy in the second quarter of this year due to SARS outbreak, rentals and occupancy rates at the Group's three industrial properties at Shui Hing Centre, Unimix Industrial Centre and 81 Hung To Road remained under pressure. The rental yield of these investment properties generally dropped by less than 10% in the first half while occupancy rates maintained at above 80%.

Property Management Services

When the World Health Organisation lifted its negative travel advisory, plans for commercial development stabilised and the corporate residential leasing market began a slow recovery in Hong Kong and South East Asian countries. However, while there are more new expatriate arrivals, local expatriates continue to face decreased housing budgets.

The luxury leasing market remained strongly competitive with landlords offering very attractive rental packages to capture the corporate market.

The last phase of furnishing The Waterfront, Tower V (Lanson Place) is scheduled for completion by the fourth quarter of this year. After one year in operation, Lanson Place in Hong Kong has established a reputation in the leasing market as one of the most preferred apartments in the urban area. With the signing of the Closer Economic Partnership Arrangement (CEPA) between China and Hong Kong, foreign investment should increase thus boosting the expatriate leasing market in the luxury sector.

We continue to work to strengthen our position as a high quality residential leasing choice in the corporate leasing market.

Office Removal

A Central office has been operated out of leased premises in the central business district on Hong Kong Island. With the softening of property prices and a low interest rate environment, it became more cost effective to own rather than to lease our offices. The Group purchased three office units on the 31st floor of 9 Queen's Road Central, in March 2003 that are currently under renovation. The Central office will move into this new office in late October 2003.

Strategic Investments***SUNDAY Communications Limited***

SUNDAY Communications Limited ("SUNDAY") faced very challenging market conditions in the first half of 2003 because of SARS, the weak economy and aggressive pricing promotions initiated by some of its competitors. Recognising the reality of what it takes to compete in a saturated and commoditised marketplace, SUNDAY acted aggressively during 2002 to create a lean and efficient operating structure and to implement a segmentation strategy. By building on this solid foundation, SUNDAY achieved a net profit on a month-to-month basis since January 2003.

SUNDAY continues its comprehensive planning regarding the 3G network and service launch, and is in discussions with a number of vendors and financial institutions to source the most desirable package of technology and financing to support the eventual launch.

Prospects

The Group experienced one of the toughest operating environments in memory during the first half of the year. However, the U.S. economy, which is key to our manufacturing business, is showing signs of recovery – recording a 3.1% growth in the second quarter. Orders on hand for the garment manufacturing division in the second half are exceeding those for the same period last year.

At present, with SARS under control, the local economy is returning to pre-SARS level. Activities in the residential property market appear to be improving and if continue should further stabilise property prices.

The damage caused by SARS cannot be undone but the adverse impact on our results should be contained for the full year of 2003.

Going forward, we will continue to expand and improve the productivity of our manufacturing facilities, and remain committed to developing top quality, innovatively designed property projects.

Liquidity and Financial Resources

The Group's shareholders' funds were HK\$1,255.7 million as at 30 June 2003 as compared to HK\$1,258.6 million (restated for adopting the SSAP 12 (Revised)) at the end of 2002. The slight drop in shareholders' funds was mainly due to the distribution of the 2002 final dividend net of the profit for the period ended 30 June 2003.

As at 30 June 2003, the Group's net bank borrowings (total bank borrowings net of cash and bank balances) was HK\$642.0 million (as at 31 December 2002: HK\$582.7 million), representing 51.1% of the Group's net assets, which is comparable to the 46.3% (restated for adopting SSAP 12 (Revised)) as at the end of 2002. Interest for the Group's bank borrowings was mainly on a floating rate basis. Most (around 92%) of the Group's bank borrowings were repayable in periods beyond one year, and the Group had unutilised banking facilities in excess of HK\$300 million as at 30 June 2003.

Foreign Currencies

The Group continues to conduct its business mainly in Hong Kong dollars and United States dollars. For transactions in other foreign currencies, our policy is to hedge most such dealings. In addition, the majority of our assets are situated in Hong Kong, thus our exposure to exchange rate fluctuations is minimal.

Contingent Liabilities

As at 30 June 2003, the Group's contingent liabilities were guarantees given to banks in respect of utilised credit facilities extended to associates of HK\$182.4 million, and export bills discounted with recourse amounting to HK\$31.0 million.

