Contents

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 2004 (the "Period") together with comparative figures for the corresponding period in 2003.

Financial Review

For the six months ended 30 June 2004, the Group recorded a turnover of HK$266,947,000, an increase of 16% when compared with the same period last year. Profit attributable to shareholders was HK$45,225,000, a sharp increase of 36%. The encouraging results were mainly attributed to the 43% turnover increase in manufacturing business, of which 17% was attributable to increase of sales to the Group's wholly owned subsidiaries, Drew Pearson Marketing, Inc. ("DPM") and Drew Pearson International, Inc. ("DPI"). After elimination of inter-segment turnover, the Group's turnover increased by 16%.

Since the acquisitions of DPM and DPI, the Group has endeavored to shape and streamline their resources so as to complement and boost its manufacturing business. The synergies translated into improved gross profit for the Group from last year's 37% to 38% for the Period, amid the increase in material costs as compared to the same period last year. Integrating the subsidiaries' strong presence and extensive client network in both the US and Europe, the Group is also able to reap the complementary benefits for its direct sourcing business.

General administrative expenses slightly increased by HK$3.2 million, including additional headcounts to support the increase in business volume. In addition, a new office was also set up in the east coast of the US to expand the Group's distribution network in the US.

Business Review

The Headwear Manufacturing Business

The turnover from manufacturing business amounted to HK$188,641,000, a substantial increase of 43%, of which 17% was attributable to increase in sales to DPM and DPI and 26% to the increase in sales to other customers, including direct sourcing customers. This reflected the merits from the acquisitions of the two subsidiaries. Additionally, as the US economy rebounded, consumer demand for headwear products also rose, which in turn stimulated the Group's manufacturing orders during the Period.

Material costs which increased significantly during the second half of 2003, began to stabilize in early 2004. With effective cost control measures, the gross profit margin of this business segment was maintained at over 35%.

Geographical expansion is one of the Group's new initiatives. While the US continued to be the major market of the Group, accounting for approximately 90% of its turnover, the Group also strived to develop other potential markets in Asia during the Period. To this end, the Group secured several new licenses in the PRC, such as the licenses to manufacture and distribute headwear of the Beijing 2008 Olympic Games and China Aerospace. The Group also successfully penetrated the Korean market and started to explore the Japanese market during the Period.

To meet the increasing market demand, the Group boosted its production capacities by 30% in the first half of 2004 and the newly established knitted headwear factory in Dongguan, China commenced operations in March 2004.

The Trading of Headwear and Other Products Business

The trading of headwear and other products business experienced a 2% increase in turnover to HK$132,365,000, accounting for 49.6% of the Group's turnover.

Facing tough market competition, not to mention the consolidation of the licensed sports headwear market in the US, which caused DPM to lose some of its sports headwear distribution licenses, the Group still managed to maintain steady business performance during the Period. This was attributable to the prompt response of the Group to alter its strategy and direct its focus onto exploring opportunities in the branded headwear market and diversifying its product range to include lifestyle, fashion, and hip-hop headwear.

Apart from infusing local and pop culture into its product designs, the Group also stepped up marketing efforts and sharpened its distribution competence in Europe. All these efforts bore fruit, sales in the European markets leaped over 30%.

During the Period, DPM and DPI were also able to leverage their strong presence and strength in marketing in both the US and Europe in serving the direct sourcing customers, which contributed to the increase in turnover of the manufacturing business from external customers.

Retail Business

The Group made significant strides towards building itself into a stronger vertically integrated headwear provider. In February 2004, it signed a license agreement with Hat World, Inc., a leading retailer of headwear in the US, to open headwear outlets in Hong Kong and the PRC, under the LIDS store brand. The first store, opened in May 2004, is strategically located at Chatham Road South, in the prime shopping area of Tsim Sha Tsui East, Kowloon. The first LIDS store in the PRC was opened in Raffles City, a new mall in the prime shopping area of Shanghai in June this year. The sales in both stores have been encouraging.

Prospects

Firmly established as a leading headwear designer and manufacturer with an advanced and efficient distribution network, Mainland Headwear, now also with its own retail business, has become a leading integrated manufacturing, distribution and retailing headwear provider in the world.

