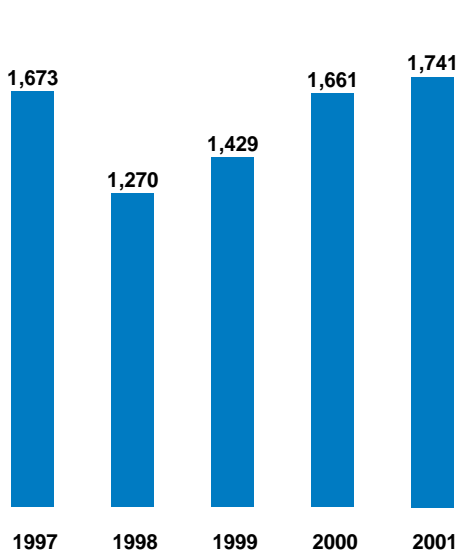




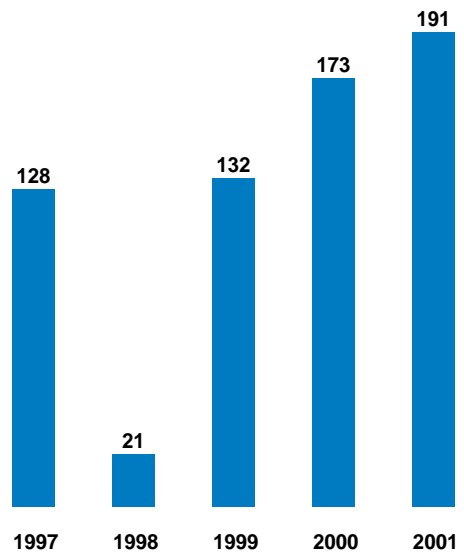
## **INTERIM REPORT 2001**

# **GIORDANO INTERNATIONAL LIMITED**

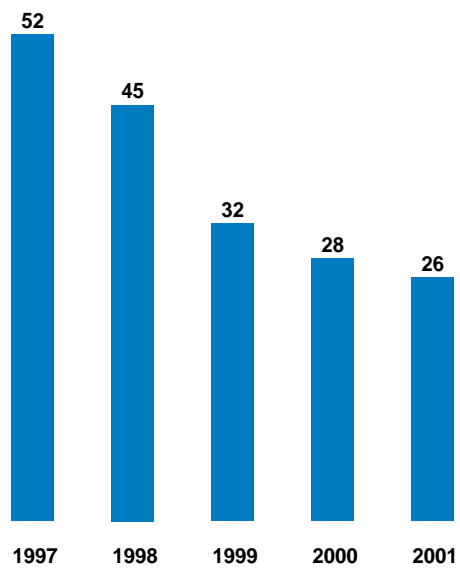
*(Incorporated in Bermuda with limited liability)*



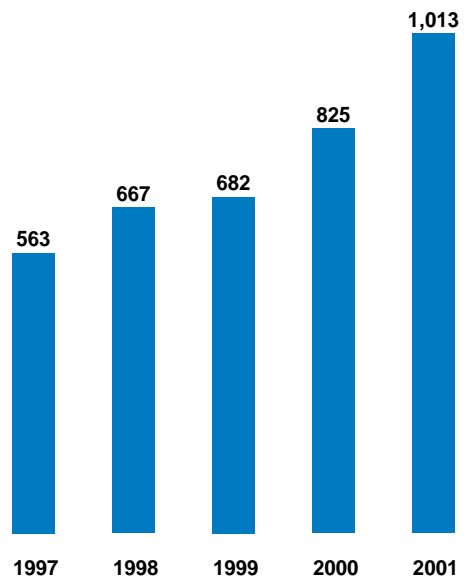
**Turnover**  
For the six months ended June 30  
(In HK\$ millions)



**Profit attributable to shareholders**  
For the six months ended June 30  
(In HK\$ millions)



**Inventory turnover on sales**  
(Days)



**Total outlets**

Giordano International Limited is an investment holding company. The principal business of the Group is the retailing and distribution of casual apparel and accessories under the “Giordano”, “Giordano Ladies”, “Giordano Junior” and “Bluestar Exchange” brands. These brands offer basic to modern fashionable apparel of quality and value. The Group has been marketing and distributing the products in Greater China, Pacific Rim-South, Korea, Middle East and recently, Japan and Germany. The Group also carries on an apparel manufacturing operation, supporting the Group’s retail business and supplying OEM products to third parties.

