

FIRST SIGN INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

03

INTERIM REPORT

(For the six months ended 31st December, 2003)

INTERIM RESULTS

The Board of Directors of First Sign International Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 31st December, 2003 together with the comparative figures for the corresponding period as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 31st December,	
		2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
	Note		
TURNOVER	2	3,711	5,727
Cost of sales		<u>(2,902)</u>	<u>(4,962)</u>
Gross profit		809	765
Other revenue		24,313	39,561
Selling expenses		(3,005)	(4,615)
Administrative expenses		<u>(13,446)</u>	<u>(26,231)</u>
PROFIT FROM OPERATIONS			
Continuing operations		8,671	8,972
Discontinued operation		<u>–</u>	<u>508</u>
Share of losses of an associate	3	<u>8,671</u>	<u>9,480</u>
		<u>(4,482)</u>	<u>(124)</u>
PROFIT BEFORE TAXATION		4,189	9,356
Taxation	4	<u>–</u>	<u>–</u>
PROFIT BEFORE MINORITY INTERESTS		4,189	9,356
Minority interests		<u>–</u>	<u>(17)</u>
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u>4,189</u>	<u>9,339</u>
Dividend		<u>–</u>	<u>–</u>
Earnings per share	5	<u>0.3 cents</u>	<u>0.8 cents</u>

CONDENSED CONSOLIDATED BALANCE SHEET

		At 31st December, 2003 (Unaudited) <i>HK\$'000</i>	At 30th June, 2003 (Audited) <i>HK\$'000</i>
	<i>Note</i>		
NON-CURRENT ASSETS			
Property, plant and equipment	6	12,784	15,485
Investment properties	6	–	18,500
Investments in securities		123	99
Interests in an associate		8,821	3,656
		21,728	37,740
CURRENT ASSETS			
Inventories		3,912	3,268
Trade debtors	7	257	434
Other debtors, prepayments and deposits		11,152	28,816
Tax recoverable		18	168
Investments in securities		404,627	327,087
Bank balances and cash		382,770	487,168
		802,736	846,941
CURRENT LIABILITIES			
Trade creditors	8	72	161
Other creditors, accrued charges and deposits received		2,137	48,193
Tax liabilities		17,614	17,614
		19,823	65,968
NET CURRENT ASSETS		782,913	780,973
		804,641	818,713
CAPITAL AND RESERVES			
Share capital	9	121,724	121,724
Reserves		682,917	696,989
		804,641	818,713
		804,641	818,713

CONDENSED STATEMENT OF CHANGES IN EQUITY

	Six months ended 31st December,	
	2003	2002
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Total equity as at 1st July	818,713	753,273
Repurchase of own shares	(2)	(1,327)
Net profit for the period	4,189	9,339
Dividend paid	(18,259)	—
	<hr/>	<hr/>
Total equity as at 31st December	<u>804,641</u>	<u>761,285</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended	
	31st December,	
	2003	2002
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
NET CASH (OUTFLOW) FROM OPERATING ACTIVITIES		
Continuing operations	(124,073)	(49,799)
Discontinued operation	–	(18,784)
	<u>(124,073)</u>	<u>(68,583)</u>
NET CASH INFLOW FROM INVESTING ACTIVITIES		
Continuing operations	37,935	36,580
Discontinued operation	–	74
	<u>37,935</u>	<u>36,654</u>
NET CASH OUTFLOW FROM FINANCING	<u>(18,260)</u>	<u>(1,327)</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(104,398)	(33,256)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	<u>487,168</u>	<u>153,904</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	<u><u>382,770</u></u>	<u><u>120,648</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	<u><u>382,770</u></u>	<u><u>120,648</u></u>

Notes to the Condensed Consolidated Financial Statements

(1) Principal accounting policies and basis of presentation

The unaudited interim condensed consolidated financial statements have been prepared in accordance with Statement of Standard Accounting Practice (“SSAP”) 25 (Interim Financial Reporting) issued by the Hong Kong Society of Accountants (“HKSA”) and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”).

The interim consolidated financial statements for the period ended 31st December, 2003 are unaudited and have been reviewed by the Audit Committee of the Company.

The principal accounting policies and methods of computation used in the preparation of the interim consolidated financial statements are consistent with those adopted in the annual report for the year ended 30th June, 2003 except the Group has adopted SSAP 12 (Revised) “Income Taxes” issued by the HKSA which is effective for accounting periods commencing on or after 1st January, 2003. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred taxation. In prior years, deferred taxation was provided using the income statement liability method on all significant timing difference to the extent it was probable that the liability would crystallise in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred taxation is recognized 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 exception. The adoption of this SSAP has no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment is required.