With high operational efficiencies, strong distribution capabilities, and competitive production costs, Mainland Headwear has earned worldwide headwear licensors' recognitions. The Group will continue to direct substantial efforts into enhancing design capability, improving product quality, enriching product range and broadening customer base, which will facilitate its expansion in Europe and Asia.

Mainland Headwear is honored to be selected in August by the Beijing 2008 Olympic Committee as the event's headwear licensee, and also is granted exclusive rights for the manufacture and sale of headwear for China Aerospace. A special team has been established to oversee the design, manufacture and sale of the headwear, ensuring they are perfect accompaniment to the series of Olympic and the China Aerospace related events. A batch of products, which was launched on 5 August in the top department stores in Beijing to coincide with the opening of the Athens Olympics, was very well received. The first batch of the China Aerospace headwear will be launched in October.

In the US, the Group is committed to gearing up and equipping itself for securing new licenses from top-line retailers, movie characters licensors, as well as expanding into branded headwear markets. The strategy will allow the Group to further enrich its license portfolios.

Imitating the successful model in the US, the Group will also beef up its competitiveness in Europe and plans to open an office in London to strengthen its direct sourcing competence.

Encouraged by the impressive sales in and favorable response to its LIDS stores in the Hong Kong and the PRC market, the Group opened its second LIDS store in Hong Kong in August 2004 in Shatin. It plans to open 7 and 8 stores in Hong Kong and the PRC respectively by the end of 2004.

The management strongly believe the synergy between the new retail business and its manufacturing and trading operations will benefit the Group's business as a whole.

In a nutshell, the Group's new business pipeline is stronger than ever. With a targeted vision for the future, a passion for service excellence, Mainland Headwear will continue to grow and realize its commitment of creating maximum shareholder value.

Liquidity and Financial Resources

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

As at 30 June 2004, the Group had cash and bank balances of approximately HK$93.2 million (31 December 2003: HK$109.3 million). About 74% and 24% 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 of a total market value of approximately HK$54.8 million (31 December 2003: HK$42.7 million) at the end of the Period under review.

As at 30 June 2004, the Group had banking facilities of HK$84.6 million (31 December 2003: HK$84.6 million), of which HK$83.4 million (31 December 2003: HK$83.4 million) was not utilized. Banking facility in the amount of HK$62.4 million (31 December 2003: HK$62.4 million), of which HK$1.2 million (31 December 2003: HK$1.2 million) was utilized, is secured by inventories and trade receivables of a subsidiary amounting to HK$31.1 million (31 December 2003: 27.0 million) and HK$32.9 million (31 December 2003: HK$39.0 million) respectively as at 30 June 2004.

The Group continued to maintain its gearing ratio (being the Group's net borrowings over its shareholders' equity) 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.

Capital Expenditure

During the Period, the Group spent approximately HK$15.0 million (2003: HK$16.3 million) on additions to property, plant and equipment to further upgrade its manufacturing capabilities, and to build the infrastructure of the retail operation.

As at 30 June 2004, the Group had authorized capital commitment of HK$9,400,000 in respect of manufacturing equipment and the completion of the construction of staff dormitory, and HK$2,400,000 in respect of the opening of new retail outlets.

Exchange Risk

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

At 30 June 2004, the Group employed a total of 108 (2003: 100) employees in the USA, 70 (2003: 55) employees in Hong Kong, and 3,000 (2003: 2,100) workers in the PRC. The expenditures for the employees during the Period were approximately HK$49.0 million (2003: HK$42.6 million). The Group ensures that the pay levels of its employees are competitive and employees were remunerated based on their position and performance. Key employees of the Group, including Directors, are also granted share options under the share option schemes operated by the Company.

Interim Dividend and Closure of Register of Members

Interim Dividend

The Board has declared an interim dividend of HK3 cents (2003: HK2 cents) per share, payable on or after 18 October 2004.

Closure of Register of Members

The register of members of the Company will be closed from 21 September 2004 to 24 September 2004 (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 20 September 2004.