<b>CONSOLIDATED FINANCIAL HIGHLIGHTS</b>			
	<b>(Unaudited)</b>		
	<b>Six months ended June 30</b>		<b>%</b>
	<b>2001</b>	2000	<b>Change</b>
<b>Operating Results (HK\$m)</b>			
Turnover	<b>1,741</b>	1,661	<b>4.8</b>
Profit before taxation	<b>234</b>	211	<b>10.9</b>
Profit attributable to shareholders	<b>191</b>	173	<b>10.4</b>
<b>Per Share Data (HK cents)</b>			
Earnings per share	<b>13.3</b>	12.2	<b>9.0</b>
Interim dividend	<b>4.5</b>	4.25	<b>5.9</b>
<b>Statistics</b>			
Net earnings as a percentage of turnover	<b>11.0</b>	10.4	
Current ratio	<b>2.8</b>	3.4	
Total debt to equity ratio	<b>0.3</b>	0.3	
Inventory turnover on sales (days)	<b>26</b>	28	
Comparable store sales (decrease) / increase	<b>(1.6%)</b>	9.4%	
Number of outlets	<b>1,013</b>	825	

## UNAUDITED INTERIM RESULTS

The board of directors of Giordano International Limited (the “Company”) is pleased to present the Interim Report and condensed financial statements of the Company and its subsidiaries (the “Group”) for the six months ended June 30, 2001. The consolidated results, consolidated cash flow statement and consolidated statement of recognized gains and losses for the Group for the six months ended June 30, 2001, and the consolidated balance sheet as at June 30, 2001 of the Group, all of which are unaudited and condensed, along with comparative figures and selected explanatory notes, are set out below:

### CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

<i>(In HK\$ millions except earnings per share)</i>	Note	Six months ended June 30	
		2001 <b>(Unaudited)</b>	2000 (Unaudited)
Turnover	2	<b>\$1,741</b>	\$1,661
Cost of sales		<b>(971)</b>	(928)
Gross profit		<b>770</b>	733
Other revenues		<b>68</b>	68
Distribution, administrative and other operating expenses		<b>(642)</b>	(626)
Operating profit	3	<b>196</b>	175
Finance costs	4	<b>(2)</b>	(2)
Share of profits of associated companies		<b>40</b>	38
Profit before taxation		<b>234</b>	211
Taxation	5	<b>(40)</b>	(32)
Profit after taxation		<b>194</b>	179
Minority interests		<b>(3)</b>	(6)
Profit attributable to shareholders		<b>\$ 191</b>	\$ 173
Dividends	6		
2000/1999 final and special		<b>\$ 157</b>	\$ 198
2001/2000 interim		<b>\$ 65</b>	\$ 61
Earnings per share	7		
Basic		<b>13.3 HK cents</b>	12.2 HK cents
Diluted		<b>13.2 HK cents</b>	11.9 HK cents

## CONDENSED CONSOLIDATED BALANCE SHEET

<i>(In HK\$ millions)</i>	<i>Note</i>	<b>June 30 2001 (Unaudited)</b>	December 31 2000 (Audited)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Fixed assets	8	<b>\$ 649</b>	\$ 453
Interest in associated companies		<b>163</b>	151
		<b>812</b>	604
<b>Current assets</b>			
Inventories		<b>254</b>	303
Trade receivables	9	<b>88</b>	113
Other receivables, deposits and prepayments		<b>356</b>	341
Cash and bank balances		<b>589</b>	749
		<b>1,287</b>	1,506
<b>Total assets</b>		<b>\$2,099</b>	\$2,110
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Share capital	10	<b>\$ 72</b>	\$ 72
Reserves		<b>809</b>	825
Retained profits	11	<b>630</b>	504
Proposed dividends	1,6	<b>65</b>	157
		<b>1,576</b>	1,558
Minority interests		<b>47</b>	41
<b>Non-current liabilities</b>			
Long-term liabilities	12	<b>12</b>	19
<b>Current liabilities</b>			
Trade payables	13	<b>298</b>	296
Other payables and accruals		<b>128</b>	158
Current portion of long-term liabilities	12	<b>5</b>	5
Taxation		<b>33</b>	33
		<b>464</b>	492
<b>Total equity and liabilities</b>		<b>\$2,099</b>	\$2,110

