

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 sportswear 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 5.0 million pieces of garments during the period under review in 2002 (2001 - 5.5 million pieces) from 14 factories located in Hong Kong, the PRC, the Philippines, Taiwan and the Union of Myanmar. The Group has about 18,300 (2001 - 18,600) employees.

Operating Results and Financial Position

For the six months ended June 30, 2002, total turnover of the Group decreased from HK\$967,606,000 in 2001 to HK\$822,617,000 in 2002, representing a decrease of 15%. The Group's turnover from manufacturing operation was down by 15% from HK\$656,833,000 to HK\$557,770,000 while the Group's turnover from trading operation was down by 16% from HK\$258,298,000 to HK\$216,195,000. In addition, the Group's turnover from retailing business was also down by 7% from HK\$52,475,000 to HK\$48,652,000. Export sales to Europe was up by 32% from HK\$114,931,000 to HK\$151,438,000 as a result of increased orders from key customers. Sales to US and Asia were down by 19% and 29% to HK\$525,905,000 (2001 - HK\$649,377,000) and HK\$145,274,000 (2001 - HK\$203,298,000) respectively, which was mainly due to weak economic condition in these regions. US continues to be the dominant market for the Group accounting for 64% (2001 - 67%) of the total turnover.

Gross profit of the Group decreased from HK\$228,249,000 in 2001 to HK\$163,491,000 in 2002, representing a decrease of 28%. The change was mainly attributable to the decrease in turnover and price reduction from customers.

Loss from operations of HK\$21,284,000 (2001 - profit from operations of HK\$29,266,000) was recorded. It was mainly due to the decrease in profit of the manufacturing operation of HK\$8,236,000 in 2001 to loss of HK\$25,907,000 in 2002. Due to the severe competition in US market, the trading operation also experienced a decrease of operating profit from HK\$20,349,000 to HK\$6,090,000. On the retailing side, it was changed from operating profit of HK\$681,000 in 2001 to operating loss of HK\$1,467,000 in 2002 due to adverse retailing environment in Hong Kong and the Mainland China.

A loss attributable to shareholders of HK\$24,221,000 was recorded (2001 - profit of HK\$26,405,000) mainly as a result of the decrease in turnover and price reduction from customers.

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 57 days to 56 days in this year. Inventory turnover increased from last year's 85 days to 92 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 1.18 to 1.26 while quick ratio decreased slightly from last year's 0.73 to 0.72. All these indicated that the Group maintained a sound liquidity position.

Capital and Debt Structure

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 overdrafts of the Group as at June 30, 2002 amounted to HK\$155,500,000.

Total bank borrowings decreased from HK\$226,815,000 as at June 30, 2001 to HK\$155,500,000 as at June 30, 2002, representing a decrease of 31%. Cash and bank balances decreased by HK\$2,307,000 to HK\$68,751,000 as at June 30, 2002 comparing with the same period in 2001. Gearing ratio improved significantly to 26% as at June 30, 2002 (June 30, 2001 - 38%) 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\$758,000,000 as at June 30, 2002 (June 30, 2001 - HK\$660,000,000). 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 associates, Hua Thai Manufacturing Public Company Limited and its subsidiaries (the "Hua Thai Group"), amounted to HK\$167,849,000 as at June 30, 2002 (June 30, 2001 - HK\$163,658,000). 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 results after taxation of the Hua Thai Group decreased from a profit of HK\$1,964,000 in 2001 to a loss of HK\$2,392,000 in 2002.

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, 2002, the Group did not have any outstanding discounted bills with recourse to the banks (June 30, 2001 - nil).

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, 2002 which would require a substantial use of the Group's present cash resources or external funding.

Human Resources

Human resources is always a key asset to the growth and profitability 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 develop business of key customers, to diversify its product type as well as to expand production capacity in potential locations.