

## Chairman's Statement

### Introduction

During the first half of 2002, the global economy was underpinned by moderated optimism while mixed signals from the US economy impacted market behaviour. Even though retail spending continued to grow modestly in most of our export markets, our customers generally took a cautious approach by spreading orders over a number of shipments. We were well prepared to deal with this environment of change and uncertainty and were able to stay on our defined course because of our policy of fiscal prudence, clarity of purpose, and consistency in strategy and execution.

### Performance

The Group's turnover on continuing operations registered a modest increase of 5.7% to HK\$14.3 billion. Profits attributable to shareholders were HK\$340 million, compared with HK\$338 million for the same period in 2001. The Group's profits declined by 8.8% when compared to last year's profit from continuing operations of HK\$373 million. Earnings per share on continuing operations were 11.8 HK cents (2001: 13 HK cents).

For the six months ended 30 June 2002, the Board of Directors has resolved to declare an interim dividend of 8.5 HK cents per share (2001: 8 HK cents).

Modest turnover growth was achieved despite a slowing of demand in the last quarter of 2001, while the decrease in profit was in part a result of a change in emphasis to lower margin value retailers and our build up in design and product development capabilities.

The Group remained on course with its diversification strategy, covering geography, product and customer base, and the Group continued to focus on cost control, and information technology enhancements that generate operational efficiencies and new business opportunities.

We made progress with our 'hard goods' strategy. In July 2002, the Group signed a Sale and Purchase Agreement to acquire Janco Overseas Limited, a sourcing company headquartered in Hong Kong. The acquisition was completed in August 2002 and, as a result, our enlarged Group has become more diversified in terms of customer base and product categories. Janco's largest customers are food retailers rapidly increasing their non-food offerings. This is a growing trend globally. In addition to opening access to an important new customer segment, the business is primarily hard goods, so we see this acquisition as a further diversification and is very positive for the Group.

Also in July 2002, the Group announced a collaborative initiative with Microsoft to further enhance the connectivity of the Group's global supply chain system. The new technology will provide for deeper integration with our customers and suppliers, as well as further flexibility in regard to customer response. With this, our global status as the leading Supply Chain Manager with an unparalleled and technologically advanced sourcing network, will be further reinforced.

Importantly too, with the Group's strong financial situation, we will be in a healthy position to further our acquisition strategy and network enhancement programmes.

### Prospects for the Rest of the Year

Economic growth prospects in North America remain uncertain for the rest of the year. The Group, however, is quite well placed. Orders received in the first half of the year point to a stronger second half for the Group. For this fiscal year, our growth is likely to be enhanced by our expanded operation and increased efficiencies.

The Group will continue with its prudent policies. We will concentrate on what we do best and continue to make improvements across a range of product areas and services. The Group's strong track record and clear direction for the future will remain cardinal as we maintain our expansion and our growth.

We will continue to seek out further investment opportunities, not just in Hong Kong and the US but also in Japan, where we now have a business alliance, and Europe. Market conditions may also provide opportunities for prudent and strategic acquisitions.

Our efforts will be unrelenting in the pursuit of our goals as set forth in our current Three-Year Plan (2002–2004). We will also remain realistic in our targets with cost management a major priority.

The Group's balance sheet remains very strong. Our cash on hand is HK\$2.3 billion.

### Corporate Governance

The Board remains committed to the principles, and practice, of good corporate governance. The Group's Corporate Governance Division, headed by our Chief Compliance Officer, maintains rigorous watch over the accounting systems and controls of the Group.

Our Audit Committee comprises six non-executive directors, four of whom are independent directors, and the Chief Compliance Officer. We also have a Risk Management Committee that constantly reviews the Group's risk management and internal control systems.

In all areas of the Group's operations, we intend to adhere to the highest standards.

## Conclusion

Although the future remains somewhat uncertain, we believe our consistency and leading industry position will provide us with the necessary fortitude for continued prudent and measured growth.

**Victor FUNG Kwok King**

*Chairman*

Hong Kong, 15 August 2002

## Managing Director's Report

### Results review

Trading results were flat during the first half of 2002. Most of the Group's shipments during the period reflected orders placed in the second half of 2001, when the US was in recession and the terrorist attacks of September 11 in New York badly affected buyers' sentiment. Hence, the Group's turnover on continuing operations only registered a modest increase of 5.7% to HK\$14.3 billion. However, the US consumer market did not react as badly as widely predicted during the Christmas season of 2001 and the beginning of 2002. As a result, the Group's orders for goods to be shipped in the second half of 2002 were much stronger than expected.

The discontinued operation in 2001 reflects the restructuring of an Internet based business, StudioDirect.

North America remains the Group's major market in the first half of 2002, accounting for 74% of turnover. Our shipments have been affected by a general slowdown there since the second half of last year, and turnover increased a modest 5.4% with a slight drop in profits. In Europe, business was stable, and prudent cost management has resulted in a 12.9% increase in operating profits. Other markets are small but building steadily. Earlier this year, the Group entered into a Business Alliance with Nichimen Corporation to open up the Japanese market. This has led to a big increase in turnover, to HK\$441 million, while incurring some small start-up losses.

