

2002

INTERIM REPORT
USI HOLDINGS LIMITED

FINANCIAL RESULTS

The Board of Directors (the "Directors") of USI Holdings Limited (the "Company") presents the interim report and unaudited financial statements for the six months ended 30 June 2002 of the Company and its subsidiaries (the "Group").

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2002

		Unaudited	
		Six months ended 30 June	
		2002	2001
	<i>NOTES</i>	HK\$'M	<i>HK\$'M</i>
Turnover	3	615.7	673.2
Cost of sales		(463.2)	(474.5)
		<hr/>	<hr/>
Gross profit		152.5	198.7
Other operating income		20.6	33.3
Distribution costs		(33.4)	(28.5)
Administrative expenses		(110.6)	(149.2)
Restructuring costs and others		—	(9.4)
		<hr/>	<hr/>
Profit from operations	4	29.1	44.9
Other interest income		0.5	0.4
Finance costs		(10.2)	(20.3)
Share of results of associates		(6.5)	(4.4)
		<hr/>	<hr/>
Profit before taxation		12.9	20.6
Taxation	5	(4.8)	(10.1)
		<hr/>	<hr/>
Profit before minority interests		8.1	10.5
Minority interests		(0.1)	(2.4)
		<hr/>	<hr/>
Profit attributable to shareholders		8.0	8.1
		<hr/> <hr/>	<hr/> <hr/>
Earnings per share	7		
Basic		HK cents 1.5	HK cents 1.6
		<hr/> <hr/>	<hr/> <hr/>
Diluted		HK cents 1.5	HK cents 1.6
		<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2002

		Unaudited 30 June 2002 HK\$'M	Audited 31 December 2001 HK\$'M
	NOTES		
Non-current assets			
Investment properties	8	599.2	599.2
Properties under development	9	—	266.1
Other properties, plant and equipment	10	195.9	194.2
Interests in associates		471.0	306.5
Investments in securities		483.9	481.3
Other non-current assets		4.0	2.8
		<u>1,754.0</u>	<u>1,850.1</u>
Current assets			
Inventories		141.8	129.0
Properties held for sale		259.3	—
Trade and other receivables and prepayments	11	179.1	122.1
Bills receivable		101.9	85.0
Amounts due from associates		27.6	20.7
Taxation recoverable		1.4	1.5
Bank balances and cash		44.2	71.1
		<u>755.3</u>	<u>429.4</u>
Current liabilities			
Trade and other payables	12	258.1	264.5
Provisions		15.0	19.1
Bills payable		12.0	17.2
Amount due to an associate		0.1	0.2
Taxation payable		10.2	7.6
Short-term bank borrowings	13	103.3	9.8
Bank loans — amount due within one year	14	216.5	39.3
		<u>615.2</u>	<u>357.7</u>
Net current assets		<u>140.1</u>	<u>71.7</u>
		<u><u>1,894.1</u></u>	<u><u>1,921.8</u></u>

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2002

		Unaudited	Audited
		30 June	31 December
		2002	2001
	<i>NOTES</i>	HK\$'M	<i>HK\$'M</i>
Capital and reserves			
Share capital	15	258.8	258.8
Reserves		996.6	1,002.1
		<hr/>	<hr/>
Shareholders' funds		1,255.4	1,260.9
		<hr/>	<hr/>
Minority interests		52.9	66.8
		<hr/>	<hr/>
Non-current liabilities			
Bank loans – amount due			
after one year	14	507.2	550.6
Other long-term loans	16	78.0	42.9
Deferred taxation		0.6	0.6
		<hr/>	<hr/>
		585.8	594.1
		<hr/>	<hr/>
		1,894.1	1,921.8
		<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2002

