Mainland Headwear Holdings Limited

Interim Report 2005

Contents

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 2005 (the "Period") together with comparative figures for the corresponding period in 2004.

FINANCIAL REVIEW

For the six months ended 30 June 2005, the Group recorded a turnover of HK$233,746,000, representing a decrease of 12.4% when compared with the corresponding period last year. The decline in turnover was mainly attributable to the sluggish performance of Drew Pearson Marketing Inc., ("DPM"), the Group's wholly owned US subsidiary following the restructuring of its trading business after loss of the MLB license. In addition, delay of orders from major retail customers in the US also affected the turnover for the Period. Profit attributable to shareholders was HK35,967,000, a decline of 17.4% as compared with the first half of 2004. The decline was due to the losses incurred by Trading and Retail Businesses. However, the Manufacturing Business recorded a growth in profit contribution of 2.2%.

The gross profit margin of the Group increased to 41% for the Period. Stringent cost control measures coupled with an adjustment of procurement strategy reduced overall raw material costs, and outweighed the increase in staff costs, consequently leading to an increase in the gross margin of the Manufacturing Business. In addition, the synergies between the Manufacturing and Trading Businesses continue and further enhanced the gross profit margin of the Group. Selling and distribution costs maintained stable for the Manufacturing Business during the Period, while the same costs increased for Retail Business in line with its expansion plan.

The US continued to be the Group's major market, accounting for approximately 83% of the turnover for the Period. In line with its expansion plans, the Group strived to develop other potential markets in Asia and Europe during the period under review.

BUSINESS REVIEW

The Manufacturing Business

The Group's Manufacturing Business showed stable performance during the Period. The profit contribution from the Manufacturing Business amounted to HK$49,571,000 as compared to HK$48,496,000 in the corresponding period last year, while turnover fell 8.6% to HK$172,382,000 as compared to the corresponding period last year. Decrease in turnover was primarily attributable to lower sales to the Trading Business following loss of the MLB license. In addition, first half results for this year cannot be fairly compared with last year's first half performance as the business reported exceptionally good turnover in 2004 due to certain hot licenses. Meanwhile, delay of orders from some major US retailers contributed to the lower sales performance for the Period but sales have been shifted to the second half of this year.

During the period under review, the Group has engaged some new customers with high business potential, including new direct sourcing customers introduced through DPM. The Group recorded remarkable growth in orders from them. Sales of headwear for the 2008 Beijing Olympic Games were also encouraging although significant business growth is expected to only kick start in late 2006.

During the Period, the Group started sourcing its raw materials directly from weaving manufacturers. The bulk purchase of grey fabrics significantly reduced the overall cost of materials, while increasing inventory levels, compared with the corresponding period last year. This successful adjustment of procurement strategy, together with implementation of stringent cost control measures, enabled the Group to mitigate the effects of higher labour costs and rising global raw material prices. As a result, the Group's Manufacturing Business was able to report a gross profit margin hike of over 35%.

In the second half of 2005, the hike of oil price and the revaluation of the Renminbi are expected to adversely affect the gross profit margin. The Group estimates that any appreciation of Renminbi by 2% will reduce the gross margin of the Manufacturing Business by about 0.6%.

The Trading Business

During the period under review, the Trading Business experienced a decrease in turnover of 24.7% to HK$99,704,000, resulting in a loss of HK$4,394,000 as compared to a profit contribution of HK$356,000 for the corresponding period last year. The decrease in turnover was attributable to loss of the MLB license in the US with effect from 2005, and the NHL strike for the past season.

Since 2004, the Trading Business has switched its marketing strategy to focusing more on brands, entertainment and character licenses and private label businesses, as well as being the marketing arm of the Manufacturing Business. Businesses from new licenses and private labels are expected to pick up in the second half of this year and into 2006.

With inclined competition and increase in the private label business which has a relatively lower margin, gross profit margin for the Period was slightly below 25%. In July 2005, the Group consolidated the resources of its US offices for a more cost efficient operation. This will improve the profitability of the business. In addition, the Group established a new marketing subsidiary in the United Kingdom in March 2005 to provide better customer services in Europe. This will help build closer ties with European customers and effectively ensure the Group keeps abreast of European fashion culture and headwear trends. The Group's direct management strategy has clearly been successful, with first profit contribution already seen from the new subsidiary.

The Retail Business

The Group started its retail operations in May 2004. Information from the Retail Business segment was not separately disclosed for the six months ended 30 June 2004.

Turnover of the Retail Business was HK$8,753,000, representing 3.7% of the Group's total turnover for the Period. Loss for the Period was HK$4,710,000. The Retail Business is now in its investment phase. The Group is most confident it will significantly contribute revenue in the future.