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

<i>(In HK\$ millions)</i>	Note	Six months ended June 30	
		2001 (Unaudited)	2000 (Unaudited)
Net cash inflow from operating activities		\$270	\$131
Net cash outflow from returns on investments and servicing of finance		(139)	(178)
Total taxation paid		(27)	(24)
Net cash outflow from investing activities		(256)	(26)
Net cash inflow from financing		6	21
Decrease in cash and cash equivalents		(146)	(76)
Cash and cash equivalents at January 1		591	620
Effect of foreign exchange rate changes		(15)	1
Cash and cash equivalents at June 30	14	\$430	\$545

## CONDENSED CONSOLIDATED STATEMENT OF RECOGNIZED GAINS AND LOSSES

<i>(In HK\$ millions)</i>	Six months ended June 30	
	2001 (Unaudited)	2000 (Unaudited)
Exchange differences arising from translation of accounts of overseas subsidiaries and branches not recognized in the consolidated profit and loss account	\$ (23)	\$ 5
Profit for the period	191	173
Total recognized gains	\$168	\$178

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 1 Principal accounting policies

These unaudited consolidated condensed interim financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) 25, Interim financial reporting, issued by the Hong Kong Society of Accountants.

These condensed interim financial statements should be read in conjunction with the 2000 annual financial statements.

The accounting policies and methods of computation used in the preparation of these condensed interim financial statements are consistent with those used in the annual financial statements for the year ended December 31, 2000 except that the Group has changed certain of its accounting policies following its adoption of the following SSAP issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after January 1, 2001:

- SSAP 9 (revised): Events after the balance sheet date
- SSAP 14 (revised): Leases
- SSAP 26: Segment reporting
- SSAP 28: Provisions, contingent liabilities and contingent assets
- SSAP 30: Business combinations
- SSAP 31: Impairment of assets

The significant changes in the Group’s accounting policies resulting from the adoption of these new policies are set out below:

(a) SSAP 9 (revised): Events after the balance sheet date

In accordance with the SSAP 9 (revised), the Group no longer recognizes dividends proposed or declared after the balance sheet date as a liability at the balance sheet date. This change in accounting policy has been applied retrospectively so that the comparative figures presented have been restated to conform to the changed policy.

This adjustment has resulted in a decrease in current liabilities at June 30, 2001 by HK\$65 million (December 31, 2000: HK\$157 million) for the provision of the proposed dividends that is no longer required.

Changes to headings used in the previously reported December 31, 2000 balance sheet and profit and loss account relating to dividends and profit for the year retained have also been made to reflect the changes resulting from SSAP 9 (revised).

(b) SSAP 26: Segment reporting

In Note 2 to these condensed interim financial statements the Group has disclosed segment revenue and results as defined under SSAP 26. In accordance with the Group’s internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format. Comparative information has been given.

(c) SSAP 30: Business combinations

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary / associated company / joint venture at the date of acquisition. Goodwill on acquisitions occurring on or after January 1, 2001 is included in intangible assets and is amortized using the straight-line method over its estimated useful life. Goodwill on acquisitions that occurred prior to January 1, 2001 was written off against reserves. Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition. For acquisitions on or after January 1, 2001, negative goodwill is presented in the same balance sheet classification as goodwill. The Group has taken advantage of the transitional provisions in SSAP 30 and such goodwill has not been retroactively capitalized and amortized. However, any impairment arising on such goodwill is accounted for in accordance with SSAP 31 "Impairment of Assets".

## 2 Turnover and segmental information

An analysis of the Group's turnover and contribution to the operating profit by business segments is as follows:

<i>(In HK\$ millions)</i>	<b>Six months ended June 30</b>			
	<b>2001</b>		<b>2000</b>	
	<b>(Unaudited)</b>	<b>(Unaudited)</b>	(Unaudited)	(Unaudited)
	<b>Turnover</b>	<b>Contribution to operating profit</b>	Turnover	Contribution to operating profit
Retail and Distribution	<b>\$1,638</b>	<b>\$165</b>	\$1,573	\$141
Manufacturing	<b>350</b>	<b>31</b>	342	34
Less: Inter-segment sales	<b>(247)</b>	—	(254)	—
	<b>\$1,741</b>	<b>\$196</b>	\$1,661	\$175

The geographical segments of the Group's turnover is as follows:

<i>(In HK\$ millions)</i>	<b>Six months ended June 30</b>	
	<b>2001</b>	<b>2000</b>
	<b>(Unaudited)</b>	(Unaudited)
Taiwan	<b>\$ 405</b>	\$ 482
Hong Kong	<b>389</b>	398
Mainland China	<b>378</b>	331
Singapore	<b>169</b>	167
Korea	<b>146</b>	109
Japan	<b>88</b>	46
Other territories	<b>166</b>	128
	<b>\$1,741</b>	\$1,661

No analysis of the contribution to operating profit by geographical location has been presented as no contribution to operating profit from any of the above geographical locations is substantially out of line with the normal ratio of profit to turnover.