(2) Segmental information

(a) Business segments

For management purposes, the Group is currently organised into three operating divisions – namely garment operation, proprietary trading in securities, and health products operation. These divisions are the bases on which the Group reports its primary segment information.

Principal activities are as follows:

Garment operation	–	sourcing, manufacturing, processing, wholesaling, marketing and selling of garments.
Proprietary trading in securities	–	investments in listed and unlisted equity securities and future contracts and options
Health products operation	–	health products projects

In prior years, the Group had also involved in securities broking and dealing and had ceased the business on 31st May, 2002. Upon the application of one of the Company’s subsidiaries, the Securities and Futures Commission had revoked the subsidiary’s registration as a dealer under the Securities Ordinance on 28th June, 2002. The revenue and result of this operation are reported under “Securities broking”.

Segment information about these businesses is presented below:

SIX MONTHS ENDED 31ST DECEMBER, 2003

	Garment Operation <i>HK\$'000</i>	Proprietary Trading in Securities <i>HK\$'000</i>	Health Products Operation <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
SEGMENT REVENUE				
External sales	3,711	–	–	3,711
SEGMENT RESULTS				
	(7,526)	455	–	(7,071)
Income from investments				20,465
Other operating income				3,250
Unallocated corporate expenses				(7,973)
Profit from operations				8,671
Share of losses of an associate			(4,482)	(4,482)
Profit before taxation				4,189
Taxation				–
Net profit from ordinary activities attributable to shareholders				4,189

SIX MONTHS ENDED 31ST DECEMBER, 2002

	Garment Operation <i>HK\$'000</i>	Proprietary Trading in Securities <i>HK\$'000</i>	Securities Broking (discontinued) <i>HK\$'000</i>	Health Products Operation <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
SEGMENT REVENUE						
External sales	5,727	–	–	–	–	5,727
Other revenue	4,320	411	970	–	(470)	5,231
	10,047	411	970	–	(470)	10,958
SEGMENT RESULTS						
	(7,373)	110	508	–	(450)	(7,205)
Income from investments						35,784
Unallocated corporate expenses						(19,099)
Profit from operations						9,480
Share of losses of an associate				(124)		(124)
Profit before taxation						9,356
Taxation						–
Profit before minority interests						9,356
Minority interests						(17)
Net profit from ordinary activities attributable to shareholders						9,339

(b) *Geographical segments*

The Group's operations are located in Hong Kong and the People's Republic of China (the "PRC"). The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the good/services:

	Sales revenue by geographical market		Contribution to (loss) profit from operations	
	Six months ended 31st December,		Six months ended 31st December,	
	2003	2002	2003	2002
				(Restated)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	140	17	2,441	(16,479)
PRC	3,571	5,710	(6,405)	(8,289)
Europe	–	–	10,129	25,730
Other	–	–	2,506	8,518
	<u>3,711</u>	<u>5,727</u>	<u>8,671</u>	<u>9,480</u>

(3) **Profit from operations**

Profit from operations is arrived at after charging /(crediting):

	Six months ended 31st December,	
	2003	2002
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Amortisation of intangible asset	–	21
Depreciation and amortisation of property, plant and equipment	2,627	5,056
Loss on disposal of property, plant and equipment	79	–
Gain on disposal of investments in securities	(6,665)	(11,685)
Gain on disposal of investment properties	(2,853)	–

(4) **Taxation**

No provision for Hong Kong profits tax has been made in the financial statements as the Group has no assessable profit arising in Hong Kong during the period.

No provision for taxation in other jurisdiction has been made in the financial statements as profits generated by those subsidiaries are not taxable.

A deferred tax asset has not been recognised in the financial statements in respect of estimated tax losses due to the unpredictability of future profit streams.

(5) **Earnings per share**

The calculation of basic earnings per share for the six months ended 31st December, 2003 is based on the unaudited profit attributable to shareholders of HK\$4,189,000 (2002: HK\$9,339,000) and the weighted average number of 1,217,240,400 shares (2002: 1,222,601,079 shares) in issue during the period.

No diluted earnings per share is presented as there were no dilutive potential shares outstanding during the period.

(6) Fixed assets and investment properties

As at 31st December, 2003, the Group did not have any capital commitments.

During the period, the Group has disposed the investment properties and reported a gain on disposal of HK\$2,853,000.

(7) Trade debtors

The Group allows an average credit period of 45 days to its trade customers.