(HK\$'M)	Share capital	Share premium	Investment property revaluation reserve	Other property revaluation reserve	Translation reserve (deficit)	Non-distributable reserve	Contributed surplus	Other distributable reserve (deficit)	Total
At 1 January 2001	258.8	438.4	40.4	21.9	(29.7)	(21.4)	649.9	(154.8)	1,203.5
Exchange differences arising on translation of financial statements of operations outside Hong Kong	—	—	—	—	(7.0)	—	—	—	(7.0)
Share of reserves of associates	—	—	—	—	3.5	(1.3)	—	—	2.2
Share of reserves by minority shareholders	—	—	—	—	1.6	—	—	—	1.6
Net gains and losses not recognised in the income statement	—	—	—	—	(1.9)	(1.3)	—	—	(3.2)
Profit for the six months ended 30 June 2001	—	—	—	—	—	—	—	8.1	8.1
At 30 June 2001	258.8	438.4	40.4	21.9	(31.6)	(22.7)	649.9	(146.7)	1,208.4
Deficit arising on revaluation	—	—	(5.8)	—	—	—	—	—	(5.8)
Exchange differences arising on translation of financial statements of operations outside Hong Kong	—	—	—	—	2.7	—	—	—	2.7
Share of reserves of associates	—	—	—	—	(1.8)	(0.3)	—	—	(2.1)
Share of reserves by minority shareholders	—	—	0.2	—	(0.7)	—	—	—	(0.5)
Net gains and losses not recognised in the income statement	—	—	(5.6)	—	0.2	(0.3)	—	—	(5.7)
Released on disposal of interest in a subsidiary	—	—	—	—	1.3	—	—	—	1.3
Released on disposal of interest in an associate	—	—	—	—	(12.2)	23.0	—	1.9	12.7
Profit for the six months ended 31 December 2001	—	—	—	—	—	—	—	44.2	44.2
	—	—	—	—	(10.9)	23.0	—	46.1	58.2
At 31 December 2001	258.8	438.4	34.8	21.9	(42.3)	—	649.9	(100.6)	1,260.9
Exchange differences arising on translation of financial statements of operations outside Hong Kong	—	—	—	—	(0.5)	—	—	—	(0.5)
Share of reserves of an associate	—	—	—	—	(0.1)	—	—	—	(0.1)
Net gains and losses not recognised in the income statement	—	—	—	—	(0.6)	—	—	—	(0.6)
Profit for the six months ended 30 June 2002	—	—	—	—	—	—	—	8.0	8.0
2001 final dividend paid	(12.9)	—	—	—	—	—	(12.9)	—	(12.9)
	—	—	—	—	—	—	(12.9)	8.0	(4.9)
At 30 June 2002	258.8	438.4	34.8	21.9	(42.9)	—	637.0	(92.6)	1,255.4

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2002

	Unaudited	
	Six months ended 30 June	
	2002	2001
		(As restated)
	HK\$'M	HK\$'M
Net cash outflow from operating activities	(51.0)	(62.5)
Net cash (outflow) inflow from investing activities	(224.3)	226.0
Net cash inflow (outflow) from financing activities	254.8	(159.5)
	<hr/>	<hr/>
(Decrease) increase in cash and cash equivalents	(20.5)	4.0
Cash and cash equivalents at 1 January	62.2	58.0
Effect of foreign exchange rate changes	0.2	0.4
	<hr/>	<hr/>
Cash and cash equivalents at 30 June	41.9	62.4
	<hr/> <hr/>	<hr/> <hr/>
Analysis of the balance of cash and cash equivalents at 30 June		
Cash and cash equivalents as previously reported		53.3
Effect of reclassification of trust receipts and import loans		9.1
		<hr/>
Cash and cash equivalents as restated		62.4
		<hr/> <hr/>
Being:		
Bank balances and cash	44.2	72.0
Bank overdrafts	(2.3)	(9.6)
	<hr/>	<hr/>
	41.9	62.4
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. Basis of preparation

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

In the current period, the Group has adopted SSAP 1 (Revised) “Presentation of Financial Statements” and SSAP 15 (Revised) “Cash Flow Statements”. The adoption of these revised SSAPs has resulted in the presentation of the statement of changes in equity and in a change in the presentation of the cash flow statements. The condensed consolidated cash flow statement has been modified in the current period to comply with SSAP 15 (Revised) “Cash Flow Statements” and the comparative amounts have been restated to achieve a consistent presentation.

2. Accounting policies

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties. The accounting policies adopted in the preparation of the condensed financial statements are consistent with those followed by the Group in the preparation of its annual audited financial statements for the year ended 31 December 2001.

The adoption of SSAP 34 “Employee Benefits” which became effective in the current period has had no material effect on the results for the current or prior accounting period. Accordingly, no prior period adjustment is necessary.

3. Turnover and segment information

Business segment

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

For the period ended 30 June 2002 (HK\$'M)	Garment manufacturing	Garment trading	Branded products distribution	Property rental and management	Property development	Investing activities	Elimination	Consolidated total
Turnover								
External sales	390.0	29.8	73.1	28.7	88.3	5.8	—	615.7
Inter-segment sales	3.3	—	—	2.2	—	—	(5.5)	—
Total turnover	<u>393.3</u>	<u>29.8</u>	<u>73.1</u>	<u>30.9</u>	<u>88.3</u>	<u>5.8</u>	<u>(5.5)</u>	<u>615.7</u>

Inter-segment sales are charged at prevailing market rates.