Pledge of Assets

As at 30 June 2003, certain of the Group's investment properties with carrying value of HK\$552.7 million and properties for own use with carrying value of HK\$171.5 million were pledged to secure credit facilities for the Group. In addition, shares in an investee company engaged in property development were pledged to secure credit facilities for that investee company as at 30 June 2003.

The Group's advances to associates, which are engaged in property development, as at 30 June 2003 of HK\$408.0 million are subordinated to the loans facilities of associates. The Group's advances to the associates are assigned, and the shares in these associates beneficially owned by the Group are pledged to financial institutions.

Employees

As at 30 June 2003, the Group had in excess of 6,000 staff and workers. The Group offers comprehensive remuneration and benefit packages to its employees, which are structured according to the prevailing salary levels in the market, individual merit and performance. The Group has a mandatory provident fund scheme to provide retirement benefits for all of its employees in Hong Kong. In addition, there is a defined contribution top-up scheme for qualifying employees of certain Hong Kong subsidiaries of the Group. The Group also operates a funded defined benefit pension scheme for certain overseas employees engaged prior to May 2001.

Employees and directors (including non-executive directors and independent non-executive directors), 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.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

At 30 June 2003, the interests or short positions of the directors and chief executive in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register maintained by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

Name of director	Number of shares held			
	Personal interests	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 Luen, Raymond	–	–	–	–
Simon MURRAY	–	–	–	–
FANG Hung, Kenneth	–	–	–	–
WONG Yick Kam, Michael	–	–	–	–
HONG Pak Cheung, William	–	–	–	–

Notes:–

- (a) Messrs. CHENG Wai Chee, Christopher was deemed to be interested in 150,409,086 shares of the Company beneficially owned by Bestime Resources Limited, Pofung Investments Limited and Broxbourne Assets Limited by virtue of his corporate interests in these companies. Bestime Resources Limited, Pofung Investments Limited and Broxbourne Assets Limited were the beneficial owners of 68,747,996, 66,698,122 and 14,962,968 shares of the Company respectively.

- (b) Messrs. CHENG Wai Chee, Christopher, CHENG Wai Sun, Edward, CHENG Man Piu, Francis and CHENG Wai Keung were beneficiaries of a trust which assets include indirect interests in 110,595,862 shares of the Company beneficially owned by Brave Dragon Limited and Wing Tai Garment Manufactory (Singapore) Pte Limited as set out under “Substantial Shareholders” below.
- (c) Messrs. CHENG Wai Chee, Christopher had outstanding options to subscribe for 2,000,000 shares of the Company under the share option schemes of the Company as set out below under “Directors’ and Chief Executive’s rights to acquire Shares or Debentures”.
- (d) Messrs. CHENG Wai Sun, Edward had outstanding options to subscribe for 2,000,000 shares of the Company under the share option schemes of the Company as set out below under “Directors’ and Chief Executive’s rights to acquire Shares or Debentures”.
- (e) Messrs. NG Tak Wai, Frederick had outstanding options to subscribe for 860,000 shares of the Company under the share option schemes of the Company as set out below under “Directors’ and Chief Executive’s rights to acquire Shares or Debentures”.

All the interests in shares and underlying shares in respect of share options disclosed under this section are long position.

Save as disclosed above, at 30 June 2003, none of the directors nor the chief executive had or was deemed to have any interest or short position in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of the SFO) which has been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of the SFO and have been recorded in the register maintained by the Company pursuant to section 352 of the SFO; or which has been notified to the Company and the Stock Exchange pursuant to the Model Code.

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

Under the Company's share option schemes, 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	Exercise price per share (HK\$)	Number of share options	
			Outstanding at 1.1.2003	Outstanding at 30.6.2003
CHENG Wai Chee, Christopher	15.11.1999	0.8	2,000,000	2,000,000
CHENG Wai Sun, Edward	15.11.1999	0.8	2,000,000	2,000,000
NG Tak Wai, Frederick	15.11.1999	0.8	860,000	860,000

No option was granted to, or exercised by, the Company's directors during the six months ended 30 June 2003.