The age analysis of trade debtors is as follows:

	At 31st December, 2003 (Unaudited) HK\$'000	At 30th June, 2003 (Audited) HK\$'000
0-30 days	212	285
31-60 days	42	48
Over 60 days	3	101
	<u>257</u>	<u>434</u>

(8) Trade creditors

The age analysis of trade creditors is as follows:

	At 31st December, 2003 (Unaudited) HK\$'000	At 30th June, 2003 (Audited) HK\$'000
0-30 days	15	14
31-60 days	-	-
Over 60 days	57	147
	<u>72</u>	<u>161</u>

(9) Share capital

	Number of shares of HK\$0.10 each		Share capital	
	31.12.2003	30.6.2003	31.12.2003 HK\$'000	30.6.2003 HK\$'000
<i>Authorised</i>				
At beginning and end of period	<u>2,000,000,000</u>	<u>2,000,000,000</u>	<u>200,000</u>	<u>200,000</u>
<i>Issued and fully paid</i>				
At beginning of period	1,217,240,400	1,228,896,400	121,724	122,890
Shares repurchased	<u>-</u>	<u>(11,656,000)</u>	<u>-</u>	<u>(1,166)</u>
At end of period	<u>1,217,240,400</u>	<u>1,217,240,400</u>	<u>121,724</u>	<u>121,724</u>

During the period, neither the Company nor its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

(10) Reserves

Six months ended 31st December, 2003

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Special reserve HK\$'000	Capital reserve HK\$'000	Translation reserve HK\$'000	Dividend reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
Balances at 1st July, 2003	239,778	3,352	1,000	18	(115)	18,259	434,697	696,989
Repurchase of own shares	(2)	-	-	-	-	-	-	(2)
Net profit for the period	-	-	-	-	-	-	4,189	4,189
Dividend paid	-	-	-	-	-	(18,259)	-	(18,259)
Balances at 31st December, 2003	<u>239,776</u>	<u>3,352</u>	<u>1,000</u>	<u>18</u>	<u>(115)</u>	<u>-</u>	<u>438,886</u>	<u>682,917</u>

Six months ended 31st December, 2002

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Special reserve HK\$'000	Capital reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
Balances at 1st July, 2002	240,521	2,186	1,000	18	386,658	630,383
Repurchase of own shares	(505)	822	-	-	(822)	(505)
Net profit for the period	-	-	-	-	9,339	9,339
Balances at 31st December, 2002	<u>240,016</u>	<u>3,008</u>	<u>1,000</u>	<u>18</u>	<u>395,175</u>	<u>639,217</u>

(11) Contingent liabilities

At 31st December, 2003, the Company has given guarantee to banks in respect of general banking facilities granted to its subsidiaries amounting to HK\$23.4 million (30th June, 2003: HK\$23.4 million). At 31st December, 2003, no facilities was utilised by subsidiaries (30th June, 2003: Nil).

(12) Related party transactions

During the period, the Group did not enter into any transactions with related parties who are not members of the Group.

INTERIM DIVIDEND

The Board of Directors has resolved not to declare any interim dividend for the six months ended 31st December, 2003 (2002: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

The Group recorded a profit of HK\$4,189,000 for the period under review, it represents a decrease of 55.1% when compared with last year. The Group's turnover amounted to HK\$3,711,000 which was 35.2% lower than the previous period's figure.

Business Review and Prospects

In the period under review, the Group's turnover was wholly derived from garment operation. Since the operating requirements imposed by the PRC department stores became more and more unfavourable, the management decided to scale down the retail operations and put more effort on developing the wholesale business. Such scale down resulted in the decrease in selling expenses by 34.9% and administrative expenses by 48.7%. With increasing brand awareness and enrichment of products collection, the Group received strong support from various wholesalers in the sales conference held in Beijing in December 2003. The management is confident that sales will be picking up in coming years.

At the end of the period, the Group held HK\$404,627,000 in investments in securities. All such investments are debt securities which the Group held for generating interest income and expected to receive all the principal amount upon their maturities. The Group reported an investment income of HK\$20,465,000 for the period under review.

The Chinese health and herbal products were successfully launched for sales in the market in November 2003. Despite severe competition in the market, the sales reflected a growth trend since its launch. Due to SARS and various flu virus occurred recently, people are more conscious about health, the Group is confident that the products would appeal to a broad range of consumers within a reasonable period and generate income for the Group.

With improvement in the economic conditions and sound financial position of the Group, the Board is optimistic for an improved results in the coming half year.