Result								
Profit from operations	29.4	(0.1)	(4.5)	15.4	5.4	(16.5)	—	29.1
Other interest income								0.5
Finance costs								(10.2)
Share of results of associates								<u>(6.5)</u>
Profit before taxation								12.9
Taxation								<u>(4.8)</u>
Profit before minority interests								8.1
Minority interests								<u>(0.1)</u>
Profit attributable to shareholders								<u><u>8.0</u></u>

For the period ended			Branded	Property				
30 June 2001	Garment	Garment	products	rental and	Property	Investing		Consolidated
(HK\$'M)	manufacturing	trading	distribution	management	development	activities	Elimination	total
Turnover								
External sales	424.4	45.4	149.0	36.9	—	17.5	—	673.2
Inter-segment sales	1.1	—	—	2.3	—	—	(3.4)	—
Total turnover	<u>425.5</u>	<u>45.4</u>	<u>149.0</u>	<u>39.2</u>	<u>—</u>	<u>17.5</u>	<u>(3.4)</u>	<u>673.2</u>

Inter-segment sales are charged at prevailing market rates.

Result

Profit from operations	34.9	(0.7)	0.1	16.4	—	(5.8)	—	44.9
Other interest income								0.4
Finance costs								(20.3)
Share of results of associates								(4.4)
Profit before taxation								20.6
Taxation								(10.1)
Profit before minority interests								10.5
Minority interests								(2.4)
Profit attributable to shareholders								<u>8.1</u>

Geographical segment

The following table provides an analysis of the Group's turnover and profit from operations for the period by geographical market, irrespective of the origin of the goods/services:

	Turnover		Profit from operations	
	Six months ended 30 June 2002	2001	Six months ended 30 June 2002	2001
	HK\$'M	HK\$'M	HK\$'M	HK\$'M
North America	309.9	316.1	21.3	24.5
Hong Kong	128.4	54.8	9.2	11.5
United Kingdom	84.0	148.3	(4.9)	1.0
Other European countries	67.1	107.4	2.4	4.0
Other areas	26.3	46.6	1.1	3.9
	<u>615.7</u>	<u>673.2</u>	<u>29.1</u>	<u>44.9</u>

4. Profit from operations

	Six months ended 30 June	
	2002	2001
	HK\$'M	HK\$'M
Profit from operations is arrived at after charging:		
Amortisation of		
— trademark (included in administrative expenses)	0.1	0.1
— permanent textile quota entitlements (included in cost of sales)	1.1	3.7
Cost of temporary textile quota entitlements	10.4	21.0
Depreciation and amortisation of other properties, plant and equipment	10.8	12.6
	<u>10.8</u>	<u>12.6</u>

5. Taxation

	Six months ended 30 June	
	2002	2001
	HK\$'M	HK\$'M
Taxation of the Company and its subsidiaries		
— Hong Kong Profits Tax	4.0	4.8
— Taxation in other jurisdictions	0.8	3.8
	<u>4.8</u>	<u>8.6</u>
Share of overseas taxation of associates	—	1.5
	<u>—</u>	<u>1.5</u>
	<u>4.8</u>	<u>10.1</u>

Hong Kong Profits Tax is calculated at 16% (2001:16%) on the estimated assessable profits for the period. Taxation in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

6. Dividend

During the six months ended 30 June 2002, a final dividend of HK2.5 cents per share in respect of the year ended 31 December 2001 was approved at the Company's annual general meeting held on 13 June 2002 and paid to the shareholders during the period.

The directors do not recommend the payment of an interim dividend in respect of the six months ended 30 June 2002.

7. Earnings per share

The computation of earnings per share is based on the following data:

	Six months ended 30 June	
	2002	2001
Earnings for the purpose of calculating both basic and diluted earnings per share	<u>HK\$8.0 million</u>	<u>HK\$8.1 million</u>
(Number of ordinary shares)		
Number of ordinary shares in issued during the period for the purpose of calculating basic earnings per share	517,625,339	517,625,339
Effect of dilutive potential ordinary shares issuable under the Company's share option scheme	<u>203,545</u>	<u>1,441,564</u>
Number of ordinary shares for the purpose of calculating diluted earnings per share	<u>517,828,884</u>	<u>519,066,903</u>

8. Investment properties

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

The Group's investment properties are stated at revalued amounts based on professional valuations at 31 December 2001 on an open market value basis.

9. Properties under development

During the period, additions to properties under development totalled approximately HK\$54.8 million (1 January 2001 to 31 December 2001: HK\$85.4 million), including interest capitalised of HK\$4.1 million (1 January 2001 to 31 December 2001: HK\$12.3 million). At 30 June 2002, all the Group's properties under development were completed and transferred to properties held for sale.

10. Other properties, plant and equipment

During the period, the Group spent approximately HK\$12.5 million on acquisition of other properties, plant and equipment.

