

# Management Discussion and Analysis

The Board of Directors (the “Board”/“Directors”) of Mainland Headwear Holdings Limited (the “Company”/“Mainland Headwear”) is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2003 (the “Period”) together with the comparative figures for the corresponding period in 2002.

## Results

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For the six months ended 30 June 2003, the Group recorded a turnover of HK\$229,179,000, an increase of 31.8% when compared to the same period last year. Profit attributable to shareholders was HK\$33,356,000, a slight increase of 2.3% when compared to the same period last year.

## Review

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The increase in turnover for the period from 1 January 2003 to 30 June 2003 as compared to the corresponding period of last year was mainly due to the consolidation of the results of Drew Pearson Marketing, Inc. (“DPM”), a subsidiary acquired by the Group in the US in April 2002. The full consolidation of the results of DPM also resulted in an increase in the administrative expenses by 76% to HK\$46,702,000 for the Period as compared to the same period last year.

The turnover of the Group performed satisfactorily in the 1st quarter this year. In particular, orders for knitted hats recorded significant growth in the 1st quarter. However, this business slowed down in the 2nd quarter as a result of the sharp increase in the cost of quotas. Additionally, performance in the 2nd quarter was affected by the weak retail sentiment in the US as a result of the Iraq war, and also the pricing pressure faced by the Group in view of the increasing market competition.

The Group has deployed various measures to meet the challenges of this difficult trading environment. For material sourcing, the Group is actively seeking new suppliers so as to reduce cost without compromising on quality. With regard to product quality and services, on top of our quality products and first class customer services, the Group is also proactively creating more innovative designs and developing new embroidery techniques. Our newly installed laser-cut embroidery machines are attracting customer interest to apply this new embroidery technique to their headwear products. These measures have proven to be effective in maintaining the Group’s gross profit margin at 37%. During the Period, the Group also provided prompt and value-added services to clients through the adoption of an E-Commerce platform which has also proven to be highly effective in attracting clients with growth potential.

The new production line previously planned to commence operations in the 1st quarter this year was delayed due to the outbreak of SARS (Severe Acute Respiratory System) and declining sales in the 2nd quarter. The Group will reassess the situation and reschedule the commencement of the new production

# Management Discussion and Analysis

line according to the market situation. However, construction for two new staff dormitory buildings, a new staff canteen, and a new business center for customers commenced early this year and are expected to be completed next year. As at 30 June 2003, the Group had capital commitment in respect of new production line and construction in progress amounted to HK\$26,500,000 (31 December 2002: HK\$30,184,000).

## Corporate Development

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Mr. David Briskie, President of DPM, joined the Board of Directors of Mainland Headwear Holdings Limited as an executive director with effect from 9 June 2003. This appointment will not only sharpen the Group's competitiveness in expanding client networks overseas, but also promote Mainland Headwear's image in the international marketplace.

## Prospects

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The Group will strengthen sales and marketing efforts in the 2nd half of the year, aiming to make up for the decrease in sales during the 2nd quarter. We are confident we will maintain a healthy business growth.

It is encouraging to note that sports headwear continue to be the major sales driver of the Group as sports fans maintain their great enthusiasm for sportswear goods. In addition, brandname products have also kept up their popularity with consumers. We are happy to report that the US sports business continues to be one of the largest and fastest growing industries, which is an extremely positive factor in the development of our sports headwear business.

As "direct sourcing" mechanisms are emerging as the latest development trend in the industry, the Group will enhance its competitive edge to cater for "direct sourcing" customers' needs. Leveraging DPM's extensive customers networks and its strong presence in the US, the Group is able to further promote its design and manufacturing capabilities. These will ultimately reinforce customer base and market share of the Group.

The Group started its sports apparel business by outsourcing the manufacturing process. However, this business is only on a trial run basis and expansion is not expected until after the abolishment of the quota system in 2005.

The Group will continue to explore opportunities for further business development and market expansion while maintaining strict cost controls and operational efficiencies to maximize returns for our shareholders.

# Management Discussion and Analysis

## Liquidity and Financial Resources

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The Group continues to enjoy financing for its operations from internally generated cash flows.

As at 30 June 2003, the Group had cash and bank balances of approximately HK\$100 million (31 December 2002: HK\$137 million). About 73% and 26% of these liquid funds were denominated in US dollars and HK dollars respectively and the remainder in Renminbi. In addition, the Group has also maintained a portfolio of liquid investments in the form of debt securities which had a total market value of approximately HK\$41 million at the end of the period under review.