The operations of LIDS headwear specialty stores commenced in May 2004. As at 30 June 2005, the Group had opened a total of 22 "LIDS" stores, of which 7 were in Hong Kong and 15 in the PRC. The LIDS operations incurred a loss for the Period, with some of the outlets making shop level contributions. The gross profit margin of the LIDS operations has improved during the Period since the Group introduced its private labels and acquired the distribution license for some Disney characters in late 2004. The Group also started its wholesale business of its private label and own licenses products to other retailers in the PRC in June 2005.

In response to the high shop rental cost in Hong Kong, the Group will control the growth of LIDS outlets to a total of 10 stores by the end of 2005. For the PRC market, the Group will take advantage of lower operation costs and will continue to open new stores in China to maximize on benefits of the burgeoning Chinese economy. It is anticipated that a total of 28 LIDS stores will be opened by the end of 2005 in the PRC. The Group also plans to start its franchise business in the PRC in early 2006.

During the period under review, the operations of headwear outlets under the LIDS brand not only generated income for the Group, but also enhanced its corporate image and brand awareness. This also brought in more manufacturing and trading businesses from Hatworld Inc., the licensor as well as the largest headwear retailer in the US, to the Group. The operation is now in its investment phase and the Group strives to achieve break-even results by the middle of 2006.

On 31 March 2005, the Group acquired a 51% interest, at a consideration of HK$10,000,000 together with a shareholder's loan of HK$20,000,000, in a joint venture, to operate an exclusive retail license to design, manufacture and sell "SANRIO" products in the PRC. As at 30 June 2005, a total of 7 stores had been opened. During the Period, the "SANRIO" operations incurred a small loss which is expected to extend into the second half of the year, as the Group is still in the initial phase of investing in the infrastructure and product development. The Group is optimistic that it will see positive contribution from this segment by late 2006, with the goal of opening a total of 28 stores by the end of 2005.

PROSPECTS

The first half of 2005 was a challenging period for the Group, but the Group is confident about the outlook for the second half of the year and 2006.

As orders from private label business and new customers are growing steadily, orders received during the third quarter has increased by 30% over the corresponding period last year. Also, the Group has increased its efforts to catch the growing demand for knitted headwear. The knitted headwear business in 2005 is estimated to increase by 40% as compared to the previous year. It is anticipated that the need for knitted headwear will continue to grow rapidly. In addition, one of the largest retailers in the US is planning to set up a headwear display mechanism throughout its stores in early 2006 and DPM is one of the approved suppliers. For the first season, it is estimated that DPM will supply for about 30% of the headwear on the display while another major customer of the Group should gain another 30% of the shelf space of the new displays.

In August 2005, DPM was informed that it has been granted exclusive rights to produce and distribute headwear for the NYC ("New York City") brand along with rights to produce and distribute T-shirts and other basic apparel items bearing the NYC marks. The license will contain an initial term of 4 years and an option period of 3 years commencing January 2006. The brand includes the popular NYPD and FDNY marks along with other well known logos of NYC. The Group is dedicated to further expanding its license portfolio and expects demand for New York City products to make substantial turnover contribution in 2006.

In addition, the Group strives to further extend its market coverage. In Japan, since the Group has achieved encouraging results during the first half of 2005, and with the expansion of its client base, it is anticipated that the Group will receive more orders from existing and new clients during the second half of 2005, which include new orders for an international automobile manufacturer's uniform. With the Group's marketing subsidiary in the U.K., and leveraging on the extensive network established by the newly appointed sole European distributor, the Group projected that the market coverage in Europe will extend to Northern, Central and Southern Europe in the second half of the year and 2006.

The Group's capacity utilisation rate is currently 90%. In view of the increasing orders, the Group plans to enhance its capacity by 15% by expanding its labour force in the second half of the year.

On the Retail Business front, Mainland Headwear will continue to extend its presence in the PRC market through LIDS and SANRIO stores while actively seeking opportunities to add new licenses to the operation. Leveraging on the Group's established retail platform, the Retail Business is well positioned to be a key growth driver in the future.

With the strategies of business and market diversification, Mainland Headwear is well prepared to capture the arising business opportunity and will continue to create fruitful returns for shareholders.

LIQUIDITY AND FINANCIAL RESOURCES

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

As at 30 June 2005, the Group had cash and bank balances of approximately HK$85.6 million (31 December 2004: HK$101.7 million). About 57% and 34% of these liquid funds were denominated in US dollars and HK dollars respectively and the remainder in Renminbi and Pound Sterling. In addition, the Group has also maintained a portfolio of liquid investments of a total market value of approximately HK$64.3 million (31 December 2004: HK$61.4 million) at the end of the Period under review.

