

MANAGEMENT DISCUSSION AND ANALYSIS

Business Operations

The Group is engaged in the manufacturing of a wide range of fashion products including suits, jackets, coats, outerwear and sportswear under customers' brandnames. The Group is also engaged in the retailing and trading of men's casual sportswears and ladies' fashion under various brandnames in Hong Kong, the Mainland China and other Asian countries. Most of the Group's products are manufactured according to the designs, fabrics and accessories provided by the customers.

The Group produced about 5.5 million pieces of garments during the period under review in 2001 (2000 - 7.1 million pieces) from 14 factories located in Hong Kong, the PRC, the Philippines, Taiwan and the Union of Myanmar. The Group has about 18,600 (2000 - 18,000) employees.

Operating Results and Financial Position

For the six months ended June 30, 2001, total turnover of the Group decreased from HK\$1,060,801,000 in 2000 to HK\$967,606,000 in 2001, representing a decrease of 9%. The Group's turnover from manufacturing operation was down by 18% from HK\$797,252,000 to HK\$656,833,000. This decrease was partly offset by the growth in retail and trading operations which was up by 18% from HK\$263,549,000 to HK\$310,773,000. Export sales to US were up by 5% from HK\$620,069,000 to HK\$649,377,000. Sales to Asia and Europe were down by 30% and 24% to HK\$203,298,000 and HK\$114,931,000 respectively, mainly due to the bad economic condition in these regions. US continues to be the dominant market for the Group accounting for 67% (2000 - 58%) of the total turnover.

Gross profit of the Group decreased from HK\$256,733,000 in 2000 to HK\$228,249,000 in 2001, representing a decrease of 11%. The change was mainly attributable to the decrease in turnover and contribution margin resulting from keen competition.

Profit from operations decreased from HK\$54,614,000 to HK\$29,266,000 in 2001, representing a decrease of 46%. It was mainly due to the decrease in the profit of manufacturing operation from HK\$29,211,000 to HK\$8,236,000. Under the current highly competitive market environment with tight profit margin and high customer expectation, the Group has to adopt a very responsive pricing strategy to retain its edge. On the other hand, the Group's significant investment in engaging external consultants for the business improvement programs did add up the operating cost for the period under review. However, the Group believes that the strategic investment in consultancy work to build up the world class infrastructure will greatly improve its overall market positioning as well as long term competitiveness. The trading operation also experienced a decrease of operating profit from HK\$24,727,000 to HK\$20,349,000 due to the severe competition in the US market. On the retail side, it was stable during the period and the operating profit increased from HK\$676,000 to HK\$681,000.

Profit attributable to shareholders decreased by 33% from HK\$39,228,000 in 2000 to HK\$26,405,000 in 2001 mainly as a result of the decrease in turnover and significant investment in the business improvement program.

There were no material acquisitions and disposals of subsidiaries and associates during the period.

Working Capital and Liquidity

During the period, the Group was able to maintain healthy working capital and sound liquidity position. Receivable turnover improved slightly from last year's 58 days to 57 days. Inventory turnover increased from last year's 72 days to 85 days which was mainly due to the piling up of inventory in June as the peak season for production had been shifted to July and August.

Current ratio improved from last year's 1.07 to 1.18 while quick ratio also improved from last year's 0.64 to 0.73. These indicated that the Group had a sound liquidity position.

Capital and Debt Structure

During the period, the Company issued an additional 5,345,000 shares because of the exercise of share options. The exercise price of these options was HK\$1.62 per share and the total consideration amounted to HK\$8,659,000. Other than that, there was no requirement or plan to raise fund through the issuance of equity or debt securities. The Group is able to finance its peak season activity by internally generated fund and short-term bank financing. The short-term bank loans and overdraft of the Group as at June 30, 2001 amounted to HK\$226,815,000.

Total bank borrowings decreased from HK\$308,630,000 as at June 30, 2000 to HK\$226,815,000 as at June 30, 2001, representing a decrease of 27%. Cash and bank balances, on the other hand, increased by HK\$35,767,000 to HK\$71,058,000 as at June 30, 2001 comparing with the same period in 2000. Gearing ratio improved significantly to 38% as at June 30, 2001 (June 30, 2000 - 53%) due to the reduction in bank borrowings.

During the period, the Group entered into a forward contract to hedge its foreign currency denominated sales order against the fluctuation of exchange rates.

The Group had unutilized banking facilities of HK\$660,000,000 as at June 30, 2001 (June 30, 2000 - HK\$433,000,000). Save as disclosed in the unaudited interim financial statements, the Group did not create any charges on its assets to secure the banking facilities during the period.

Results of Significant Investments

The Group's interests in associated companies, Hua Thai Manufacturing Public Company Limited and its subsidiaries (the "Hua Thai Group"), amounted to HK\$163,658,000 as at June 30, 2001 (June 30, 2000 - HK\$196,857,000). The principal activity of the Hua Thai Group is also garment manufacturing and its principal place of operation is in Thailand. The Group's share of operating profit after taxation of the Hua Thai Group increased from a loss of HK\$3,082,000 in 2000 to a profit of HK\$1,964,000 in 2001.

Contingent Liabilities and Capital Commitments

In settlement of most of its accounts receivable, the Group received bills of exchange from customers. Some of the bills of exchange might be discounted to banks in order to finance for the operations. As at June 30, 2001, the Group did not have any outstanding discounted bills with recourse to the banks (June 30, 2000 - HK\$36,973,000).

In the normal course of business, the Group may be subject to certain claims/counter claims from suppliers, customers or other third parties. Management has estimated that these contingent liabilities, even if they materialize, will not have a material adverse effect on the ongoing operations of the Group.

There were no material capital commitments as at June 30, 2001 which would require a substantial use of the Group's present cash resources or external funding.

Human Resources

Human resources is always an important asset of the Group. Fair remuneration packages and fringe benefits are offered to competent staff. Discretionary bonus will be granted to eligible employees with outstanding performance. In addition, share options have also been granted to certain employees allowing them to subscribe for shares of the Company since 1998.

Future Prospects

As one of the major garment manufacturers in Asia, the Group will continue to concentrate on its core activity. The Group will seek for opportunities to diversify its product type as well as to explore potential locations for future production.