As at 30 June 2003, the Group had banking facilities of HK\$62.4 million (31 December 2002: HK\$108 million), of which HK\$61.2 million (31 December 2002: 106.8 million) was not utilized. The banking facilities are secured by inventories and trade receivables of a subsidiary amounting to HK\$14 million (31 December 2002: HK\$22 million) and HK\$32 million (31 December 2002: HK\$37 million) respectively as at 30 June 2003.

The Group continued to maintain its gearing ratio (being the Group's net borrowings over its shareholders' funds) at zero. In view of the strong financial and liquidity position, it is evident that the Group will have sufficient financial resources to meet its commitments and working capital requirements.

## Contingent Liabilities

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As at 30 June 2003, one of the subsidiaries of the Group had issued a bank guarantee for banking facilities of HK\$1.2 million (31 December 2002: HK\$1.2 million) granted to a customer.

## Exchange Risk

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The Group's manufacturing operations are based in the People's Republic of China ("PRC") with sales mainly made to the USA. All assets and liabilities of the Group are denominated either in HK dollars, US dollars or Renminbi. The Directors believe that the operations of the Group are not subject to significant exchange risk.

## Employees and Remuneration Policies

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At 30 June 2003, the Group employed a total of 100 (2002: 127) employees in the USA, 55 (2002: 50) employees in Hong Kong, and 2100 (2002: 2234) workers in the PRC. The expenditures for the employees during the Period were approximately HK\$42.6 million (2002: HK\$25.6 million). The Group ensures that the pay levels of its employees are competitive and employees were remunerated based on their position and performance.

# Interim Dividend and Closure of Register of Members

## Interim Dividend

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The Board has declared an interim dividend of HK2 cents (2002: HK2 cents) per share, payable on or after 27 October 2003.

## Closure of Register of Members

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The register of members of the Company will be closed from 6 October 2003 to 10 October 2003 (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 Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 3 October 2003.



摩斯倫 會計師事務所

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## **TO THE BOARD OF DIRECTORS OF MAINLAND HEADWEAR HOLDINGS LIMITED**

(incorporated in Bermuda with limited liability)

### **Introduction**

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We have been instructed by the Company to review the interim financial report set out on pages 7 to 17.

### **Respective Responsibilities of Directors and Auditors**

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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 SSAP 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and the relevant provisions thereof. 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**

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We conducted our review in accordance with SAS 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**

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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.

#### **Moore's Rowland**

*Chartered Accountants*

*Certified Public Accountants*

Hong Kong

17 September 2003

# Condensed Consolidated Income Statement (Unaudited)

For the six months ended 30 June 2003

		<b>Six months ended 30 June</b>	
		<b>2003</b>	<b>2002</b>
	<b>Note</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Turnover</b>	2	<b>229,179</b>	173,935
Cost of sales		<b>(143,812)</b>	(112,364)
Gross profits		<b>85,367</b>	61,571
Other revenue		<b>1,800</b>	1,265
Distribution costs		<b>(2,083)</b>	(2,276)
Administrative expenses		<b>(46,702)</b>	(26,570)
<b>Profit from operations</b>		<b>38,382</b>	33,990
Finance costs	3	<b>(53)</b>	(175)
Share of results of associates		<b>–</b>	4,133
<b>Profit from ordinary activities before taxation</b>	3	<b>38,329</b>	37,948
Taxation	4	<b>(4,674)</b>	(5,130)
<b>Profit from ordinary activities after taxation</b>		<b>33,655</b>	32,818
Minority interests		<b>(299)</b>	(205)
<b>Profit attributable to shareholders</b>		<b>33,356</b>	32,613
<b>Dividends</b>	5		
Paid		<b>16,878</b>	13,880
Proposed		<b>5,667</b>	5,608
<b>Earnings per share</b>	6		
Basic		<b>HK11.9 cents</b>	HK12.6 cents
Diluted		<b>HK11.1 cents</b>	HK12.4 cents

The notes on pages 12 to 17 form part of the interim financial report.