As at 30 June 2005, the Group had banking facilities of HK$94.8 million (31 December 2004: HK$94.8 million), of which HK$90.3 million (31 December 2004: HK$93.1 million) was not utilized. Banking facility in the amount of HK$46.7 million (31 December 2004: HK$46.7 million), of which HK$1.2 million (31 December 2004: HK$1.2 million) was utilized, is secured by inventories and trade receivables of a subsidiary amounting to HK$36.2 million (31 December 2004: 27.0 million) and HK$39.7 million (31 December 2004: HK$64.0 million) respectively as at 30 June 2005.

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$2.5 million (2004: HK$14.7 million) on additions to plant and equipment to further upgrade its manufacturing capabilities, HK$2.3 million (2004: HK$0.3 million) on the infrastructure of the retail operation and opening of new stores.

As at 30 June 2005, the Group had authorized capital commitment of HK$18.9 million in respect of manufacturing equipment and construction of the first phase of the logistics centre, most of which are expected to be spent in 2006. In addition, the Group also had authorized capital commitment of HK$6.9 million in respect of the infrastructure of the retail operation and opening of new retail outlets.

EXCHANGE RISK

Most assets and liabilities of the Group are denominated either in HK dollars, US dollars or Renminbi. The Group estimates that any 2% appreciation of the Renminbi is expected to reduce the gross margin of the manufacturing business by about 0.6%. However, as the businesses in the PRC market grow, the expected positive contribution will provide a hedge against the adverse effect of any appreciation of Renminbi to the manufacturing costs.

EMPLOYEES AND REMUNERATION POLICIES

At 30 June 2005, the Group employed a total of 110 (2004: 108) employees in the USA and the UK, 100 (2004: 70) employees in Hong Kong, and 2,600 (2004: 2,500) workers in the PRC. The expenditures for the employees during the Period were approximately HK$55 million (2004: HK$49 million). The Group ensures that the pay levels of its employees are competitive and employees are 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 HK2 cents (2004: HK3 cents) per share, payable on or after 18 October 2005.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 26 September 2005 to 29 September 2005 (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 Hong Kong Branch Share 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 23 September 2005.

Moores Rowland Mazars
摩斯倫・馬賽會計師事務所

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 12 to 30.

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 Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public 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 Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public 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.

Independent Review 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 2005.

Moores Rowland Mazars
Chartered Accountants
Certified Public Accountants

Hong Kong
9 September 2005

Condensed Consolidated Income Statement (Unaudited)

For the six months ended 30 June 2005

	Note	Six months ended 30 June 2005 HK$'000	2004 (restated) HK$'000
Turnover	3	**233,746**	266,947
Cost of sales		**(137,945)**	(164,460)
Gross profit		**95,801**	102,487
Other income		**4,488**	771
Selling and distribution costs		**(9,552)**	(4,648)
Administration expenses		**(51,268)**	(51,607)
Profit from operations		**39,469**	47,003
Finance costs	5(a)	**(45)**	(36)
Profit before taxation	5(b)	**39,424**	46,967
Taxation	6	**(4,154)**	(3,447)
Profit for the period		**35,270**	43,520
Attributable to:			
Equity holders of the parent		**35,967**	43,520
Minority interests		**(697)**	–
		35,270	43,520
Dividends	7		
Paid		**28,618**	22,675
Proposed		**5,724**	8,562
Earnings per share	8		
Basic		**HK12.6 cents**	HK15.4 cents
Diluted		**HK12.0 cents**	HK14.5 cents

The notes on pages 17 to 30 form part of the interim financial report.

Condensed Consolidated Balance Sheet (Unaudited)

At 30 June 2005

	Note	30 June 2005 (Unaudited) HK$'000	31 December 2004 (Audited) (restated) HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**116,883**	121,199
Intangibles		**10,306**	5,771
Deferred tax assets		**6,184**	6,428
		133,373	133,398
Current assets			
Inventories		**82,377**	67,635
Trade and other receivables	9	**136,958**	132,571
Amount due from a related company		**752**	–
Short term investments		**64,281**	61,422
Bank balances and cash		**85,622**	101,718
		369,990	363,346
Current liabilities			
Trade and other payables	10	**56,890**	68,819
Amounts due to related companies		**1,263**	–
Current portion of obligations under finance leases		**53**	122
Taxation		**7,930**	5,781
		66,136	74,722
Net current assets		**303,854**	288,624
Total assets less current liabilities		**437,227**	422,022
Non-current liabilities			
Post-employment benefits		**679**	727
Deferred tax liabilities		**6,263**	6,699
		6,942	7,426
NET ASSETS		**430,285**	414,596

Condensed Consolidated Balance Sheet (Unaudited)

At 30 June 2005

	Note	**30 June 2005 (Unaudited) HK$'000**	31 December 2004 (Audited) (restated) HK$'000
CAPITAL AND RESERVES			
Share capital	11	**28,618**	28,588
Proposed dividend		**5,724**	28,618
Reserves		**390,426**	357,390
Total equity attributable to equity holders of the parent		**424,768**	414,596
Minority interests		**5,517**	–
TOTAL EQUITY		**430,285**	414,596

The notes on pages 17 to 30 form part of the interim financial report.