Moores Rowland Mazars
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TO THE BOARD OF DIRECTORS OF
MAINLAND HEADWEAR HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 8 to 19.

Respective Responsibilities of Directors and Auditors

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

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

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 2004.

Moores Rowland Mazars
Chartered Accountants
Certified Public Accountants

Hong Kong
6 September 2004

Condensed Consolidated Income Statement (Unaudited)

For the six months ended 30 June 2004

	Note	Six months ended 30 June 2004 HK$'000	2003 HK$'000
Turnover	2	**266,947**	229,179
Cost of sales		**(164,460)**	(143,812)
Gross profit		**102,487**	85,367
Other income		**771**	1,800
Distribution costs		**(4,648)**	(2,083)
Administrative expenses		**(49,902)**	(46,702)
Profit from operations		**48,708**	38,382
Finance costs	4	**(36)**	(53)
Profit from ordinary activities before taxation	4	**48,672**	38,329
Taxation	5	**(3,447)**	(4,674)
Profit from ordinary activities after taxation		**45,225**	33,655
Minority interests		**–**	(299)
Profit attributable to shareholders		**45,225**	33,356
Dividends	6		
Paid		**22,675**	16,878
Proposed		**8,562**	5,667
Earnings per share	7		
Basic		**HK16.0 cents**	HK11.9 cents
Diluted		**HK15.0 cents**	HK11.1 cents

The notes on pages 13 to 19 form part of the interim financial report.

Condensed Consolidated Balance Sheet (Unaudited)

At 30 June 2004

	Note	30 June 2004 (Unaudited) HK$'000	31 December 2003 (Audited) HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		117,700	112,718
Intangibles		5,915	6,059
Deferred tax assets		6,105	5,867
		129,720	124,644
Current assets			
Inventories		68,752	60,903
Trade and other receivables	8	110,595	94,798
Short term investments		54,842	42,745
Tax recoverable		–	1,355
Bank balances and cash		93,242	109,303
		327,431	309,104
Current liabilities			
Trade and other payables	9	61,193	62,722
Current portion of obligations under finance leases		158	176
Taxation		7,165	4,255
		68,516	67,153
Net current assets		258,915	241,951
Total assets less current liabilities		388,635	366,595
Non-current liabilities			
Long-term portion of obligations under finance leases		58	138
Post-employment benefits		727	727
Deferred tax liabilities		7,022	7,617
		7,807	8,482
NET ASSETS		380,828	358,113

Condensed Consolidated Balance Sheet (Unaudited)

At 30 June 2004

	Note	**30 June 2004 (Unaudited) HK$'000**	31 December 2003 (Audited) HK$'000
CAPITAL AND RESERVES			
Share capital	10	**28,343**	28,343
Proposed dividend		**8,562**	22,675
Reserves		**343,923**	307,095
		352,485	329,770
		380,828	358,113

The notes on pages 13 to 19 form part of the interim financial report.

Condensed Consolidated Cash Flow Statement (Unaudited)

For the six months ended 30 June 2004

	Six months ended 30 June	
	2004	2003
	HK$'000	HK$'000
Net cash from operating activities	**32,894**	27,149
Net cash used in investing activities	**(26,146)**	(49,125)
Net cash used in financing activities	**(22,809)**	(14,843)
Decrease in cash and cash equivalents	**(16,061)**	(36,819)
Cash and cash equivalents at the beginning of the period	**109,303**	137,455
Cash and cash equivalents at the end of the period, represented by bank balances and cash	**93,242**	100,636

The notes on pages 13 to 19 form part of the interim financial report.

Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the six months ended 30 June 2004

	Share Capital HK$'000	Share Premium HK$'000	Contributed Surplus HK$'000	Accumulated Profits HK$'000	Proposed Dividend HK$'000	Exchange Reserve HK$'000	Total HK$'000
At 1 January 2003	28,129	87,719	25,878	152,689	16,878	–	311,293
Issue of shares	208	2,340	–	–	–	–	2,548
Profit for the period	–	–	–	33,356	–	–	33,356
Dividend paid	–	–	–	–	(16,878)	–	(16,878)
Dividend proposed	–	–	–	(5,667)	5,667	–	–
At 30 June 2003	28,337	90,059	25,878	180,378	5,667	–	330,319
At 1 January 2004	28,343	90,126	25,878	191,312	22,675	(221)	358,113
Exchange differences	–	–	–	–	–	165	165
Profit for the period	–	–	–	45,225	–	–	45,225
Dividend paid	–	–	–	–	(22,675)	–	(22,675)
Dividend proposed	–	–	–	(8,562)	8,562	–	–
At 30 June 2004	**28,343**	**90,126**	**25,878**	**227,975**	**8,562**	**(56)**	**380,828**

The notes on pages 13 to 19 form part of the interim financial report.

1 Basis of presentation and accounting policies

Basis of preparation

The interim financial report is unaudited but has been reviewed by Moores Rowland Mazars, 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 Mazars's independent review report to the board of directors is included on page 7.

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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

The financial information relating to the financial year ended 31 December 2003 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 2003.

2 Turnover

The principal activities of the Group are manufacture and sales of headwear products.

Turnover represents sales of goods at invoiced value to customers net of returns and discounts.

3 Segmental information

(a) Business segments

The analysis of Group turnover and profit from operations by business segment for the six months ended 30 June is as follows:

	Headwear manufacturing		Trading of headwear and other products		Inter-segment elimination		Consolidation	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Turnover from external customers	**134,582**	99,837	**132,365**	129,342	**–**	–	**266,947**	229,179
Inter-segment turnover	**54,059**	32,216	**–**	–	**(54,059)**	(32,216)	**–**	–
	188,641	132,053	**132,365**	129,342	**(54,059)**	(32,216)	**266,947**	229,179
Other revenue from external customers	**782**	125	**295**	330	**–**	–	**1,077**	455
Total	**189,423**	132,178	**132,660**	129,672	**(54,059)**	(32,216)	**268,024**	229,634
Segment result and contribution from operations	**48,496**	37,227	**356**	1,823	**–**	–	**48,852**	39,050
Amortization of goodwill							**(144)**	(668)
Profit from operations							**48,708**	38,382

(b) Geographical segment turnover

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

	Six months ended 30 June	
	2004	2003
	HK$'000	HK$'000
USA	**239,080**	209,034
Europe	**24,904**	17,560
Others	**2,963**	2,585
	266,947	229,179

4 Profit from ordinary activities before taxation

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

	Six months ended 30 June	
	2004	2003
	HK$'000	HK$'000
(a) Finance costs		
Interest on bank loans, overdrafts and other borrowings wholly repayable within five years	**24**	31
Finance charges on obligations under finance leases	**12**	22
	36	53
(b) Other items		
Depreciation	**9,794**	9,176
Amortization of goodwill	**144**	668
Provision for doubtful debts	**114**	2,311
Net income from short term investments	**(189)**	(344)

5 Taxation

	Six months ended 30 June 2004 HK$'000	2003 HK$'000
Hong Kong Profits Tax	3,935	2,800
PRC Enterprise Income tax	(26)	61
Overseas tax	133	1,283
Deferred taxation	(595)	530
	3,447	4,674

Hong Kong Profits Tax has been provided at the rate of 17.5% (2003: 17.5%) 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.

6 Dividends

	Six months ended 30 June 2004 HK$'000	2003 HK$'000
Final dividend paid in respect of 2003 of HK8 cents (2002: HK6 cents) per share	22,675	16,878
Proposed interim dividend of HK3 cents (2003: HK2 cents) per share	8,562	5,667

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

7 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 2004 attributable to shareholders of HK$45,225,000 (2003: HK$33,356,000) and the weighted average number of ordinary shares of 283,432,531 (2003: 281,390,200).

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit for the six months ended 30 June 2004 attributable to shareholders of HK$45,225,000 (2003: HK$33,356,000) and the weighted average number of ordinary shares of 301,147,531 (2003: 299,165,200) after adjusting for the number of dilutive potential ordinary shares under the share option schemes.