11. Trade and other receivables and prepayments

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

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

	30 June	31 December
	2002	2001
	HK\$'M	HK\$'M
0 — 30 days	103.1	52.4
31 — 90 days	15.2	30.5
Over 90 days	11.1	10.1
	<hr/>	<hr/>
	129.4	93.0
Other receivables and prepayments	49.7	29.1
	<hr/>	<hr/>
Total	179.1	122.1
	<hr/> <hr/>	<hr/> <hr/>

12. Trade and other payables

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

	30 June	31 December
	2002	2001
	<i>HK\$'M</i>	<i>HK\$'M</i>
0 — 30 days	43.0	52.2
31 — 90 days	16.7	25.6
Over 90 days	6.8	12.6
	66.5	90.4
Other payables	191.6	174.1
Total	258.1	264.5

13. Short-term bank borrowings

	30 June	31 December
	2002	2001
	<i>HK\$'M</i>	<i>HK\$'M</i>
Short-term bank loans	85.0	—
Trust receipts and import loans	16.0	0.9
Bank overdrafts	2.3	8.9
	103.3	9.8
Analysed as:		
— secured	19.0	—
— unsecured	84.3	9.8
	103.3	9.8

14. Bank loans

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

	30 June 2002 HK\$'M	31 December 2001 HK\$'M
Within one year	216.5	39.3
Between one to two years	129.1	179.5
Between two to five years	338.1	320.1
After five years	40.0	51.0
	<u>723.7</u>	<u>589.9</u>
Less: Amount due within one year shown under current liabilities	<u>(216.5)</u>	<u>(39.3)</u>
Amount due after one year	<u><u>507.2</u></u>	<u><u>550.6</u></u>
Analysed as:		
— secured	482.7	426.9
— unsecured	241.0	163.0
	<u><u>723.7</u></u>	<u><u>589.9</u></u>

15. Share capital

	30 June 2002 & 31 December 2001	
	Number of shares	Amount HK\$'M
Authorised:		
Ordinary shares of HK\$0.50 each	<u><u>1,320,000,000</u></u>	<u><u>660.0</u></u>
Issued and fully paid:		
Ordinary shares of HK\$0.50 each	<u><u>517,625,339</u></u>	<u><u>258.8</u></u>

16. Other long-term loans

	30 June	31 December
	2002	2001
	HK\$'M	HK\$'M
Interest bearing loans	60.7	25.6
Interest free loan	17.3	17.3
	<hr/> 78.0 <hr/>	<hr/> 42.9 <hr/>

The loans are from minority shareholders of subsidiaries. The interest bearing loans carry interest at market rates and are extended to the Group to finance property development projects. All the loans are unsecured and have no fixed repayment terms. In the opinion of the directors, demand for repayment of these loans will not be made within one year. The loans are therefore shown in the balance sheet as non-current liabilities.

17. Capital commitments

	30 June	31 December
	2002	2001
	HK\$'M	HK\$'M
Capital expenditure contracted for but not provided in the financial statements in respect of property development	<hr/> — <hr/>	<hr/> 59.3 <hr/>

18. Contingent liabilities

	30 June 2002 HK\$'M	31 December 2001 <i>HK\$'M</i>
Export bills discounted with recourse	<u>3.8</u>	<u>13.9</u>
Guarantees given to banks in respect of utilised credit facilities extended to associates (see note below)	<u>171.0</u>	<u>37.0</u>

Note: To the extent that the utilised credit facilities were repaid or released subsequent to the balance sheet date, such amounts are not included above.

At 30 June 2002, the Company's share of several and proportionate guarantees, given in respect of unutilised credit facilities granted by financial institutions to associates of the Group which are engaged in property development, amounted to HK\$391.0 million (31 December 2001: HK\$125.0 million).

19. Related party transactions

During the period ended 30 June 2002, property management fee income and interest income received and receivable by the Group from its associates amounted to HK\$2.6 million (1 January 2001 to 30 June 2001: HK\$9.6 million) and HK\$2.8 million (1 January 2001 to 30 June 2001: HK\$15.8 million) respectively. These transactions were carried out on terms similar to those applicable to transactions with independent third parties.

The Group's advances to associates at 30 June 2002 amounted to HK\$557.7 million (at 31 December 2001: HK\$373.9 million). These associates are engaged in property development. The Group's advances to the associates are subordinated to the loan facilities of the associates and are assigned to the financial institutions. The shares in the associates beneficially owned by the Group are also pledged to the financial institutions.

INDEPENDENT REVIEW REPORT

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**Deloitte
Touche
Tohmatsu**

To the Board of Directors of USI Holdings Limited

(incorporated in Bermuda with limited liability)

INTRODUCTION

We have been instructed by USI Holdings Limited (the "Company") to review the interim financial report set out on pages 1 to 15.

DIRECTORS' RESPONSIBILITIES

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

REVIEW WORK PERFORMED

We conducted our review in accordance with the Statement of Auditing Standards 700 "Engagements to review interim financial reports" ("SAS 700") issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of 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 2002.

Without modifying our review conclusion, we draw to your attention that the comparative condensed income statement for the six months ended 30 June 2001 and the comparative condensed cash flow statement and statement of changes in equity for the six months ended 30 June 2001 disclosed in the interim financial report have not been reviewed in accordance with SAS 700.