In terms of product segments, the soft goods business has been affected by general caution on inventory amongst our customers. In particular, customer demand for shorter lead times and quick response manufacturing has led to a further skew in ordering pattern for the second half, when compared to previous years. This has resulted in flat sales and a drop of 13.6% in operating profits for the first half. On the other hand, the Group's hard goods strategy and increased product development capabilities have started to pay off with a healthy increase in turnover, and operating profits of 27% and 281% respectively. Compared to the first half of 2001, as a proportion of the Group's turnover, hard goods has risen from 23% to 27%.

In the first half of 2002, the Group's total margin continued to move up, from 9.4% to 9.5%. However, operating margin before discontinued operations and provisions, suffered a decline from 2.5% to 2.3%. This was in part attributable to the set up of a major design and product development center in New York. Whilst this was an important strategic move in line with the Group's Three-Year Plan strategy to build more higher-margin businesses, it resulted in an increase in operating cost during the period, compared to the previous year. The Group's operating profits before discontinued operations and provisions declined marginally to HK\$333 million (2001 interim: HK\$337 million).

Due to the large drop in interest rates, the Group's interest income recorded a decline to HK\$30 million (2001 interim: HK\$70 million). Taking into account interest income, associated companies' performance, taxation and minority interests, the Group's attributable profits on continuing operations were HK\$340 million, an 8.8% decline from the first half of 2001, whilst total profits registered a slight increase of 0.6%.

## Financial Position

The Group's financial position continues to be very strong, with cash and cash equivalents of HK\$2.3 billion as at 30 June 2002. In addition, the Group has bank loans and overdraft facilities of HK\$447 million, out of which only HK\$191 million has been utilized. The Group has a current ratio of 1.5 and a low gearing ratio of less than 1%, based on long-term liabilities of HK\$28 million and shareholders' equity of HK\$3.3 billion as at 30 June 2002.

There are no material changes in the Group's borrowings since 31 December 2001.

## Capital Commitment and Contingent Liabilities

The Group has signed a Sale and Purchase Agreement to purchase additional office space near its headquarters in Hong Kong, for a consideration of HK\$72 million. The Group has expanded rapidly in recent years and now rents substantial outside space. This purchase will reduce the rental paid by the Group as well as improve operational efficiency.

Save for the above, the Group has no material contingent liabilities and off-balance sheet obligations other than those including trade bills discounted in the ordinary course of business as noted in the accounts.

## Foreign Exchange Risks

Substantially all of the Group's cash balances are deposited in HK\$ or US\$ with major banks in Hong Kong. The Group has a HK\$32 million short term revolving loan denominated in Yen as a currency hedge against shares held in Nichimen Corporation, a strategic investment made in the Business Alliance to open up the Japanese market. Except the above, most of the Group's assets and liabilities, revenues and payments are either in HK\$ or US\$. Therefore we consider our exposure to foreign exchange fluctuations minimal.

## Post Balance–Sheet Date Development

On 9 July 2002, the Group announced an agreement to acquire Janco Overseas Limited (“Janco”), a Hong Kong–based buying agent for a total cash consideration of US\$32 million, or 7.8 times Janco’s recurrent earnings of US\$4.1 million in the year to 30 June 2001. The acquisition will be funded by the Group’s internal cash resources. The acquisition is in line with our strategy to accelerate our growth in the hard goods area. It also expanded the Group’s penetration of the hypermarket and supermarket segment where there is significant growth in the private label, non–food business.

The above acquisition was completed on 13 August 2002 and work is already underway to combine the two back offices to derive economies of scale. The acquisition has resulted in a goodwill of HK\$225 million, which will be amortized over 15 years, leading to a charge of approximately HK\$15 million per annum. Going forward, we expect Janco’s sales and profitability to improve significantly with expanded capabilities and greater efficiencies derived from the combined group.

## Human Resources

At the end of June 2002, the Group had a total of 4,964 staff. The Janco acquisition in August 2002 brought the total to 5,176. Human capital is a key asset to the growth and profitability of the Group and there is heavy emphasis on staff training and development. The Group offers its employees competitive remuneration schemes. In addition, share options and discretionary bonuses are also granted to eligible staff based on individual and Group performance. Total staff cost for the six months ended 30 June 2002 was HK\$613 million.

## Prospects

Much better than expected orders taken during the first six months of 2002 pointed towards a pick up in buying sentiment. This will result in strong shipments in the second half of the year. Barring any unforeseen circumstances, management expects turnover growth to be much faster than in the first half. In particular, we see particular strength in the value retailing sector, as well as in the hard goods category.

However, management remains wary of the outlook for the US, the Group’s major market, especially if problems in the financial markets were to filter into the economy. The Group has implemented prudent measures to control costs and improve efficiency in an uncertain environment.

**William FUNG Kwok Lun**

*Managing Director*

Hong Kong, 15 August 2002