8 Trade and other receivables

	30 June 2004 HK$'000	31 December 2003 HK$'000
Trade receivables	**97,530**	85,022
Deposits, prepayments and other debtors	**13,065**	9,776
	110,595	94,798

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

	30 June 2004 HK$'000	31 December 2003 HK$'000
0– 30 days	**48,464**	27,951
31– 60 days	**35,577**	31,865
61– 90 days	**10,060**	18,225
Over 90 days	**3,429**	6,981
	97,530	85,022

Trade receivables are due within 30 to 90 days from the date of billing depending on the trading relationship. Credit evaluations of customers are performed by the Group from time to time to minimize any credit risk associated with receivables. In addition, customers with balances that are more than 3 months overdue are requested to settle all outstanding balances before any further credit is granted.

9 Trade and other payables

	30 June 2004 HK$'000	31 December 2003 HK$'000
Trade payables	**29,339**	32,325
Accrued charges and other creditors	**31,854**	30,397
	61,193	62,722

The ageing analysis of trade payables is as follows:

	30 June 2004 HK$'000	31 December 2003 HK$'000
0– 30 days	**21,977**	12,799
31– 60 days	**1,978**	9,373
61– 90 days	**2,445**	4,777
Over 90 days	**2,939**	5,376
	29,339	32,325

10 Share capital

	No. of shares ('000)	HK$'000
Issued and fully paid:		
At 1 January 2004 and 30 June 2004	**283,433**	28,343

11 Capital commitments

At 30 June 2004, the Group had capital expenditure commitments as follows:

	30 June 2004 HK$'000	31 December 2003 HK$'000
Property, plant and equipment:		
Contracted but not provided for	**6,052**	5,060
Authorized but not contracted for	**3,349**	17,550
	9,401	22,610
Opening of new retail outlets:		
Authorized but not contracted for	**2,407**	–
	11,808	22,610

12 Related party transactions

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

	Six months ended 30 June	
	2004 HK$'000	2003 HK$'000
Rental paid in respect of office premises to a company controlled by a director	**480**	480

13 Approval of interim financial report

The interim financial report was approved by the Board of Directors on 6 September 2004.

Directors' Interests in Shares and Underlying Shares

As at 30 June 2004, 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				
	Personal Interest	**Other Direct Interest**	**Underlying Shares**	**Total**	**Percentage of Interest**
Mr. Ngan Hei Keung	–	190,000,000 (note 1)	–	190,000,000	67.04%
Madam Ngan Po Ling, Pauline	–	190,000,000 (note 1)	–	190,000,000	67.04%
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.

Share Option Schemes

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 and 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 is 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 during the initial years of 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.

At 30 June 2004, 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$2.525 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:

					Number of options				
	Date of grant	Period during which options exercisable	Exercise price (HK$)	Outstanding at 1.1.2004	Granted during the period	Lapsed during the period	Exercised during the period	Outstanding at 30.6.2004	Market value per share at date of grant (HK$)
Old Scheme									
Employees	11.06.2001	11.06.2002 – 10.06.2009	1.228	3,795,000	–	–	–	3,795,000	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	8,970,000	–	–	–	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
				22,290,000	–	–	–	22,290,000	
Customers and Suppliers	03.07.2002	03.07.2003 – 02.07.2010	2.7	1,950,000	–	–	–	1,950,000	2.7
	03.06.2003	03.06.2004 – 02.06.2013	2.3	600,000	–	–	–	600,000	2.3
				2,550,000	–	–	–	2,550,000	

The share options are not recognized 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 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 2004, 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)	67.04%
Amex International Trust (Cayman) Ltd.	Trustee	190,000,000 (note)	67.04%
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 2004, 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.

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

During the six months ended 30 June 2004, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

Other Information Provided in Accordance with the Listing Rules

Code of Best Practice

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 specific terms, 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.

Model Code

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules. All Directors have confirmed, following enquiry by the Company, that they have complied with the required standard set out in Model Code throughout the Period.

Audit Committee

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 2004.

By Order of the Board
Ngan Hei Keung
Chairman

6 September 2004