



16. Contingent Liabilities

As at 30 September 2001, the Company had provided unlimited corporate guarantee for banking facilities granted to certain of its subsidiaries which were utilized to the extent of HK\$71,008,000.

17. Comparative Figures

Certain comparative figures have been reclassified to conform with the presentation in the current period.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Directors of the Company announces that the Group recorded a turnover of HK\$213,819,000 for the period ended 30 September 2001, representing an increase of 19% over the previous corresponding period. Net profit from ordinary activities attributable to shareholders increased to HK\$29,713,000 from HK\$24,583,000 in 2000, an increase of 21% compared with the previous year. Earnings per share amounted to HK3.6 cents (2000: HK4.0 cents).

In order to achieve cost-effectiveness and maintain flexibility, over 90% of the Group's products were produced on a subcontracting basis. The Group has maintained good relationship with its subcontractors which have enhanced the effectiveness of the operation. In order to institutionalize our commitment to quality, the quality control team of the Group adopts stringent quality control measures on materials and production process.

To sharpen the product's competitive edges, the Group has endeavoured to enhance the value-added function of our products. During the period under review, the Group has invested in nano technology and applied it to the garment manufacturing process. Processed clothing under this technology are stain repellent, water-resistant and anti-bacterial and requires about 50% less detergent usage than normal clothing does. Accordingly, clothing processed under this technology is more environmental friendly. Nano technology is applicable to most clothing materials and therefore providing ample room for the development of casual wear line.

In respect of market exploitation, an addition of 36 franchise shops and 2 retail shops were opened in the PRC and Hong Kong respectively. In order to satisfy the growing demand of customers for U-RIGHT's products, the Group has strived to develop our existing and overseas market and further broaden our market share.

The Group has adopted a new Company logo during the period which demonstrates our respect to every customer and our commitment to render the best service to our customers. The Group redecorated most of the retail and franchise shops with the new Company logo. The new Company logo emphasizes the Group's new and energetic image and consolidates the Group's status in the industry.



PRC

The PRC market exhibited a satisfactory performance during the period under review and remained a major market of the Group. Turnover increased to HK\$153,950,000, representing 72% of the total turnover of the Group. The Group believes that the distribution of the Group's products through the 182 franchise shops in the PRC is the best way of operating the business there. The sales in the PRC contributed 79% to the Group's profit during the period.

The growth of the Group recorded in the PRC market was mainly contributed by the stable growth of the PRC economy and the continuous increase of domestic consumption power. Consumers are willing to spend more on consumer goods, and casual wear is well received by the customers there. In addition, as the PRC government's policy to promote "Long Holidays" has stimulated the demand for casual wear, the keen demand of the consumers in the PRC for the Group's products has increased the sales of the Group and consolidated the status of the Group in the casual wear industry.

In order to broaden the market share of the Group in the PRC and explore different market segments, the Group acquired Atlantis Investment International Holdings Limited ("Atlantis Investment") at a consideration of HK\$9,000,000 in April 2001. Atlantis Investment owns the casual wear brandname "Atlantis" in the PRC and is engaged in the design and distribution of female casual wear for customers aged between 18 to 30. For the six months ended 30 September 2001, Atlantis Investment operates a total of 20 franchise shops in the southern part of the PRC. Atlantis Investment aims at another group of customers, which helps the Group to explore different market segment and enhance the sales of the Group.

Hong Kong

In view of the sluggish performance of the Hong Kong economy due to the slowdown of the global economy, consumers have become more cautious on spending than before. However, leveraging on the advantages of the Group as well as the growth in sales recorded during the period, the Group achieved a turnover of HK\$57,731,000, representing 27% of the total turnover of the Group, an increase of 6.5% over the previous period.

Overseas

During the period, in order to promote the U-RIGHT brandname to the Middle East market, the Group has granted a distribution right to Seyrwan Est., garment and retail shops in Middle East. Furthermore, in order to exploit business opportunities, the Group is actively expanding our distribution business to South Korea and Thailand markets and is preparing to form joint ventures with its business partners in South Korea and Thailand.



PROSPECTS

Market exploitation has always been the development philosophy of the Group. The PRC market will continue to be a key market of the Group. Hong Kong economy is expected to resume growth in the coming year. With the Group's faster pace in the development of market and product types during the period, the Group believes that we can establish our foothold in markets other than those in the PRC and Hong Kong.