Condensed Consolidated Cash Flow Statement (Unaudited)

For the six months ended 30 June 2005

	Six months ended 30 June	
	2005	2004
	HK$'000	HK$'000
Net cash from operating activities	**13,813**	32,894
Net cash used in investing activities	**(1,925)**	(26,146)
Net cash used in financing activities	**(27,984)**	(22,809)
Decrease in cash and cash equivalents	**(16,096)**	(16,061)
Cash and cash equivalents at the beginning of the period	**101,718**	109,303
Cash and cash equivalents at the end of the period, represented by bank balances and cash	**85,622**	93,242

The notes on pages 17 to 30 form part of the interim financial report.

Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the six months ended 30 June 2005

		Attributable to equity holders of the parent									
	Note	Share Capital HK$'000	Share Premium HK$'000	Contributed Surplus HK$'000	Capital Reserve HK$'000	Accumulated Profits HK$'000	Proposed Dividend HK$'000	Exchange Reserve HK$'000	Total HK$'000	Minority Interests HK$'000	Total Equity HK$'000
At 1 January 2004:											
– as previously reported		28,343	90,126	25,878	–	191,312	22,675	(221)	358,113	–	358,113
– prior period adjustment:											
– Equity settled share-based transactions	2(b)	–	–	–	1,940	(1,940)	–	–	–	–	–
At 1 January 2004 (as restated)		28,343	90,126	25,878	1,940	189,372	22,675	(221)	358,113	–	358,113
Exchange differences		–	–	–	–	–	–	165	165	–	165
Equity settled share-based transactions	2(b)	–	–	–	1,705	–	–	–	1,705	–	1,705
Profit for the period (as restated)		–	–	–	–	43,520	–	–	43,520	–	43,520
Dividend paid		–	–	–	–	–	(22,675)	–	(22,675)	–	(22,675)
Dividend proposed		–	–	–	–	(8,562)	8,562	–	–	–	–
At 30 June 2004 (as restated)		28,343	90,126	25,878	3,645	224,330	8,562	(56)	380,828	–	380,828
At 1 January 2005:											
– as previously reported		**28,588**	**93,888**	**25,878**	**–**	**237,797**	**28,618**	**(173)**	**414,596**	**–**	**414,596**
– prior period adjustments:											
– Equity settled share-based transactions	2(b)	**–**	**–**	**–**	**5,350**	**(5,350)**	**–**	**–**	**–**	**–**	**–**
– Derecognition of negative goodwill	2(c)	**–**	**–**	**–**	**–**	**987**	**–**	**–**	**987**	**–**	**987**
At 1 January 2005 (as restated)		**28,588**	**93,888**	**25,878**	**5,350**	**233,434**	**28,618**	**(173)**	**415,583**	**–**	**415,583**
Exchange differences		**–**	**–**	**–**	**–**	**–**	**–**	**90**	**90**	**–**	**90**
Acquisitions of subsidiaries		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**6,214**	**6,214**
Equity settled share-based transactions	2(b)	**–**	**–**	**–**	**998**	**–**	**–**	**–**	**998**	**–**	**998**
Issue of shares on exercise of share options		**30**	**718**	**–**	**–**	**–**	**–**	**–**	**748**	**–**	**748**
Profit for the period		**–**	**–**	**–**	**–**	**35,967**	**–**	**–**	**35,967**	**(697)**	**35,270**
Dividend paid		**–**	**–**	**–**	**–**	**–**	**(28,618)**	**–**	**(28,618)**	**–**	**(28,618)**
Dividend proposed		**–**	**–**	**–**	**–**	**(5,724)**	**5,724**	**–**	**–**	**–**	**–**
At 30 June 2005		**28,618**	**94,606**	**25,878**	**6,348**	**263,677**	**5,724**	**(83)**	**424,768**	**5,517**	**430,285**

The notes on pages 17 to 30 form part of the interim financial report.