# Condensed Consolidated Balance Sheet (Unaudited)

At 30 June 2003

	Note	30 June 2003 (Unaudited) HK\$'000	31 December 2002 (Audited) HK\$'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment	7	111,059	103,916
Intangible assets		8,640	9,308
Other non-current financial assets		–	7,750
		119,699	120,974
<b>Current assets</b>			
Inventories		41,647	53,667
Trade and other receivables	8	91,116	75,284
Tax recoverable		1,412	–
Short term investments		40,813	–
Bank balances and cash		100,636	137,455
		275,624	266,406
<b>Current liabilities</b>			
Trade and other payables	9	43,608	49,469
Current portion of interest-bearing borrowings		–	341
Dividend payable		–	224
Taxation		9,487	15,008
		53,095	65,042
<b>Net current assets</b>		222,529	201,364
<b>Total assets less current liabilities</b>		342,228	322,338
<b>Non-current liabilities</b>			
Long-term portion of interest-bearing borrowings		–	299
Post-employment benefits		1,687	1,705
Deferred taxation		3,455	2,938
		5,142	4,942
<b>Minority interests</b>		6,767	6,103
<b>Net assets</b>		330,319	311,293

# Condensed Consolidated Balance Sheet (Unaudited)

At 30 June 2003

	Note	30 June 2003 (Unaudited) HK\$'000	31 December 2002 (Audited) HK\$'000
<b>CAPITAL AND RESERVES</b>			
Share capital	10	28,337	28,129
Proposed dividend		5,667	16,878
Reserves		296,315	266,286
		301,982	283,164
		330,319	311,293

The notes on pages 12 to 17 form part of the interim financial report.



# Condensed Consolidated Cash Flow Statement (Unaudited)

For the six months ended 30 June 2003

	<b>Six months ended 30 June</b>	
	<b>2003</b>	<b>2002</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Net cash from operating activities</b>	<b>27,149</b>	29,733
<b>Net cash used in investing activities</b>	<b>(49,125)</b>	(3,927)
<b>Net cash (used in) from financing activities</b>	<b>(14,843)</b>	15,331
<b>(Decrease) Increase in cash and cash equivalents</b>	<b>(36,819)</b>	41,137
<b>Cash and cash equivalents at the beginning of the period</b>	<b>137,455</b>	80,461
<b>Cash and cash equivalents at the end of the period,</b> represented by bank balances and cash	<b>100,636</b>	121,598

The notes on pages 12 to 17 form part of the interim financial report.

# Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the six months ended 30 June 2003

	Share Capital HK\$'000	Share Premium HK\$'000	Contributed Surplus HK\$'000	Accumulated Profits HK\$'000	Proposed Dividend HK\$'000	Total HK\$'000
At 1 January 2002	24,449	29,225	25,878	111,143	13,880	204,575
Issue of shares	3,593	57,697	–	–	–	61,290
Profit for the period	–	–	–	32,613	–	32,613
Dividend paid	–	–	–	–	(13,880)	(13,880)
Dividend proposed	–	–	–	(5,608)	5,608	–
At 30 June 2002	28,042	86,922	25,878	138,148	5,608	284,598
At 1 January 2003	<b>28,129</b>	<b>87,719</b>	<b>25,878</b>	<b>152,689</b>	<b>16,878</b>	<b>311,293</b>
Issue of shares	<b>208</b>	<b>2,340</b>	–	–	–	<b>2,548</b>
Profit for the period	–	–	–	<b>33,356</b>	–	<b>33,356</b>
Dividend paid	–	–	–	–	<b>(16,878)</b>	<b>(16,878)</b>
Dividend proposed	–	–	–	<b>(5,667)</b>	<b>5,667</b>	–
<b>At 30 June 2003</b>	<b>28,337</b>	<b>90,059</b>	<b>25,878</b>	<b>180,378</b>	<b>5,667</b>	<b>330,319</b>

(Note 10)

The notes on pages 12 to 17 form part of the interim financial report.

# Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2003

## 1

### Basis of presentation and accounting policies

#### Basis of preparation

The interim financial report is unaudited but has been reviewed by Moores Rowland, the Company's auditors, in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Society of Accountants ("HKSA"). Moores Rowland's independent review report to the board of directors is included on page 6.

The interim financial report has been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting" issued by the HKSA and the disclosure requirements set out in Appendix 16 of the Listing Rules of The Stock Exchange of Hong Kong Limited.

The financial information relating to the financial year ended 31 December 2002 included in the interim financial report does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements.

#### Accounting policies

The accounting policies used in preparing the interim financial report are consistent with those used in the Group's annual financial statements for the year ended 31 December 2002, except that the Group has adopted the revised SSAP 12 "Income taxes" issued by the HKSA, which is effective for accounting period commencing on or after 1 January 2003. The adoption of the revised SSAP 12 represents a change in accounting policy, which has been applied retrospectively. Since the adoption of this revised SSAP has no material impact on the Group's results and net assets of prior period, comparative figures have not been restated.