With the various events to be held in the coming year in the PRC and its flourishing economy, the management is confident about the tremendous potential growth of the retail business in the PRC. To further expand the sales and distribution network of the Group, the Group expects an addition of 50 franchise shops and 3 retail shops will be opened in the PRC and Hong Kong respectively in the second half of the year.

The accession of the PRC to the World Trade Organisation ("WTO") will stimulate the pace of economic reforms and will bring substantial growth and opportunities to the retail business. Meanwhile, the successful application of Beijing to host the 2008 Olympic Games will expedite the economic development of the PRC and stimulate domestic consumption. The management is optimistic about the immense business opportunities brought by the PRC's entry to the WTO and the continuous robust economy of the PRC. In addition, the Group will continue to benefit from our existing marketing position. It is expected that many more franchisees will join our Group and set up more franchise shops in the PRC with the "U-RIGHT" and "Atlantis" brand names.

Looking ahead, the Group will deploy resources to diversify our products and expand our market as well as to control cost. Nano processed environmental friendly garment and the study of application of the nano technology to other commodities will be the focus of business development of the Group. The management believes that the development and application of the nano technology will bring a tremendous opportunity and a profitable business to the Group.

The nano products of the Group will be launched to the market in late 2001. The Group will focus on providing value-added products and high quality services to our customers. The Group also intends to further increase our turnover and promote the awareness of the Group's brand name through enhancing the quality and competitiveness of our products so as to achieve the objective of consolidating our status in the industry.

FINANCIAL POSITION

The Group financed the business development with internal funds, bank borrowings and import and export facilities. As at 30 September 2001, banking facilities (including trade facilities, revolving loans and guarantees) unutilised by the Group amounted to HK\$56 million (31 March 2001: HK\$61 million).

The current ratio of the Group as at 30 September 2001 was 1.15 (31 March 2001: 1.30) and the gearing ratio was 1.08 (31 March 2001: 1.09). The gearing ratio was calculated by dividing the total liabilities amounting to HK\$167,629,000 (31 March 2001: HK\$149,032,000) by shareholders' equity of HK\$155,788,000 (31 March 2001: HK\$137,076,000).



EMPLOYMENT, TRAINING AND DEVELOPMENT

At 30 September 2001, the Group had a total of 652 employees of which 195 were based in Hong Kong and 457 based in the PRC.

Remuneration packages are maintained at a competitive level and reviewed on a periodical basis. Bonus and share options are awarded to certain employees according to the assessment of individual performance and industrial practice.

Frequent training sessions were also conducted to enhance product knowledge and selling techniques of all front line sales staff.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 September 2001, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

AUDIT COMMITTEE

The Audit Committee of the Company presently comprises Mr. Wang Pingqing and Mr. Wong Kong Hon, independent non-executive directors. The Audit Committee has reviewed the unaudited interim condensed consolidated financial statements in respect of the period and discussed with the Directors the internal control and financial reporting matters.

DIRECTORS' INTERESTS IN SECURITIES

At 30 September 2001, the interests of the Directors and their associates in the securities of the Company and its associated corporations, as recorded in the register (the "Register") maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"), were as follows:

| Name of Director | Type of Interests | Number of Shares of the Company Interested | Number of Warrants of the Company Interested |
|---------------------------------|-------------------|--|--|
| Mr. Leung Ngok (<i>Note</i>) | Corporate/family | 513,562,500 | 102,712,500 |
| Mr. Leung Shing (<i>Note</i>) | Corporate/family | 513,562,500 | 102,712,500 |

Note: These shares are held by ACE Target Inc. as trustee of The Target Unit Trust, a unit trust of which 51% of the units in issue are owned by Ansbacher (BVI) Limited, as trustee of The Leung Ngok Family Trust, a discretionary trust of which the objects include Mr. Leung Ngok's family members, and of which 49% of the units in issue are owned by Ansbacher (BVI) Limited, as trustee of The Leung Shing Family Trust, a discretionary trust of which the objects include Mr. Leung Shing's family members. The issued share capital of ACE Target Inc. is held by Mr. Leung Ngok and Mr. Leung Shing in the proportion of 51% and 49%, respectively.