### 3 Operating profit

The operating profit is stated after charging:

<i>(In HK\$ millions)</i>	<b>Six months ended June 30</b>	
	<b>2001</b>	2000
	<b>(Unaudited)</b>	(Unaudited)
Depreciation of owned fixed assets	<b>\$51</b>	\$40
Depreciation of fixed assets held under finance leases	<b>2</b>	2

### 4 Finance costs

<i>(In HK\$ millions)</i>	<b>Six months ended June 30</b>	
	<b>2001</b>	2000
	<b>(Unaudited)</b>	(Unaudited)
Interest element of finance leases	<b>\$2</b>	\$2

### 5 Taxation

Hong Kong profits tax is calculated at the rate of 16.0% (2000: 16.0%) on the estimated assessable profits for the six months ended June 30, 2001. Overseas taxation is calculated at the rates applicable in the respective jurisdictions.

<i>(In HK\$ millions)</i>	<b>Six months ended June 30</b>	
	<b>2001</b>	2000
	<b>(Unaudited)</b>	(Unaudited)
Company and subsidiaries		
Hong Kong profits tax	<b>\$ 7</b>	\$ 2
Overseas taxation	<b>21</b>	21
Associated companies		
Overseas taxation	<b>12</b>	9
	<b>\$40</b>	\$32

## 6 Dividends

<i>(In HK\$ millions)</i>	<b>Six months ended June 30</b>	
	<b>2001</b> <b>(Unaudited)</b>	2000 (Unaudited)
2000 final dividend, paid, of 6.0 HK cents (1999: 5.5 HK cents) per share <i>(note (ii))</i>	<b>\$ 86</b>	\$ 78
2000 special dividend, paid, of 5.0 HK cents (1999: 8.5 HK cents) per share <i>(note (ii))</i>	<b>71</b>	120
	<b>157</b>	198
Proposed interim dividend — 4.5 HK cents (2000: 4.25 HK cents) per share <i>(note (iii))</i>	<b>65</b>	61
	<b>\$222</b>	\$259

*Note (i)* : The comparative dividends per share have been adjusted for the effect of the share subdivision (the “Share Subdivision”) effective August 11, 2000 whereby each of the then existing issued and unissued shares of HK\$0.10 each was subdivided into two shares of HK\$0.05 each.

*Note (ii)* : The previously recorded final and special dividends proposed and declared after the balance sheet date but accrued in the accounts for the years ended December 31, 1999 and 2000 were HK\$198 million and HK\$157 million respectively. Under the Group’s new accounting policy as described in Note 1(a), these have been written back to the opening reserves as at January 1, 2000 and 2001 in Note 11 and are now charged in the period in which they were proposed.

*Note (iii)* : At the board meeting held on August 9, 2001, the directors declared an interim dividend of 4.5 HK cents per share. This proposed interim dividend is not reflected as a dividend payable in these condensed interim financial statements, but will be reflected as an appropriation of retained profits for the year ending December 31, 2001.

## 7 Earnings per share

The calculation of basic and diluted earnings per share is based on the unaudited consolidated profit attributable to shareholders for the period of HK\$191 million (2000: HK\$173 million).

The basic earnings per share is based on the weighted average of 1,433,520,946 shares (2000: 1,416,532,956 shares, as adjusted for the effect of the Share Subdivision) in issue during the six months ended June 30, 2001.

The diluted earnings per share is based on 1,433,520,946 shares (2000: 1,416,532,956 shares, as adjusted for the effect of the Share Subdivision) which is the weighted average number of shares in issue during the six months ended June 30, 2001 plus the weighted average of 17,543,954 shares (2000: 38,409,594 shares, as adjusted for the effect of the Share Subdivision), deemed to be issued at no consideration if all outstanding share options granted under the employee share option scheme of the Company had been exercised.