EMPLOYEES AND REMUNERATION POLICIES

As at 31st December, 2003, the Group employed approximately 185 full time employees in Hong Kong and the PRC. The Group remunerates its employees by reference to their performance, experience and prevailing industry practice. Employee benefits provided by the Group include provident fund scheme, medical scheme, discretionary performance-related bonus and share option scheme.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's liquidity and financial resources remained sound. At 31st December, 2003, the Group had cash and bank balances of approximately HK\$382.7 million and investments in securities at a value of approximately HK\$404.6 million which were mainly debt securities. They were denominated in US dollars and Euro and with maturity dates from 2 to 23 years or perpetual callable.

The Group had imported-related and other banking facilities of approximately HK\$23.4 million provided by its principal bankers in the PRC.

In view of the operation of the Group, the exposure to fluctuation in exchange rates was considered limited and no hedge activity were considered necessary. At 31st December, 2003, the Group had no contingent liability.

USE OF PROCEEDS FROM NEW ISSUE

An analysis of the use of proceeds during the period under review is as follows:

	Up to 30th June, 2003 HK\$'000	Amount incurred in period under review HK\$'000	Accumulated spending HK\$'000
(a) Promote its own brand "IXESSE" in Hong Kong and PRC	5,000	1,033	6,033
(b) Acquire plant and machinery in Hong Kong and PRC	19,410	–	19,410
(c) Develop herbal and health products	404	4,482	4,886
Total	<u>24,814</u>	<u>5,515</u>	<u>30,329</u>

DIRECTORS' INTERESTS

As at 31st December, 2003, the interest of the Directors and chief executives of the Group or their respective associates in the equity or debt securities of the Company or any of its associated corporations, within the meaning of the Securities and Future Ordinance ("SFO") as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise required to be notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:–

Long positions of ordinary shares of HK\$0.10 each of the Company

Name of Directors	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Lau Tung Hoi	Held by trust (<i>Note 1</i>)	815,360,000	67.0%
Lung Tze Lam	Held by corporation (<i>Note 2</i>)	815,360,000	67.0%

Notes:

1. These shares are held by Linwood Services Ltd. ("Linwood"), 32 shares of Linwood (representing two-third of the entire share capital of Linwood) are owned by Money Belt Worldwide Limited ("Money Belt"). Money Belt is a company incorporated in the British Virgin Islands and the entire issued share capital of which is held by HSBC International Trustee Limited as trustee of a discretionary trust, the discretionary objects of which include Mr. Lau Tung Hoi and his family members.
2. These shares are held by Linwood, 8 shares of Linwood (representing one-sixth of the entire issued share capital of Linwood) are beneficially owned by Mr. Lung Tze Lam.

Save as disclosed above, none of the Directors nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31st December, 2003.

SHARE OPTION SCHEME

The Company's share option scheme ("the Scheme") was adopted pursuant to a resolution passed on 30th October, 1995 for the primary purpose of providing incentives to directors and eligible employees and will expire on 30th October, 2005. Under the Scheme, the Board of Directors of the Company may at their discretion grant options to eligible employees, including executive directors of the Company and its subsidiaries, to subscribe for shares in the Company from time to time. The maximum number of shares, which may be granted under the Scheme, shall not exceed 10% of the total number of shares of the Company in issue from time to time, excluding the shares issued pursuant to the Scheme.

The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 2.5% of shares of the Company in issue at any point of time. Options granted must be taken up within 28 days of the date of grant, upon payment of HK\$1 per each grant of the share option. Options may be exercised at any time from a period of 3 years commencing on the expiry of 1 year from the date of grant of the share option to the 10th anniversary of the Scheme, whichever the earlier.

The subscription price of the share option is determined by the Board of Directors of the Company, and the amount will not be less than the higher of 80% of the average closing price of the Company's shares on the Stock Exchange for the five business days immediately preceding the date of grant or the nominal value of the shares.

No options under the Scheme were granted or exercised since the adoption of the Scheme and no options were outstanding as at 31st December, 2003.

SUBSTANTIAL SHAREHOLDER

As at 31st December, 2003, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO showed that, apart from the interests disclosed above in respect of Messrs. Lau Tung Hoi and Lung Tze Lam, the Company has not been notified of any other interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under Part XV of the SFO.

THE 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 throughout the year.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the Interim Financial Statements which have not been audited. The Audit Committee comprises Messrs. Lai Kwok Wing, Albert and Wu Wing Kit, the two independent non-executive Directors of the Company.

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

During the six months ended 31st December, 2003, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

On behalf of the Board
Lau Tung Hoi
Director

Hong Kong, 12th March, 2004