Save as disclosed above, at no time during the six months ended 30 June 2003 was the Company or any of its subsidiaries a party to any arrangements to enable the directors and the chief executive of the Company or any of their spouses or children under the age of 18 to acquire benefits by means of acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

At 30 June 2003, the following persons (other than the directors and the chief executive of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register kept by the Company pursuant to section 336 of the SFO:

Name of shareholder	Number of shares beneficially held	%
Brave Dragon Limited	106,345,862	20.54
Wing Tai Holdings Limited	110,595,862	21.37 (Note 1)
Deutsche Bank International Trust Co. (Jersey) Limited	110,595,862	21.37 (Note 2)
Deutsche Bank International Trust Co. (Cayman) Limited	110,595,862	21.37 (Note 2)
Wing Tai Asia Holdings Limited	110,595,862	21.37 (Note 2)
Wing Sun Development Pte Limited	110,595,862	21.37 (Note 2)
Terebene Holdings Inc.	110,595,862	21.37 (Note 2)
Winlyn Investment Pte Limited	110,595,862	21.37 (Note 2)
Bestime Resources Limited	68,747,996	13.28 (Note 3)
Pofung Investments Limited	66,698,122	12.89 (Note 3)
Wing Tai Corporation Limited	135,446,118	26.17 (Note 3)
Wesmore Limited	83,316,158	16.10 (Note 4)
Sun Hung Kai Properties Limited	100,762,150	19.47 (Note 4)
Lo Yuk Sui	51,676,000	9.98 (Note 5a)
Century City International Holdings Limited	51,676,000	9.98 (Note 5a)
HK 168 Limited	51,676,000	9.98 (Note 5b)
Real Chance Profits Limited	51,676,000	9.98 (Note 5b)
Regal International (BVI) Holdings Limited	51,676,000	9.98 (Note 5b)
Regal Hotels International Holdings Limited	51,676,000	9.98 (Note 5b)
Paliburg BVI Holdings Limited	51,676,000	9.98 (Note 5b)
Paliburg International Holdings Limited	51,676,000	9.98 (Note 5b)
Paliburg Development BVI Holdings Limited	51,676,000	9.98 (Note 5b)
Paliburg Holdings Limited	51,676,000	9.98 (Note 5b)
Century City BVI Holdings Limited	51,676,000	9.98 (Note 5b)

Notes:

- (1) Wing Tai Holdings Limited beneficially owned 89.4% of the issued shares of Brave Dragon Limited and 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 are beneficiaries) which held all units of a unit trust ("Unit Trust"). Deutsche Bank International Trust Co. (Cayman) Limited was the trustee of the Unit Trust which beneficially owned 100% 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 share capital of Bestime Resources Limited and Pofung Investments Limited. Accordingly, it was deemed 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 owned 100% of the issued share capital of Soundworld Limited, Techglory Limited and Wesmore Limited. It was deemed to be interested in the shares of the Company owned by Soundworld Limited, Techglory Limited and Wesmore Limited by virtue of its corporate interests in these companies. 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.
- (5)
 - (a) These shares were held through the companies controlled by Century City International Holdings Limited ("CCIHL"), of which Mr. Lo Yuk Sui is the Chairman and controlling shareholder. 51,676,000 shares of the Company were beneficially owned by HK 168 Limited, in which shares Real Chance Profits Limited, Regal International (BVI) Holdings Limited, Regal Hotels International Holdings Limited, Paliburg BVI Holdings Limited, Paliburg International Holdings Limited, Paliburg Development BVI Holdings Limited, Paliburg Holdings Limited, Century City BVI Holdings Limited and CCIHL were deemed to have an interest. These interests are duplicated amongst Mr. Lo Yuk Sui and all these companies.
 - (b) These companies are controlled by CCIHL.

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

Save as disclosed above, at 30 June 2003, the Company has not been notified of any other person (other than the directors and the chief executive of the Company) who has an interest or a short position in the shares or underlying shares of the Company which was required to be notified to the Company pursuant to Divisions 2 and 3 of the SFO and have been recorded in the register kept by the Company pursuant to section 336 of the SFO.

SHARE OPTION SCHEME

Under the share option scheme of the Company adopted on 26 June 2001 ("2001 Scheme"), the directors of the Company may grant options to executive directors and employees of the Company or any of its subsidiaries to subscribe for shares in the Company up to 10% of the issued share capital of the Company from time to time.