## 8 Fixed assets

<i>(In HK\$ millions)</i>	<b>June 30 2001 (Unaudited)</b>	December 31 2000 (Audited)
Opening net book value	<b>\$453</b>	\$280
Translation difference	<b>(6)</b>	(6)
Additions	<b>256</b>	274
Disposals	<b>(1)</b>	(4)
Depreciation	<b>(53)</b>	(91)
Closing net book value	<b>\$649</b>	\$453

## 9 Trade receivables

Other than cash and credit card sales, the Group normally allows an average credit period of 60 days to its trade customers.

The ageing analysis of trade debtors is as follows:

<i>(In HK\$ millions)</i>	<b>June 30 2001 (Unaudited)</b>	December 31 2000 (Audited)
0 - 30 days	<b>\$66</b>	\$ 92
31 - 60 days	<b>15</b>	17
61 - 90 days	<b>4</b>	2
Over 90 days	<b>3</b>	2
	<b>\$88</b>	\$113

## 10 Share capital

	<b>Number of shares</b>	<b>Ordinary shares</b>	<b>Share premium</b>	<b>Total</b>
<b>Six months ended June 30, 2001</b>				
<i>(In HK\$ millions except number of shares)</i>				
Opening balance at January 1, 2001	1,430,682,518	\$72	\$448	\$520
Issue of shares pursuant to exercise of share options	5,346,000	—	8	8
Closing balance at June 30, 2001	1,436,028,518	\$72	\$456	\$528

## 11 Retained profits

(In HK\$ millions)

At January 1, 2000 as previously reported	\$384
Effect of adopting SSAP 9 (revised) (Note 1(a))	198
At January 1, 2000 as restated	<u>\$582</u>
1999 final and special dividends paid	(198)
Profit for the year	416
Repurchase of shares	(1)
Transfer to other reserves	(77)
2000 interim dividend paid (Note 6)	(61)
At December 31, 2000 as restated	<u>\$661</u>
Representing:	
Retained profits	\$504
2000 final and special dividends proposed (Note 6)	157
	<u>\$661</u>
At January 1, 2001 as previously reported	\$504
Effect of adopting SSAP 9 (revised) (Note 1(a))	157
At January 1, 2001 as restated	<u>\$661</u>
2000 final and special dividends paid (Note 6)	(157)
Profit for the period	191
At June 30, 2001	<u>\$695</u>
Representing:	
Retained profits	\$630
2001 interim dividend proposed (Note 6)	65
	<u>\$695</u>

## 12 Long-term liabilities

Included in the Group's long-term liabilities at June 30, 2001 are bank loans and overdrafts and other borrowings (excluding finance lease liabilities), which are repayable as follows:

<i>(In HK\$ millions)</i>	<b>Bank loans and overdrafts</b>		<b>Other borrowings</b>	
	<b>June 30 2001 (Unaudited)</b>	December 31 2000 (Audited)	<b>June 30 2001 (Unaudited)</b>	December 31 2000 (Audited)
Within one year	<b>\$2</b>	\$1	<b>\$—</b>	\$—
In the second year	—	1	—	—
In the third to fifth year inclusive	—	—	<b>4</b>	4
Over five years	—	—	—	—
	<b>\$2</b>	\$2	<b>\$ 4</b>	\$ 4

## 13 Trade payables

The ageing analysis of trade creditors is as follows:

<i>(In HK\$ millions)</i>	<b>June 30 2001 (Unaudited)</b>	December 31 2000 (Audited)
0 - 30 days	<b>\$177</b>	\$227
31 - 60 days	<b>55</b>	50
61 - 90 days	<b>31</b>	12
Over 90 days	<b>35</b>	7
	<b>\$298</b>	\$296

## 14 Analysis of the balances of cash and cash equivalents

<i>(In HK\$ millions)</i>	<b>June 30 2001 (Unaudited)</b>	June 30 2000 (Unaudited)
Cash and bank balances	<b>\$589</b>	\$701
Less: Bank deposits with maturity over three months from date of deposits	<b>(159)</b>	(156)
	<b>\$430</b>	\$545

## 15 Total assets less current liabilities and net current assets

The Group's total assets less current liabilities amounted to HK\$1,635 million and HK\$1,618 million at June 30, 2001 and December 31, 2000 respectively. The Group's net current assets, defined as current assets less current liabilities, amounted to HK\$823 million and HK\$1,014 million at June 30, 2001 and December 31, 2000 respectively.