1 BASIS OF PRESENTATION

The interim financial report has been prepared in accordance with the applicable disclosure provisions for the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), including compliance with Hong Kong Accounting Standard ("HKAS") 34 "Interim financial reporting", issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

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 HKICPA. Moores Rowland Mazars's independent review report to the Board of Directors is included on page 10.

The financial information relating to the financial year ended 31 December 2004 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements.

2 ACCOUNTING POLICIES

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2004 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2005 annual financial statements. Details of these changes in accounting policies are described below.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which term collectively includes HKASs and Interpretations) that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. The Board of Directors has determined the accounting policies expected to be adopted in the preparation of the Group's annual financial statements for the year ending 31 December 2005.

The following sets out information on the changes in accounting policies for the annual accounting period beginning on 1 January 2005 which have been reflected in this interim financial report.

(a) Summary of the effect of changes in the accounting policies

(i) Effect on opening balance of total equity at 1 January 2005 (as adjusted)

The following table sets out the adjustments that have been made to the opening balances at 1 January 2005. These are the aggregate effect of retrospective adjustments to the net assets as at 31 December 2004 and the opening balance adjustments made as at 1 January 2005.

	Note	**Capital Reserve** HK$'000	**Accumulated Profits** HK$'000	**Total Equity** HK$'000
Effect of new policy (increase/(decrease))				
Prior period adjustment:				
HKFRS 2				
Equity settled share-based transactions	2(b)	5,350	(5,350)	–
Opening balance adjustment:				
HKFRS 3				
De-recognition of negative goodwill	2(c)	–	987	987
Total effect at 1 January 2005		5,350	(4,363)	987

(ii) Effect on opening balance of total equity at 1 January 2004 (as adjusted)

The following table sets out only those adjustments that have been made to the opening balances at 1 January 2004. As explained in notes 2(c), certain of the changes in policy did not result in retrospective adjustments being made to the opening balances as at 1 January 2004 as this was prohibited by the relevant transitional provisions.

	Note	**Capital Reserve** HK$'000	**Accumulated Profits** HK$'000	**Total Equity** HK$'000
Effect of new policy (increase/(decrease))				
HKFRS 2				
Equity settled share-based transactions	2(b)	1,940	(1,940)	–
Total effect at 1 January 2004		1,940	(1,940)	–

(iii) Effect on profit after taxation for the six months ended 30 June 2005 (estimated) and 30 June 2004 (as adjusted)

In respect of the six months ended 30 June 2005, the following table provides estimates of the extent to which the profits for that period are higher or lower than they would have been had the previous policies still been applied in the interim period, where it is practicable to make such estimates.

In respect of the six months ended 30 June 2004, the table discloses the adjustment that have been made to the profits as previously reported for that period, in accordance with the transitional provisions of the respective HKFRSs. As retrospective adjustments have not been made for all changes in policies, as explained in note 2(c), the amounts shown for the six months ended 30 June 2004 may not be comparable to the amounts shown for the current interim period.

	Note	Six months ended 30 June **2005** **HK$'000**	2004 HK$'000
Effect of new policy (increase/(decrease))			
HKFRS 2			
Equity settled share-based transactions	2(b)	**(998)**	(1,705)
HKFRS 3			
Amortization of goodwill	2(c)	**637**	–
Release of negative goodwill	2(c)	**(493)**	–
Total effect for the period		**(854)**	(1,705)
Effect on earnings per share:			
– Basic		**(HK0.3 cents)**	(HK0.6 cents)
– Diluted		**(HK0.3 cents)**	(HK0.6 cents)

(b) Employee share option scheme (HKFRS 2, Share-based payment)

In prior years, no amounts were recognized when employees (which term includes directors) were granted share options over shares in the Company. If the employees chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable.

With effect from 1 January 2005, in order to comply with HKFRS 2, the Group recognizes the fair value of such share options as an expense in the income statement, or as an asset, if the cost qualifies for recognition as an asset under the Group's accounting policies. A corresponding increase is recognized in a capital reserve within equity.

Where the employees are required to meet vesting conditions before they become entitled to the options, the Group recognizes the fair value of the options granted over the vesting period. Otherwise, the Group recognizes the fair value in the period in which the options are granted.

If an employee chooses to exercise options, the related capital reserve is transferred to share capital and share premium, together with the exercise price. If the options lapse unexercised the related capital reserve is transferred directly to accumulated profits.

The new accounting policy has been applied retrospectively with comparatives restated in accordance with HKFRS 2, except that the Group has taken advantage of the transitional provisions set out in paragraph 53 of HKFRS 2 under which the new recognition and measurement policies have not been applied to the following grants of options:

(a) all options granted to employees on or before 7 November 2002; and

(b) all options granted to employees after 7 November 2002 but which had vested before 1 January 2005.