## 2

### Segmental information

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.

The analysis of Group turnover by geographical locations is as follows:

	<b>Group Turnover</b>	
	<b>Six months ended 30 June</b>	
	<b>2003</b>	<b>2002</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
US	<b>209,034</b>	155,025
Europe	<b>17,560</b>	12,606
Others	<b>2,585</b>	6,304
	<b>229,179</b>	173,935

# Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2003

## 3

### Profit from ordinary activities before taxation

Profit from ordinary activities before taxation is stated after charging/(crediting):

	<b>Six months ended 30 June</b>	
	<b>2003</b>	<b>2002</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>(a) Finance costs</b>		
Interest on bank borrowings	<b>31</b>	175
Finance charges on obligations under finance lease	<b>22</b>	–
	<b>53</b>	175
<b>(b) Other items</b>		
Depreciation	<b>9,176</b>	6,415
Amortization of goodwill	<b>668</b>	729
Provision for doubtful debts	<b>2,311</b>	–
Investment income	<b>(344)</b>	–

## 4

### Taxation

	<b>Six months ended 30 June</b>	
	<b>2003</b>	<b>2002</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Hong Kong Profits Tax	<b>2,800</b>	1,779
PRC Income Tax	<b>61</b>	265
Overseas tax	<b>1,283</b>	1,569
Deferred taxation	<b>530</b>	–
	<b>4,674</b>	3,613
Share of associates' taxation	<b>–</b>	1,517
	<b>4,674</b>	5,130

# Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2003

Hong Kong Profits Tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong for the Period. Provisions for 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.

## 5 Dividends

	Six months ended 30 June	
	2003 HK\$'000	2002 HK\$'000
Final dividend paid in respect of 2002 of HK6 cents (2001: HK5 cents) per share	16,878	13,880
Proposed interim dividend of HK2 cents (2002: HK2 cents) per share	5,667	5,608

The interim dividend proposed after the balance sheet date has not been recognized as a liability at the balance sheet date.

## 6 Earnings per share

### (a) Basic earnings per share

The calculation of basic earnings per share is based on the profit for the six months ended 30 June 2003 attributable to shareholders of HK\$33,356,000 (2002: HK\$32,613,000) and the weighted average number of ordinary shares of 281,390,200 (2002: 259,771,479).

### (b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit for the six months ended 30 June 2003 attributable to shareholders of HK\$33,356,000 (2002: HK\$32,613,000) and the weighted average number of ordinary shares of 299,165,200 (2002: 263,430,354) after adjusting for the number of dilutive potential ordinary shares under the share option schemes.

# Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2003

## 7 Property, plant and equipment

During the Period, the Group spent approximately HK\$16.3 million (2002: HK\$6 million) on additions to property, plant and equipment to further upgrade its manufacturing capabilities.

## 8 Trade and other receivables

	<b>30 June 2003 HK\$'000</b>	<b>31 December 2002 HK\$'000</b>
Trade receivables	<b>82,039</b>	72,399
Deposits, prepayments and other debtors	<b>9,077</b>	2,885
	<b>91,116</b>	75,284

The ageing analysis of trade receivables (net of specific provisions for bad and doubtful debts) is as follows:

	<b>30 June 2003 HK\$'000</b>	<b>31 December 2002 HK\$'000</b>
0– 30 days	<b>47,118</b>	27,379
31– 60 days	<b>19,633</b>	32,919
61– 90 days	<b>6,449</b>	6,221
Over 90 days	<b>8,839</b>	5,880
	<b>82,039</b>	72,399

Trade receivables are due within 60 to 90 days from the date of billing depending on the trading relationship. Credit evaluations of customers are performed from time to time to minimize any credit risk associated with receivables. In addition, debtors with balances that are more than 3 months overdue are requested to settle all outstanding balances before any further credit is granted.

# Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2003

## 9 Trade and other payables

	30 June 2003 HK\$'000	31 December 2002 HK\$'000
Trade payables	16,575	21,284
Accrued charges and other creditors	27,033	28,185
	43,608	49,469

The ageing analysis of trade payables is as follows:

	30 June 2003 HK\$'000	31 December 2002 HK\$'000
0– 30 days	6,760	10,103
31– 60 days	6,468	8,176
61– 90 days	1,418	2,757
Over 90 days	1,929	248
	16,575	21,284

## 10 Share capital

	No. of shares (‘000)	HK\$'000
<b>Issued and fully paid:</b>		
At 1 January 2003	281,299	28,129
Shares issued under share option scheme	2,074	208
At 30 June 2003	283,373	28,337

On 23 June 2003, options were exercised to subscribe for 2,074,000 ordinary shares in the Company at a total consideration of HK\$2,548,000, of which HK\$208,000 was credited to share capital and the balance of HK\$2,340,000 was credited to the share premium account. Details of the movements in respect of the share option schemes of the Company during the six months ended 30 June 2003 are set out under the section headed “Share Option Schemes” on page 19.

# Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2003

## 11 Contingent liabilities

	30 June 2003 HK\$'000	31 December 2002 HK\$'000
Bank guarantee issued for banking facilities granted to a customer	1,170	1,170

## 12 Capital commitment

	30 June 2003 HK\$'000	31 December 2002 HK\$'000
Property, plant and equipment	26,500	30,184

## 13 Related party transactions

The Group had the following transactions with related parties during the Period:

	Six months ended 30 June 2003 HK\$'000	2002 HK\$'000
Rental paid in respect of office premises to a company controlled by a director	480	660
Rental paid in respect of warehousing facility to a director	—	150
Sales of goods to associates	—	24,339

## 14 Approval of interim financial report

The interim financial report was approved by the Board of Directors on 17 September 2003.



## Other Information Provided in Accordance with the Listing Rules

### Directors' Interests in Shares and Underlying Shares

As at 30 June 2003, the interests of the Directors in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), which had been notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under 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, were as follows:

Long positions in the shares and underlying shares of the Company

	Number of shares		Underlying Shares	Total	Percentage of Interest
	Personal Interest	Other Direct Interest			
Mr. Ngan Hei Keung	–	190,000,000 (note 1)	–	190,000,000	67.05%
Madam Ngan Po Ling, Pauline	–	190,000,000 (note 1)	–	190,000,000	67.05%
Mr. David, Stephen Briskie	4,370,690	–	2,680,000 (note 2)	7,050,690	2.49%

Notes :

1. 190,000,000 shares are legally and beneficially owned by Successful Years International Co., Ltd., a company ultimately and beneficially owned by NHK Trust and NPL Trust as to 40% and 60% respectively. These two trusts are discretionary family trusts settled by Mr. Ngan Hei Keung and the discretionary beneficiaries include Mr. Ngan Hei Keung, Madam Ngan Po Ling, Pauline, and their family members.
2. Mr. David, Stephen Briskie has been granted share options to subscribe for 2,680,000 shares of the Company under the Company's share option scheme. Details of the options granted are set out in the section headed "Share Option Schemes" below.

Save as disclosed above, none of the Directors or chief executives of the Company had any interests in the shares or underlying shares of the Company or any of its associated corporations as defined in the SFO.

## Other Information Provided in Accordance with the Listing Rules

### Share Option Schemes

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Prior to 23 May 2002, the Company operated an option scheme whereby the Board of Directors could, at their absolute discretion, grant options to employees and Executive Directors of the Company or any of its subsidiaries to subscribe for shares in the Company (the “Old Scheme”). On 23 May 2002, the Old Scheme was terminated and a new share option scheme (the “New Scheme”) was adopted, whereby the Board of Directors may, at their absolute discretion, grant options to any eligible employees and non-executive directors of the Company or any of its subsidiaries or any invested entity, any suppliers of goods or services to any member of the Group or any invested entity, and any customers of the Group or any invested entity to subscribe for shares in the Company.

For options granted before 1 September 2001, the exercise price of options was determined by the Board and was the higher of the nominal value of the shares and 80% of the average closing prices of the shares of the Company on the Stock Exchange for the five trading days immediately preceding the date of offer of the options. For options granted after 1 September 2001, the exercise price of the options will be the highest of the nominal value of the shares, the closing price of the shares on the Stock Exchange on the date of offer of the options and the average closing price of the shares on the Stock Exchange for the five trading days immediately preceding the date of offer of the options. In addition, there are varying restrictions imposed on the proportions of options exercisable in the initial years during the option periods.

The total number of shares which may be issued upon exercise of all options to be granted under the New Scheme and any other share option schemes of the Group may not in aggregate exceed 27,760,053 being 10% of the shares in issue of the Company as at 23 May 2002, the date of adoption of the New Scheme.