The comparative figures for December 31, 2000 have been restated to take into account the adoption of the Group's new accounting policy as described in Note 1(a).

## 16 Commitments

### Commitments under operating leases

At June 30, 2001, the Group had total future aggregate minimum lease payments under non-cancellable operating leases in respect of retail shops, office premises, factories and warehouses as set out below:

Operating leases which expire:

<i>(In HK\$ millions)</i>	<b>June 30 2001 (Unaudited)</b>	December 31 2000 (Restated)
Within one year	<b>\$332</b>	\$325
In the second to fifth year inclusive	<b>443</b>	426
Over five years	<b>12</b>	7
	<b>\$787</b>	\$758

## 17 Contingent liabilities

There is no material change in contingent liabilities since the last annual balance sheet date.

## INTERIM DIVIDEND

The directors have declared an interim dividend of 4.5 HK cents (2000: 4.25 HK cents, as adjusted for the effect of the Share Subdivision) per share for the year ending December 31, 2001 payable to shareholders on the Register of Members of the Company at the close of business on September 5, 2001. The relevant dividend warrants will be despatched to shareholders on September 12, 2001.

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from September 3, 2001 to September 5, 2001, both days inclusive, during which period no transfer of shares will be registered. To qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrars in Hong Kong, Abacus Share Registrars Limited, 2401 Prince's Building, Central, Hong Kong, for registration not later than 4:00 p.m. on August 31, 2001.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### RESULTS OF OPERATIONS

#### Turnover and Profit Attributable to Shareholders

Group total turnover for the six months ended June 30, 2001 was HK\$1.74 billion (2000: HK\$1.66 billion), an increase of 4.8% over the corresponding period last year. Profit attributable to shareholders improved by 10.4% to HK\$191 million (2000: HK\$173 million).

In the Retail and Distribution Division, sales turnover increased by 4.5% to HK\$1.64 billion (2000: HK\$1.57 billion). The increase would have been 8.2% if sales turnover for overseas operations was translated into Hong Kong Dollar at constant exchange rates. Comparable store sales dropped by 1.6%. However, total Group inventory turnover on sales was 26 days (2000: 28 days), reflecting the Group's strength in the management of inventory.

The following table breaks down the Group's retail sales turnover:

<i>(In HK\$ millions)</i>	Six months ended June 30		%
	2001	2000	Change
Taiwan	405	482	-16.0
Hong Kong	382	380	0.5
Mainland China	374	319	17.2
Other markets	273	225	21.3

All markets except for Taiwan reported sales improvements. Taiwan retail sales fell by 16.0% to HK\$405 million (2000: HK\$482 million), attributable to a severe market condition and a sliding New Taiwan Dollar. Of this decrease, 9.8% was the result of the conversion of a weaker New Taiwan Dollar into Hong Kong Dollar.

Hong Kong retail sales were virtually unchanged at HK\$382 million (2000: HK\$380 million), reflecting an uncertain economic outlook.

Mainland China reported a turnover growth of 17.2% to HK\$374 million (2000: HK\$319 million), primarily due to the net increase of 101 retail outlets.

Each of the brands performed differently according to the different stage of its development.

Retail and wholesale turnover of “Giordano” was HK\$1.41 billion for the six months ended June 30, 2001 (2000: HK\$1.39 billion). The slower growth reflects the Group’s preference in margins protection to top-line targets. Drivers for accelerated top-line growth of “Giordano” will mainly come from new markets and markets with further growth opportunities. These include Australia, Japan, Korea and Mainland China. A comeback of the Taiwan market is also believed to be on the horizon when the economy there begins to recover.

The turnover of “Giordano Ladies” improved by 36.2% to HK\$64 million (2000: HK\$47 million). In addition to the Taiwan and Hong Kong markets, “Giordano Ladies” has also opened outlets in Guangzhou, Shanghai and Beijing. Initial responses have been encouraging and more outlets will be opened this year.

The turnover of “Giordano Junior” improved slightly by 4.2% to HK\$74 million (2000: HK\$71 million). This brand will be re-marketed to deliver unique value to its supporters this fall.