The amount of prior period adjustments and the effect on the results for the six months ended 30 June 2005 and 30 June 2004, and the reserves as of that date, are set out in note 2(a).

The amount charged to the income statement as a result of the change of policy increased administrative expenses for the six months ended 30 June 2005 by HK$998,000 (six months ended 30 June 2004: HK$1,705,000), with the corresponding amounts credited to the capital reserve.

Details of the employee share option schemes can be found in the company's annual report for the year ended 31 December 2004 and page 32 on this interim financial report.

(c) Amortization of positive and negative goodwill (HKFRS 3, Business combinations and HKAS 36, Impairment of assets)

In prior periods:

– positive goodwill which arose on or after 1 January 2001 was amortized on a straight line basis over its useful life and was subject to impairment testing when there were indications of impairment; and

– negative goodwill which arose on or after 1 January 2001 was amortized over the weighted average useful life of the depreciable/amortizable non-monetary assets acquired, except to the extent it related to identified expected future losses as at the date of acquisition. In such cases it was recognized in the income statement as those expected losses were incurred.

With effect from 1 January 2005, in accordance with HKFRS 3 and HKAS 36, the Group no longer amortizes positive goodwill. Such goodwill is tested annually for impairment, including in the year of its initial recognition, as well as when there are indications of impairment. Impairment losses are recognized when the carrying amount of the cash generating unit to which the goodwill has been allocated exceeds its recoverable amount.

Also with effect from 1 January 2005 and in accordance with HKFRS 3, if the fair value of the net assets acquired in a business combination exceeds the consideration paid, the excess is recognized immediately in the income statement as it arises.

The new policy is respect of positive goodwill has been applied prospectively in accordance with the transitional arrangements under HKFRS 3. As a result, comparative amounts have not been restated. The cumulative amount of amortization as at 1 January 2005 has been offset against the cost of the goodwill and no amortization charge for goodwill has been recognized in the income statement for the six months ended 30 June 2005. This has increased the Group's profit after tax for the six months ended 30 June 2005 by HK$637,000.

In accordance with the relevant transitional provisions in HKFRS 3, the Group has derecognized all negative goodwill at 1 January 2005, of which HK$987,000 was previously presented as a deduction from assets, with a corresponding increase to accumulated profits.

3 TURNOVER

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

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

4 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:

	Manufacturing		Trading		Retailing		Inter-segment elimination		Consolidation	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004 (restated)
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Turnover from external customers	**125,289**	134,582	**99,704**	132,365	**8,753**	–	**–**	–	**233,746**	266,947
Inter-segment turnover	**47,093**	54,059	**–**	–	**–**	–	**(47,093)**	(54,059)	**–**	–
	172,382	188,641	**99,704**	132,365	**8,753**	–	**(47,093)**	(54,059)	**233,746**	266,947
Other revenue	**405**	782	**368**	295	**6**	–	**–**	–	**779**	1,077
Total	**172,787**	189,423	**100,072**	132,660	**8,759**	–	**(47,093)**	(54,059)	**234,525**	268,024
Segment result and contribution from operations	**49,571**	48,496	**(4,394)**	356	**(4,710)**	–	**–**	–	**40,467**	48,852
Unallocated operating expenses									**(998)**	(1,705)
Net amortization of goodwill									**–**	(144)
Profit from operations									**39,469**	47,003

(b) Geographical segment turnover

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

	Six months ended 30 June	
	2005	2004
	HK$'000	HK$'000
USA	**193,251**	239,080
Europe	**27,533**	24,904
Others	**12,962**	2,963
	233,746	266,947

5 PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2005	2004
	HK$'000	HK$'000
(a) Finance costs		
Interest on bank loans, overdrafts and other borrowings wholly repayable within five years	**40**	24
Finance charges on obligations under finance leases	**5**	12
	45	36
(b) Other items		
Written back of sundry payables	**(3,709)**	–
Net income from short term investments	**(67)**	(189)
Depreciation	**9,747**	9,794
Equity settled share-based transactions	**998**	1,705
Provision for doubtful debts	**481**	114
Net amortization of goodwill	**–**	144

6 TAXATION

	Six months ended 30 June	
	2005	2004
	HK$'000	HK$'000
Hong Kong Profits Tax	**3,500**	3,935
PRC Enterprise Income Tax	**54**	(26)
Overseas tax	**279**	133
Deferred taxation	**321**	(595)
	4,154	3,447

Hong Kong Profits Tax has been provided at the rate of 17.5% (2004: 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.