Deloitte Touche Tohmatsu

Hong Kong, 12 September 2002

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2002 (2001: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

For the first half of 2002, the Group reported a consolidated profit after tax and minority interests of HK\$8.0 million, which is comparable to the profit of HK\$8.1 million for the same period in 2001. Turnover for the Group was HK\$615.7 million for the period ended 30 June 2002 compared with HK\$673.2 million in the first half of 2001.

The drop in turnover was mainly due to the disposal of a subsidiary in the second half of 2001 coupled with the suspension of our Myanmar production plant in early 2002. This drop was partially offset by the turnover recognised for a property development project during the 2002 interim period.

APPAREL

The first half of 2002 was challenging for the apparel business because of the world economic slowdown and we expect the second half to remain equally challenging. The economic slowdown has exerted tremendous pressure on manufacturers in terms of lower margin, shorter lead times and higher credit risk. Despite these pressures, the Group's garment manufacturing operations, through Shui Hing Textiles International Limited and Unimix Holdings Limited, contributed an attributable profit of HK\$22.9 million which is comparable to that of the first half of 2001 (HK\$25.8 million). We were able to minimise the negative impact resulting from intense competition and tough market demands by continuing our strategy of diversifying customer base, reducing overhead and expanding production facilities in Mainland China and Cambodia.

Our target was achieved since the first half of 2002 to increase the production capacity of the 88,000 square foot production facility in Cambodia from 260,000 dozens per annum to 300,000 dozens per annum. This added capacity will be devoted to the European market which offers preferential GSP (the Generalised System of Preferences) treatment on Asean fabrics.

For our new sweater factory at RuYuan, in the northern part of Guangdong Province, operation started in July 2001 and the plan to build up production capacity to 120,000 dozens per annum is on schedule. The construction of the 65,000 square foot fine knit factory adjacent to the RuYuan sweater facility is in progress. This fine knit factory is scheduled to be operational in early 2003 with an annual capacity of 140,000 dozens.

Construction of the 100,000 square foot fine knit and sweater factory in Antananarivo, Madagascar was put on hold in the first half of 2002. With the situation in Madagascar returning to normal recently, we are re-visiting the situation and plan to re-start the project as and when our potential customers renew their interest in ordering products from Madagascar.

The United Kingdom retail sales for Gieves & Hawkes (“Gieves”) were slightly better than the prior year. Income from export sales and licensing suffered, however, following the filing for the equivalent of Chapter 11 by Gieves’ principal licensee in Japan in the second half of 2001. Gieves has planned a programme of investment to continue building the reputation and critical mass of the Gieves & Hawkes brand over the next few years. To facilitate this strategic programme, we have offered to buy back shares from minority shareholders and to privatise the company. Gieves was de-listed from the London Stock Exchange in July 2002.

PROPERTY

Property Development

Following the consortium’s decision of holding Tower V of The Waterfront for long-term investment purposes, the main focus of The Waterfront is in the leasing operation. The Group’s property management service company has been appointed as the property manager of Tower V, now known as Lanson Place The Waterfront Residences (“LPWF”). LPWF commenced its operation in June 2002.

Sales of The Hillgrove totalled approximately HK\$667.3 million, achieving an average price of HK\$3,544 per square foot. The occupation permit for the entire development project has been obtained in July 2002. Sold units will be handed over to owners in October 2002.

The private viewing of The Bloomsville was conducted at the beginning of 2002 which generated a sale of HK\$94.5 million; achieving an average price of around HK\$5,700 per square foot. This development will be launched upon completion. Occupation permit was obtained in May 2002. Preparation is in progress to hand over the sold units to their owners.

The development progress of the Sai Kung project is on schedule. Demolition work contract was completed. The foundation work contract tender has been issued and will be awarded in September 2002. The target date of completion of the project is scheduled in end of 2004. The Group has a 50% interest in this project.

In April 2002, the Group, through a joint venture company, has successfully acquired a piece of land located in Shatin at the Government Land Auction held at a price of HK\$660 million. The land with an area of approximately 208,000 square feet will be developed into high-end residential apartments. The Group has a 40% interest in this project.

Investment Property

The Hong Kong rental market remained weak in the first half of 2002. Downward pressure on rental and occupancy rates continued affecting the rental yield of the Group's three Hong Kong high-grade industrial properties at Shui Hing Centre, Unimix Industrial Centre and 81 Hung To Road. However, the low interest rate has meant low interest expense which has helped to offset most of the decline in rental income for the 2002 interim period. We expect the low interest rates, and our low interest expense, to continue for the rest of the year although we do not foresee a rise in demand in the rental market during this period.

Property Management Services

After a difficult period lasting nearly six months following the September 11 event, when many of Lanson Place Winsland, Singapore residents were recalled back to the United States, business has recovered for the Singapore property. For the six months ended June 2002 occupancy has recovered to around 80%.