Going into its third year of operation, “Bluestar Exchange” retail sales reached HK\$91 million (2000: HK\$65 million) for the six months ended June 30, 2001. The improvement was mainly due to the net increase of a total of 20 outlets in Taiwan, Singapore and Germany. The brand was re-marketed this spring to improve both gross and operating margins. In collaboration with China Resources Enterprise, Limited, “Bluestar Exchange” is being marketed as “Blue Navy” in Mainland China, but with a facelift to test a new concept there. A quick roll-out of upto 25 outlets within six months is expected after the first few shops have been adequately tested.

The Manufacturing Division’s sales turnover, including intra-group sales, increased only by 2.3% to HK\$350 million (2000: HK\$342 million) for the six months ended June 30, 2001. Net sales to external customers, however, improved by 17.0% to HK\$103 million (2000: HK\$88 million). This was in line with Group’s policy to shift its manufacturing capacity towards external customers. The Manufacturing Division’s contribution to Group operating profit after consolidation adjustments amounted to HK\$31 million (2000: HK\$34 million), representing 15.8% (2000: 19.4%) of total Group consolidated operating profit.

## **Margins**

Gross profit increased by 5.0% to HK\$770 million (2000: HK\$733 million) for the six months ended June 30, 2001. Gross profit margins improved slightly to 44.2% (2000: 44.1%).

Lower retail margins in Taiwan were offset by improved retail margins reported in other markets. The margins protection policy was backed by a product innovation and value enhancement strategy. This also reflected less markdowns during the period under review.

Gross margins from the Manufacturing Division also improved slightly due to lower material cost and the benefit of its expanded subcontracting.



## **Distribution Costs and Administrative and Other Operating Expenses**

Total distribution costs and administrative and other operating expenses increased by 2.6% to HK\$642 million (2000: HK\$626 million), representing 36.9% of turnover (2000: 37.7%).

## **Cash Flows**

Cash provided from operating activities was HK\$270 million, compared with HK\$131 million for the corresponding period in 2000. This HK\$139 million increase was primarily attributable to a reduction in inventory and receivables.

Net cash outflow from returns on investments and servicing of finance was HK\$139 million, compared with HK\$178 million reported in 2000. The decrease was primarily due to a smaller dividend payments of HK\$157 million (2000: HK\$198 million).

Net cash outflow from investing activities was HK\$256 million compared with HK\$26 million reported in 2000. This HK\$230 million increase was primarily due to a premium payment for acquiring a Hong Kong leasehold interest in January 2001. The total outflow for this leasehold interest was HK\$207 million.

Net cash inflow from financing activities was HK\$6 million, compared with HK\$21 million reported in 2000. This HK\$15 million decrease primarily reflected a reduction in share repurchase expenditure, offset by the decrease in proceeds from the exercise of share options. The Company did not repurchase any of its shares for the six months ended June 30, 2001 (2000: HK\$40 million). The proceeds from the exercise of share options also decreased to HK\$8 million (2000: HK\$63 million).

## **FINANCIAL CONDITION**

### **Liquidity and Capital Resources**

Cash and bank balances amounted to HK\$589 million as at June 30, 2001 (June 30, 2000: HK\$701 million). The current ratio was 2.8 (June 30, 2000: 3.4). The Group's total liabilities amounted to HK\$476 million (June 30, 2000: HK\$407 million). As at June 30, 2001, the Group's gearing ratio was 0.3 (June 30, 2000: 0.3) based on average shareholders' equity of HK\$1.58 billion (June 30, 2000: HK\$1.45 billion).

Due to its globalized activities, the Group is exposed to foreign currency exchange rate fluctuation. The Group mitigates the risks associated with changes in foreign currency rates by entering into certain foreign exchange forward contracts to hedge payments of intercompany purchases with certain subsidiaries. Cash surplus in overseas operations are also remitted to Hong Kong on a timely basis. In the long term, the Group will procure more from suppliers in local markets.

As of June 30, 2001, the Group had trade finance and revolving loan facilities totaling HK\$728 million. None of the revolving loan facilities was utilized. Management believes that existing financial resources will be sufficient to meet future expansion plans and, if necessary, the Company will be able to obtain additional financing on favorable terms.

## OUTLOOK

The Group believes it has made great strides for the first six months of 2001 as it has attained a steady profit growth of 10.4% for the period in light of the tremendous profit base same period last year.

However, it is prudent not to be overly optimistic in one's forecast for the coming six months as macroeconomic conditions in some existing markets are still due for recovery. Hence, the Group will be cautious in its strategic plan for its operations in all major markets.