7 DIVIDENDS

	Six months ended 30 June	
	2005	2004
	HK$'000	HK$'000
Final dividend paid in respect of 2004 of HK10 cents (2003: HK8 cents) per share	**28,618**	22,675
Proposed interim dividend of HK2 cents (2004: HK3 cents) per share	**5,724**	8,562

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

8 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 2005 attributable to shareholders of HK$35,967,000 (2004: restated HK$43,520,000) and the weighted average number of ordinary shares of 286,052,912 (2004: 283,432,531).

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit for the six months ended 30 June 2005 attributable to shareholders of HK$35,967,000 (2004: restated HK$43,520,000) and the weighted average number of ordinary shares of 299,266,912 (2004: 301,147,531) after adjusting for the number of dilutive potential ordinary shares under the share option schemes.

9 TRADE AND OTHER RECEIVABLES

	30 June 2005 HK$'000	31 December 2004 HK$'000
Trade and bills receivables	**108,911**	112,544
Deposits, prepayments and other debtors	**28,047**	20,027
	136,958	132,571

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

	30 June 2005 HK$'000	31 December 2004 HK$'000
0 – 30 days	**46,900**	56,778
31 – 60 days	**35,783**	39,482
61 – 90 days	**15,530**	13,295
Over 90 days	**10,698**	2,989
	108,911	112,544

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.

10 TRADE AND OTHER PAYABLES

	30 June 2005 HK$'000	31 December 2004 HK$'000
Trade and bills payables	**25,764**	32,419
Accrued charges and other creditors	**31,126**	36,400
	56,890	68,819

The ageing analysis of trade and bills payables is as follows:

	30 June 2005 HK$'000	31 December 2004 HK$'000
0 – 30 days	**16,473**	20,001
31 – 60 days	**8,222**	9,735
61 – 90 days	**81**	1,222
Over 90 days	**988**	1,461
	25,764	32,419

11 SHARE CAPITAL

	No. of shares ('000)	**HK$'000**
Issued and fully paid:		
At 1 January 2005	285,882	28,588
Shares issued under share option schemes	294	30
At 30 June 2005	**286,176**	**28,618**

12 ACQUISITION OF A SUBSIDIARY

On 31 March 2005, Jumbo Creation Investments Limited, a wholly-owned subsidiary of the Company acquired 51% of the issued share capital of Futureview Investment Limited ("FIL") to operate an exclusive retail license to design, manufacture and sell SANRIO products in the PRC, at a consideration of HK$10,000,000 for the subscription of the share capital together with a shareholder's loan of HK$20,000,000. The acquisition has been accounted for by the purchase method of accounting.

Details of the net liabilities of FIL acquired by the Group were as follows:

	FIL's fair value amount before combination
	HK$'000
Property and equipment	489
Inventories	687
Trade and other receivables	1,045
Amount due from a related company	752
Bank balances and cash	397
Trade and other payables	(1,016)
Amounts due to related companies	(4,544)
Net liabilities acquired	(2,190)
Share of net liabilities before combination by the Minority Interest	1,073
Share capital of FIL subscribed by the Group	10,000
Subscription of the Group effectively being shareholding of the Minority Interest	(2,350)
Goodwill	3,548
Total consideration and direct costs capitalized	10,081

Since FIL was acquired on 31 March 2005, it has no significant contribution to the Group's turnover, results and cash flows for the period ended 30 June 2005.

If the acquisition had been completed on 1 January 2005, total Group turnover would have been increased by HK$614,000 and profit attributable to shareholders for the period would have been decreased by HK$408,000.

13 CAPITAL COMMITMENTS

At 30 June 2005, the Group had capital expenditure commitments as follows:

	30 June 2005 HK$'000	31 December 2004 HK$'000
Contracted but not provided for		
– Manufacturing facilities	**1,863**	6,500
– Infrastructure of retail operation and opening of retail outlets	**870**	–
	2,733	6,500
Authorized but not contracted for		
– Manufacturing facilities and equipment	**17,067**	14,500
– Infrastructure of retail operation and opening of retail outlets	**6,023**	4,000
	23,090	18,500
	25,823	25,000

14 LITIGATION SETTLEMENT

As reported in the Company's 2004 Annual Report, as at 31 December 2004, Drew Pearson Marketing, Inc. ('DPM'), a subsidiary of the Group, was involved in a patent dispute in which a preliminary injunction was entered in November 2004 by a competitor against an accessory product to be launched by DPM in the US market. Settlement agreements were signed between the parties in May 2005, pursuant to which DPM will be able to sell the products subject to royalty payments to the competitor. Legal costs were charged to the income statement when incurred.