In Kuala Lumpur, the occupancy at Lanson Place Ambassador Row continued to improve for the first half in 2002 when it stood at 72%.

Kondo No. 8 Ampang Hilir in Kuala Lumpur had an excellent first half with occupancy at 89%.

In Hong Kong, Lanson Place The Waterfront Residences commenced its business at the end of June 2002. Management is now in the process of building up occupancy through aggressive sales and marketing activities.

SUNDAY COMMUNICATIONS LIMITED ("SUNDAY")

SUNDAY delivered sustained improvements in operating and financial performance despite intense market competition. To enhance customer retention and to derive greater revenue growth, SUNDAY began a process of restructuring its marketing and distribution organisations to enable it to deliver highly personalised and tailor-made services to different customer segments. The company will continue to improve its operating efficiencies and streamline its operations.

On 31 July 2002, the company announced that SUNDAY entered into various documents to effect certain amendments to the loan facilities extended by a bank and a vendor, respectively, in order to accommodate changes to the group structure for various business developments and/or cost saving measures, as well as to amend certain financial covenants. The amounts lent, interest provisions and the term of maturity have not been varied. The agreed amendments recognise developments in the business of SUNDAY since the loan facilities were originally negotiated in 1998. It is believed that such amendments provide greater flexibility to SUNDAY's further development and are beneficial to SUNDAY.

PROSPECTS

The outlook for the balance of the year remains difficult to predict due to the uncertainty of economic recovery worldwide. We will continue our strategy to expand our manufacturing production facilities; build the Gieves & Hawkes brand name and invest in quality property development projects.

Barring any unforeseen circumstances, the full year result is expected to remain in line with the current trend.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2002, the Group's shareholders' funds were HK\$1,255.4 million as compared to HK\$1,260.9 million at the end of 2001. The variance was mainly due to the distribution of 2001 final dividend which was partly offset by the profit for the first half of 2002.

The Group's total bank borrowing as at 30 June 2002 was HK\$827.0 million (as at 31 December 2001: HK\$599.7 million). The Group had unutilised banking facilities in excess of HK\$400.0 million as at the end of the 2002 interim period.

FOREIGN CURRENCIES

The Group continues to do most of its business in United States and Hong Kong dollars, including payment to factories. For transactions in other foreign currencies, we have a policy to hedge most such dealings. In addition, the majority of our assets rests in Hong Kong. Thus, our exposure to exchange rate fluctuations is minimal.

EMPLOYEES

As at 30 June 2002, the Group had a total number of staff and workers of about 6,000. The Group offers comprehensive remuneration and benefit packages to its employees. The Group has a mandatory provident fund scheme to provide retirement benefits for all its employees in Hong Kong. In addition, there is a defined contribution top-up scheme for qualifying employees of certain Hong Kong subsidiaries in the Group. The Group also operates a funded defined benefit pension scheme for certain of its overseas employees.

Employees, including executive directors, of the Group are eligible under the Company's share option scheme in which the share options are generally exercisable in stages within a period of one to five years from the date of grant.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES OF THE COMPANY

At 30 June 2002, as notified to the Company pursuant to the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), the interests of the directors and the chief executive in the shares of the Company were as follows:

Name of director	Personal interests	Number of shares held			Other interests
		Family interests	Corporate interests		
CHENG Wai Chee, Christopher	75,999	—	150,409,086 <i>Note (a)</i>	110,595,862 <i>Notes (b) & (c)</i>	
CHENG Wai Sun, Edward	—	—	—	110,595,862 <i>Notes (b) & (d)</i>	
CHENG Man Piu, Francis	—	—	—	110,595,862 <i>Note (b)</i>	
NG Tak Wai, Frederick	26,000	762,000	—	<i>Note (e)</i>	
CHENG Wai Keung	—	—	—	110,595,862 <i>Note (b)</i>	
KWOK Ping Sheung, Walter	—	—	—	—	
KWOK Ping Kwong, Thomas	—	—	—	—	
KWOK Ping Luen, Raymond	—	—	—	—	
Simon MURRAY	—	—	—	—	
FANG Hung, Kenneth	—	—	—	—	
WONG Yick Kam, Michael <i>(Alternate to Walter KWOK, Thomas KWOK and Raymond KWOK)</i>	—	—	—	—	