For the coming six months, Management will focus on:

- (1) Product assortment refinement — this strategy has been a proven success and is a key factor in improving margins and turnover of the Group. However, the Group will not sacrifice operating margins for extra turnover growth. Higher value-added products will stimulate purchasing desires of our customers.
- (2) Advertising — to further the Group's market share, the Group will increase resources in its advertising campaign to gain brands awareness and turnover growth. These additional resources will be in line with the percentage of the extra projected turnover.
- (3) Reducing fixed overheads — the Group will continuously review and streamline its operations in order to maintain the most efficient levels of fixed costs and overheads.
- (4) Further expansion in newly developed markets — the Company expects Japan will open three more outlets; Germany will open 24 more outlets; Australia will open seven more outlets and Indonesia will open seven more outlets. With these expansion, the Group will reach a significant economy of scale in these markets. For the full year 2001, Management expects a small loss will be registered in Japan and Germany as necessary adjustments are being made to correct inevitable start-up issues in these newly developed markets. It is expected that meaningful contributions to the Group will follow in coming years.

## HUMAN RESOURCES

As of June 30, 2001, the Group's total number of employees was about 8,000. The Group offers a competitive remuneration package to its employees. In addition, discretionary bonus and share options may be granted to eligible employees based on the Group's performance and individual performance.

During the six months ended June 30, 2001, options to subscribe for a total of 4,940,000 shares of the Company were granted to eligible employees of the Group under the employee share option scheme of the Company, and options to subscribe for a total of 200,000 shares were cancelled and/or lapsed due to the expiries and resignations.

## DIRECTORS' INTERESTS

As at June 30, 2001, the interests of the directors in the share capital of the Company were as follows:

Director	Number of shares held and nature of interest				Number of shares over which options have been granted which remained outstanding
	Personal	Family	Corporate	Total	
Lau Kwok Kuen, Peter	11,708,000	—	—	11,708,000	25,000,000
Fung Wing Cheong, Charles	—	—	—	—	1,700,000
Mah Chuck On, Bernard	479,086	—	—	479,086	1,840,000
Ng Sze Yuen, Terry	692,000	—	—	692,000	900,000
Wong Pak Chuen, Paul	1,296,000	—	—	1,296,000	748,000

Save as disclosed above, as at June 30, 2001 none of the directors or their associates had any interests in the share capital of the Company or its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "Ordinance")) which had to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to section 28 of the Ordinance (including interests which they are deemed or taken to have under section 31 of, or Part I of the Schedule to, the Ordinance) or which were required, pursuant to section 29 of the Ordinance, to be entered in the register referred to therein.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

During the six months ended June 30, 2001, options to subscribe for 200,000 shares of the Company were granted to the following director:

Director	Number of shares over which options were granted	Exercise price per share
Wong Pak Chuen, Paul	200,000	HK\$ 3.384

During the six months ended June 30, 2001, options for 1,400,000 shares of the Company granted in previous years were exercised by the following director:

Director	Number of options exercised	Exercise price per share
Lau Kwok Kuen, Peter	1,400,000	HK\$ 2.22

Apart from the above, at no time during the six months ended June 30, 2001 was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company or any of their spouses or children under the age of 18 to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

## **SUBSTANTIAL SHAREHOLDERS' INTERESTS**

So far as the directors are aware, no parties were, directly or indirectly, interested in 10% or more of the issued share capital of the Company as at June 30, 2001 as recorded in the register required to be kept by the Company under section 16 of the Ordinance.

## **CORPORATE GOVERNANCE**

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not during the six months ended June 30, 2001, in the compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange except in relation to guideline 7: as non-executive directors of the Company are appointed for a term expiring upon their retirement by rotation as required by the Company's Bye-Laws; and guideline 11: as a matter of Company policy, remuneration of directors is dealt with by a compensation committee appointed by the board of directors of the Company which comprises two executive directors, two independent non-executive directors and an independent management consultant.

## **AUDIT COMMITTEE**

The Audit Committee has reviewed with directors the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters related to the preparation of the unaudited condensed financial statements for the six months ended June 30, 2001.

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

The Company has not redeemed any of its listed securities during the six months ended June 30, 2001. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the same period.

By Order of the Board  
**LAU KWOK KUEN, PETER**  
*Chairman*

Hong Kong, August 9, 2001