15 APPROVAL OF INTERIM FINANCIAL REPORT

The interim financial report was approved by the Board of Directors on 9 September 2005.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2005, 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				Percentage
	Personal Interest	Other Direct Interest	Underlying Shares	Total	of Interest
Mr. Ngan Hei Keung	–	190,000,000 (note 1)	–	190,000,000	66.39%
Madam Ngan Po Ling, Pauline	–	190,000,000 (note 1)	–	190,000,000	66.39%
Mr. David, Stephen Briskie	4,370,690	–	2,680,000 (note 2)	7,050,690	2.46%

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.

   Mr. David, Stephen Briskie resigned as the director of the Company on 8 July 2005.

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.

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.

The New Scheme will remain in force for a period of 10 years from the date of its adoption. The purpose of the New Scheme is to enable the Group to grant options to selected participants as incentive or rewards for their contributions to the Group.

Unless approved by shareholders in general meeting, the total number of shares issued and which may fall to be issued upon exercise of the options of the New Scheme and the options granted under any other schemes of the Group (including both exercised or outstanding options) to each grantee in any 12-month period shall not exceed 1% of the issued share capital of the Company at the relevant time.

An option may be exercised in accordance with the terms of the New Scheme at any time during the period (which may not expire later than 10 years from the date of offer of that option) to be determined and notified by the Directors to the grantee and in the absence of such determination, from the date of acceptance of the offer of such option to the earlier of the date of which such option lapses in accordance with the terms of the New Scheme and 10 years from the date of offer of that option. A consideration of HK$1 will be payable upon acceptance of the offer.

As at the date of interim report, the total number of shares available for issue, save for those granted but yet to be exercised, under the New Scheme was 620,053 shares, which represented 0.2% of the issued share capital of the Company as at 31 August 2005.

At 30 June 2005, 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$2.5 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$)	Outstanding at 1.1.2005	Granted during the period	Lapsed during the period	Exercised during the period	Outstanding at 30.6.2005	Market value per share at date of grant (HK$)
Old Scheme									
Employees	11.06.2001	11.06.2002 – 10.06.2009	1.228	490,000	–	–	–	490,000	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	8,740,000	–	–	(180,000) (Note)	8,560,000	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	11,118,000	–	–	(114,000) (Note)	11,004,000	2.3
				20,978,000	–	–	(294,000)	20,684,000	
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	

Note: Closing prices of shares immediately before the dates on which options were exercised ranged from HK$2.9 to HK$3.05.

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 2005, 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)	66.39%
Amex International Trust (Cayman) Ltd.	Trustee	190,000,000 (note)	66.39%
Templeton Asset Management Limited	Investment manager	18,000,000	6.29%

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 2005, 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 2005, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

CODE OF CORPORATE GOVERNANCE PRACTICES

In the opinion of the Board, the Company has complied with the code provisions in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules during the six months ended 30 June 2005 except for the following:

i) The independent non-executive directors were not appointed for a specific term as required by Code A.4.1, but are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Company's Bye-Law No. 87. The Directors consider the deviation is not material as independent non-executive directors are subject to retirement by rotation and re-election at least once every three years in view of the small number of total directors of the Company. The Directors will reconsider the practice and adopt the code provision should the number of directors increase substantially.

ii) In accordance with the Company's Bye-Laws, all the Directors, excluding the Chairman of the Company and the Deputy Chairman and Managing Director of the Company, are subject to retirement by rotation and re-election at the annual general meeting. This deviates from the provisions in Code A.4.2 which requires every director to be subject to retirement by rotation at least once every three years. The Directors consider the deviation acceptable as the current Chairman and Deputy Chairman and Managing Director are the founders, principal management and also the substantial shareholders of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has complied with Rules 3.10(1) and 3.10(2) of the Listing Rules in relation to the appointment of a sufficient number of independent non-executive directors and an independent non-executive director with appropriate professional qualifications, or accounting or related financial management expertise, except that Mr. Lo Hang Fong was only appointed on 21 February 2005 to replace Mr. Gordon Ng who resigned as an independent non-executive director of the Company on 23 November 2004.

AUDIT COMMITTEE

The Company has complied with Rule 3.21 of the Listing Rules in relation to the establishment of an audit committee. The audit committee members comprise three independent non-executive directors. 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 interim results for 2005.

By Order of the Board
Ngan Hei Keung
Chairman

Hong Kong, 9 September 2005

As at the date hereof, the Board of Directors of the Company comprises six directors, of which three are Executive Directors, namely Mr. Ngan Hei Keung, Madam Ngan Po Ling, Pauline and Mr. Ho Hung Chu, Peter; and three are Independent non-executive Directors, namely Mr. Leung Shu Yin, William, Mr. Tse Kam Fow and Mr. Lo Hang Fong.

Company websites: http://www.mainland.com.hk
http://www.mainlandheadwear.com