Notes:—

- (a) By virtue of the SDI Ordinance, Mr. CHENG Wai Chee, Christopher was interested in 150,409,086 shares of the Company beneficially owned by Bestime Resources Limited, Pofung Investments Limited and Broxbourne Assets Limited. Bestime Resources Limited, Pofung Investments Limited and Broxbourne Assets Limited were the beneficial owners of 68,747,996, 66,698,122 and 14,962,968 shares of the Company respectively.
- (b) Messrs. CHENG Wai Chee, Christopher, CHENG Wai Sun, Edward, CHENG Man Piu, Francis and CHENG Wai Keung were beneficiaries of a trust which assets include indirect interests in 110,595,862 shares of the Company beneficially owned by Brave Dragon Limited and Wing Tai Garment Manufactory (Singapore) Pte Limited as set out under “Substantial Shareholders” below.
- (c) Mr. CHENG Wai Chee, Christopher had outstanding options to subscribe for 2,000,000 shares of the Company as set out below under “Directors’ and Chief Executive’s rights to acquire Shares or Debentures” pursuant to the share option scheme of the Company.
- (d) Mr. CHENG Wai Sun, Edward had outstanding options to subscribe for 3,000,000 shares of the Company as set out below under “Directors’ and Chief Executive’s rights to acquire Shares or Debentures” pursuant to the share option scheme of the Company.
- (e) Mr. NG Tak Wai, Frederick had outstanding options to subscribe for 1,290,000 shares of the Company as set out below under “Directors’ and Chief Executive’s rights to acquire Shares or Debentures” pursuant to the share option scheme of the Company.

Save as disclosed above, at 30 June 2002, none of the directors or the chief executive has (i) any interest in, or any deemed interest in, pursuant to Section 28 of the SDI Ordinance or under Section 31 or Part I of the Schedule to the SDI Ordinance, the shares of the Company or any associated corporation (within the meaning of the SDI Ordinance); or (ii) any interest which is required to be entered in the register kept by the Company pursuant to Section 29 of the SDI Ordinance; or (iii) any interest which is required to be disclosed, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), to the Company and The Stock Exchange of Hong Kong Limited.

SHARE OPTION SCHEME

Details of the share options granted under the Company's share option scheme and remain outstanding at 30 June 2002 are as follows:

Date of grant	Exercise price per share HK\$	Outstanding at 1.1.2002	Number of share options		Outstanding at 30.6.2002
			Lapsed during the period	Cancelled during the period	
26.2.1997	2.500	80,000	(80,000)	—	—
30.8.1997	2.330	3,270,000	—	(150,000)	3,120,000
15.11.1999	0.800	9,875,000	—	(250,000)	9,625,000
Total		<u>13,225,000</u>	<u>(80,000)</u>	<u>(400,000)</u>	<u>12,745,000</u>

The options are generally exercisable in stages within a period of one to five years from the date of grant.

No option has been granted under the share option scheme of the Company during the six months ended 30 June 2002.

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

Under the Company's share option scheme, certain directors of the Company have personal interests in share options which had been granted to them to subscribe for shares in the Company.

Name of director	Date of grant	Exercise price per share (HK\$)	Number of share options	
			Outstanding at 1.1.2002	Outstanding at 30.6.2002
CHENG Wai Chee, Christopher	15.11.1999	0.800	2,000,000	2,000,000
CHENG Wai Sun, Edward	30.8.1997	2.330	1,000,000	1,000,000
	15.11.1999	0.800	2,000,000	2,000,000
NG Tak Wai, Frederick	30.8.1997	2.330	430,000	430,000
	15.11.1999	0.800	860,000	860,000

No option was granted to, or exercised by, the Company's directors during the six months ended 30 June 2002.

Save as disclosed above, at no time during the six months ended 30 June 2002 was the Company or any of its subsidiaries a party to any arrangements to enable the directors or the chief executive of the Company to acquire benefits by means of acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate and none of the directors, the chief executive, their spouses or children under the age of 18, had any rights to subscribe for securities of the Company, or had exercised any such rights during the period.

SUBSTANTIAL SHAREHOLDERS

At 30 June 2002, the register kept by the Company under Section 16(1) of the SDI Ordinance showed the following persons, many of whom were related to the directors and the chief executive as stated under "Directors' and Chief Executive's Interests in Shares of the Company", are interested in 10% or more of the nominal value of the issued share capital of the Company:

Name of shareholder	Number of shares beneficially held
Brave Dragon Limited	106,345,862
Wing Tai Holdings Limited	110,595,862 <i>(Note 1)</i>
Deutsche Bank International Trust Co. (Jersey) Limited	110,595,862 <i>(Note 2)</i>
Deutsche Bank International Trust Co. (Cayman) Limited	110,595,862 <i>(Note 2)</i>
Wing Tai Asia Holdings Limited	110,595,862 <i>(Note 2)</i>
Wing Sun Development Pte Limited	110,595,862 <i>(Note 2)</i>
Terebene Holdings Inc.	110,595,862 <i>(Note 2)</i>
Winlyn Investment Pte Limited	110,595,862 <i>(Note 2)</i>
Bestime Resources Limited	68,747,996 <i>(Note 3)</i>
Pofung Investments Limited	66,698,122 <i>(Note 3)</i>
Wing Tai Corporation Limited	135,446,118 <i>(Note 3)</i>
Wesmore Limited	83,316,158 <i>(Note 4)</i>
Sun Hung Kai Properties Limited	100,762,150 <i>(Note 4)</i>