On 10 June 2003, ordinary resolutions were passed by shareholders of the Company at a special general meeting to terminate the 2001 Scheme and to adopt a new share option scheme of the Company ("2003 Scheme") in response to certain amendments to Chapter 17 of the Listing Rules. Under the 2003 Scheme, the Company may grant options to directors (including non-executive directors and independent non-executive directors) and employees of the Group, to subscribe for shares in the Company. The options granted under the 2003 Scheme and any other option schemes of the Company shall not entitle the holders thereof to subscribe for, in aggregate, more than 10% of the issued share capital of the Company as at 10 June 2003. Options granted to any one individual under the 2003 Scheme in any 12-month period shall not entitle him to subscribe for more than 1% of the issued share capital of the Company. The purpose of the 2003 Scheme is to enable the Company to grant options to selected participants as incentives for their contributions to the Group. A consideration of HK\$1 is payable on acceptance of the grant of options. Options granted must be taken up within 28 days from the date of grant. The exercise price for option holders to subscribe for a share of the Company is determined by the directors of the Company, and shall be at least the highest of : i) the closing price of the shares of the Company as stated in the Hong Kong Stock Exchange's daily quotation sheet on the date of grant; ii) the average closing price of the shares of the Company as stated in the Hong Kong Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant; and iii) the nominal value of a share of the Company.

Prior to the adoption of the 2001 Scheme, the Company operated a share option scheme (“old share option scheme”) which came into operation on 18 November 1991 and expired on 17 November 2001. Principal terms of the old share option scheme are in substance the same as the 2001 Scheme. The movements of the share options granted under the old share option scheme and remained valid and exercisable during the period are as follows:

	Date of grant	Exercise price (HK\$)	Number of share options		
			Outstanding at 1.1.2003	Lapsed during the period	Outstanding at 30.6.2003
Directors and chief executive	15.11.1999	0.8	4,860,000	–	4,860,000
Employees working under continuous contracts	15.11.1999	0.8	4,765,000	(80,000)	4,685,000
Total			<u>9,625,000</u>	<u>(80,000)</u>	<u>9,545,000</u>

No option was granted during the six months period ended 30 June 2003. The options granted are generally exercisable in stages within a period of one to five years from the date of grant.

PRACTICE NOTE 19 TO THE LISTING RULES

At 30 June 2003, the aggregate amount of financial assistance provided to and guarantees given for affiliated companies by the Group amounted to HK\$722.9 million and represented approximately 57.6% 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 30 June 2003 are presented below:

(HK\$'M)	Pro-forma combined balance sheet	Group's attributable interest
Non-current assets	2,517.0	524.0
Current assets	1,700.3	200.3
Current liabilities	(603.0)	(108.4)
Non-current liabilities	(4,444.9)	(696.5)
Net liabilities	<u>(830.6)</u>	<u>(80.6)</u>

AUDIT COMMITTEE

The Audit Committee engaged the auditors of the Company to assist the Committee in its review of the interim financial report of the Company for the six months ended 30 June 2003. The auditors conducted their review in accordance with the Statement of Auditing Standards 700 “Engagements to review interim financial reports” issued by the Hong Kong Society of Accountants.

The Committee has met with the management and the auditors to review the unaudited interim financial report and consider the significant accounting principles and policies adopted by the Company and discuss with the management the internal control and financial reporting matters in respect of this interim report.

CORPORATE GOVERNANCE

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 30 June 2003.

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

During the six months ended 30 June 2003, 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, 16 September 2003

CORPORATE INFORMATION

DIRECTORS

CHENG Wai Chee, Christopher *JP Chairman*

CHENG Wai Sun, Edward *Chief Executive*

CHENG Man Piu, Francis

NG Tak Wai, Frederick

CHENG Wai Keung

KWOK Ping Luen, Raymond

Simon MURRAY *CBE*

FANG Hung, Kenneth *JP*

WONG Yick Kam, Michael

(also an alternate to KWOK Ping Luen, Raymond)

HONG Pak Cheung, William

AUDIT COMMITTEE

Simon MURRAY, *CBE Chairman*

FANG Hung, Kenneth *JP*

WONG Yick Kam, Michael

HONG Pak Cheung, William

(alternate to WONG Yick Kam, Michael)

COMPANY SECRETARY

AU Hing Lun, Dennis

AUDITORS

Deloitte Touche Tohmatsu

SOLICITORS

Slaughter and May

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking

Corporation Limited

Standard Chartered Bank

REGISTRARS

Principal Register

The Bank of Bermuda Limited

Bank of Bermuda Building

Front Street, Hamilton, Bermuda

Branch Register

Standard Registrars Limited

G/F, Bank of East Asia

Harbour View Centre

56 Gloucester Road

Wanchai

Hong Kong

REGISTERED OFFICE

Cedar House, 41 Cedar Avenue

Hamilton HM12, Bermuda

HEAD OFFICE

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2 Ng Fong Street, San Po Kong

Kowloon, Hong Kong

WEBSITE

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HONGKONG STOCK EXCHANGE

STOCK CODE

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WINGTAI ASIA