## Other Information Provided in Accordance with the Listing Rules

At 30 June 2003, the Directors, employees, customers and suppliers of the Group had the following interests in options to subscribe for shares of the Company (market value per share is HK\$2.575 at the balance sheet date) granted at nominal consideration under the share option schemes operated by the Company, each option gives the holder the right to subscribe for one share:

	Date of grant	Period during which options exercisable	Exercise price (HK\$)	Outstanding at 1.1.2003	Granted during the period	Number of options Lapsed during the period	Exercised during the period	Outstanding at 30.6.2003	Market value per share at date of grant (HK\$)
Old Scheme									
Employees	11.06.2001	11.06.2002 – 10.06.2009	1.228	6,951,000	–	(1,022,000)	(2,074,000) (Note)	3,855,000	1.54
New Scheme									
Director									
Mr. David, Stephen									
Briskie	03.07.2002	03.07.2003 – 02.07.2010	2.7	2,680,000	–	–	–	2,680,000	2.7
Employees	03.07.2002	03.07.2003 – 02.07.2010	2.7	9,355,000	–	(385,000)	–	8,970,000	2.7
	12.02.2003	12.02.2004 – 11.02.2011	2.205	–	1,120,000	–	–	1,120,000	2.2
	03.06.2003	03.06.2004 – 02.06.2013	2.3	–	12,200,000	–	–	12,200,000	2.3
				9,355,000	13,320,000	(385,000)	–	22,290,000	
Customers and Suppliers									
	03.07.2002	03.07.2003 – 02.07.2010	2.7	3,950,000	–	(2,000,000)	–	1,950,000	2.7
	03.06.2003	03.06.2004 – 02.06.2013	2.3	–	600,000	–	–	600,000	2.3
				3,950,000	600,000	(2,000,000)	–	2,550,000	

Note: The closing price of shares immediately before the date on which options were exercised was HK\$2.55.

## Other Information Provided in Accordance with the Listing Rules

The share options are not recognised in the financial report until they are exercised. The Directors are of the view that the calculation of the value of share options granted by the Company during the period depends on a number of variables, which are either difficult to ascertain or can only be ascertained subject to a number of theoretical bases and speculative assumptions. As such, the value of share options is not presented in this report.

Apart from the foregoing, at no time during the period was the Company, its holding company, subsidiaries or fellow subsidiaries a party to any arrangements to enable the Company's Directors or chief executive or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company, or any other body corporate.

### Substantial Shareholders

So far as is known to the Directors or chief executives of the Company, as at 30 June 2003, the following declarations of interests by shareholders (other than Directors) holding 5% or more of the issued share capital of the Company was recorded in the register required to be kept by the Company under Section 336 of the SFO:

	Capacity	Number of shares	Percentage of shareholding
Successful Years International Co., Ltd.	Beneficial owner	190,000,000 (note)	67.05%
Amex International Trust (Cayman) Ltd.	Trustee	190,000,000 (note)	67.05%
Templeton Asset Management Limited	Investment manager	18,000,000	6.35%

Note : Successful Years International Co., Ltd. is owned by NHK Trust and NPL Trust as to 40% and 60% respectively. These two trusts are discretionary family trusts settled by Mr. Ngan Hei Keung and the discretionary beneficiaries include Mr. Ngan Hei Keung, Madam Ngan Po Ling, Pauline, and their family members. Amex International Trust (Cayman) Ltd. is the trustee of the two trusts.

The interests of Mr. Ngan Hei Keung and Madam Ngan Po Ling, Pauline in Successful Years International Co., Ltd. are also disclosed in the section headed "Directors' Interests in Shares and Underlying Shares" above.

Save as disclosed above, as at 30 June 2003, the Company had not been notified by any persons (other than Directors) who had interests in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

## Other Information Provided in Accordance with the Listing Rules

### Purchase, Sale or Redemption of the Company's Listed Securities

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During the six months ended 30 June 2003, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

### Code of Best Practice

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None of the Directors is aware of any information which would reasonably indicate that the Company is not, or was not, throughout the Period, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules except that the Independent Non-executive Directors were not appointed for a specific term, but are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with Clause 87 of the Company's bye-laws.

### Audit Committee

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The Audit Committee comprises two Independent Non-executive Directors of the Company. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control procedures of the Group. The Audit Committee has reviewed the Group's unaudited interim financial report for the six months ended 30 June 2003.

By Order of the Board

**Ngan Hei Keung**

*Chairman*

17 September 2003