Notes:

- (1) Wing Tai Holdings Limited beneficially owned 89.4% of the issued shares of Brave Dragon Limited and 100% of the issued shares of Wing Tai Garment Manufactory (Singapore) Pte Limited which owned 4,250,000 shares of the Company.
- (2) Deutsche Bank International Trust Co. (Jersey) Limited was the trustee of a family trust (in which Messrs. CHENG Wai Chee, Christopher, CHENG Wai Sun, Edward, CHENG Man Piu, Francis and CHENG Wai Keung are beneficiaries) which held all units of a unit trust ("Unit Trust"). Deutsche Bank International Trust Co. (Cayman) Limited was the trustee of the Unit Trust which beneficially owned 100% issued shares of Wing Tai Asia Holdings Limited and 61.3% of the issued shares of Terebene Holdings Inc. Wing Tai Asia Holdings Limited, through its wholly-owned subsidiary, Wing Sun Development Pte Limited, held 28.3% of the issued shares of Wing Tai Holdings Limited. Terebene Holdings Inc. held 59.3% of the issued shares of Winlyn Investment Pte Limited which in turn held 10.8% of the issued shares of Wing Tai Holdings Limited.
- (3) Wing Tai Corporation Limited beneficially owned 100% of Bestime Resources Limited and Pofung Investments Limited. Accordingly, it was deemed by the SDI Ordinance to be interested in the shares of the Company beneficially owned by Bestime Resources Limited and Pofung Investments Limited.
- (4) Sun Hung Kai Properties Limited beneficially owns 100% of the issued shares of Soundworld Limited, Techglory Limited and Wesmore Limited. It was accordingly deemed by the SDI Ordinance to be interested in the shares of the Company owned by Soundworld Limited, Techglory Limited and Wesmore Limited. Soundworld Limited was the beneficial owner of 16,260,992 shares of the Company and Techglory Limited was the beneficial owner of 1,185,000 shares of the Company.

Save as disclosed above, at 30 June 2002, there was no person recorded in the register kept pursuant to Section 16(1) of the SDI Ordinance having an interests in 10% or more of the nominal value of the issued share capital of the Company.

PRACTICE NOTE 19 TO THE LISTING RULES

At 30 June 2002, the aggregate amount of financial assistance provided to and guarantees given for affiliated companies by the Group amounted to HK\$743.7 million and represented approximately 59.2% of the net asset value of the Group.

An unaudited pro-forma combined balance sheet of these affiliated companies and the Group's attributable interest in these affiliated companies as at 30 June 2002 are presented below:

	Pro-forma combined balance sheet <i>HK\$'M</i>	Group's attributable interest <i>HK\$'M</i>
Non-current assets	5,023.4	880.1
Current assets	956.4	124.0
Current liabilities	(1,486.2)	(403.9)
Non-current liabilities	(5,156.9)	(659.3)
	<u> </u>	<u> </u>
Net liabilities	<u>(663.3)</u>	<u>(59.1)</u>

AUDIT COMMITTEE

The Audit Committee engaged the auditors of the Company to assist the Committee in its review of the interim financial report of the Company for the six months ended 30 June 2002. The auditors conducted their review in accordance with the Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Society of Accountants.

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

COMPLIANCE OF CODE OF BEST PRACTICE

None of the directors of the Company is aware of information which would reasonably indicate that the Company was not in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules during the six months ended 30 June 2002.

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

During the six months ended 30 June 2002, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

By Order of the Board
AU Hing Lun, Dennis
Company Secretary

Hong Kong, 12 September 2002

Corporate Information

Directors

CHENG Wai Chee, Christopher, JP *Chairman*
CHENG Wai Sun, Edward *Chief Executive*
CHENG Man Piu, Francis
NG Tak Wai, Frederick
CHENG Wai Keung
KWOK Ping Sheung, Walter
KWOK Ping Kwong, Thomas
KWOK Ping Luen, Raymond
Simon MURRAY, CBE
FANG Hung, Kenneth, JP
WONG Yick Kam, Michael
Alternate to KWOK Ping Sheung, Walter, KWOK Ping Kwong, Thomas and KWOK Ping Luen, Raymond

Audit Committee

Simon MURRAY, CBE *Chairman*
FANG Hung, Kenneth, JP

Company Secretary

Au Hing Lun, Dennis

Auditors

Deloitte Touche Tohmatsu

Solicitors

Slaughter and May

Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited
Standard Chartered Bank

Registrars

Principal Register
The Bank of Bermuda Limited
Bank of Bermuda Building
Front Street, Hamilton, Bermuda

Branch Register
Standard Registrars Limited
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Hong Kong

Registered Office

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Head Office

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Kowloon, Hong Kong

