

13. CONTINGENT LIABILITIES

As at 31 December 2002, there were contingent liabilities in respect of the guarantees issued by the Company in favour of a bank to the extent of HK\$13,632,000 in respect of banking facilities granted to its associated company (2001: Nil).

14. INTERIM DIVIDENDS

The Board does not recommend the payment of interim dividend for the Period (2001: Nil).

15. COMPARATIVE FIGURES

As further explained in note 1 to the unaudited interim financial statements, due to the adoption of the new or revised SSAPs during the Period, the presentation of certain items and balances have been reclassified to conform with the current period's presentation.

MANAGEMENT DISCUSSION AND ANALYSIS

Operations review

The Board of Directors is pleased to announce that the Group's clothing business recorded a healthy growth over the Period. For the six months ended 31 December 2002, the Group succeeded in maintaining a stable development for the Group's clothing business. Turnover for the six months ended 31 December 2002 reached approximately HK\$165,063,000 (2001: HK\$162,503,000), representing an increase of approximately 2% over the same period of last year. Gross profit was approximately HK\$54,283,000 (2001: HK\$59,780,000), representing a decrease of 9% when compared with the corresponding period last year. Net profit from ordinary activities attributable to shareholders increased by 2% and amounted to approximately HK\$41,068,000 (2001: HK\$40,388,000). Earnings per share were HK1.7 cents (2001: HK1.7 cents).

During the six months ended 31 December 2002, the Group dedicated to maintain its leading position in the PRC's uniform market in the garment industry, by consolidating and further developing its business of the design, manufacture and sale of high-end men's and women's suits and uniforms. The PRC market continued to contribute the largest portion of the Group's turnover, which made up to approximately 97% of the total turnover during the period. Capitalised on the PRC's robust economy and the ever-increasing consumption power of the Chinese people, moderate growth momentum of the Group's business in the PRC was captured.

In order to diversify the Group's business, the Group endeavored to seek for profitable investment opportunities. As such, the Group entered into a joint venture agreement with Institute of Chemistry, the Chinese Academy of Sciences, Yongfeng and the Professionals to form the Zhongke Nanotech Engineering Center Co., Ltd. ("Zhongke Nanotech") during the period under review. Zhongke Nanotech principally engages in the manufacture and sale of nano materials for use in different industries and industrial applications such as textile, construction, chemical and related materials. The progress of the research and development projects in Nano technique was satisfactory. The phase I development projects include "Normal Temperature Solidifying Self-cleaning Coating Nano", "Super-hydrophilic Coating Materials of the Second Air-condition System", "Nano Technique for Environment Friendly Dying Process of Textile", "Nano Functional Fibers and Nano Engineering Plastics".

Besides, the Group's investment in Global Network Corporation (北京九州計算機網絡有限公司), which is a joint venture with Institute of Software, the Chinese Academy of Sciences, started to generate revenue for the Group during the period under review. The software product "Smartcompresz", which is compression software with extensive applications has been developed to version 3.0, obtained satisfactory results and responses from the market. Moreover, the China Government has granted Global Network Corporation ("GNC") as the "Supplier of the China Government Procurement" in December 2002; this will definitely excel the market position of GNC and be helpful in promoting its products. Various research and development projects of software products with self-owned intellectual rights were in the pipeline and the Group committed to further develop a wide range of software products to cater for the ever-changing market needs during the Period.

Pursuant to a previous placing agreement, BG Investments Limited, a wholly-owned subsidiary of Zurich Financial Services Group, held 102,015,000 ordinary shares ("Placing Shares") of the Company throughout the period. Upon the expiry of the lock-up period imposed under the deed of covenants, the Company, Golden Prince Group Limited and BG Investments Limited has undertaken not to dispose of the Placing Shares for a period of one year from 30 November 2002. The further extension of the lock-up period would help to maintain the strength of the Group's shareholders and capital base.

Liquidity and financial resources

The Group's financial position remained stable and healthy. As at 31 December 2002, the Group's bank borrowings and other loans were approximately HK\$2,514,000. Such loans were secured with certain properties, bank deposits and the guarantees provided by the Company and one of its subsidiaries. As at 31 December 2002, the cash, bank balances and mortgaged bank deposits were approximately HK\$141,037,000. The Group was not exposed to any substantial risk in foreign exchange fluctuations.

As at 31 December 2002, the Group's gearing ratio, which was calculated on the basis of bank borrowings to net asset value, was less than 1% (2001: 1%).

Prospects

Looking forward, the Group endeavors to gain a larger market share in the PRC's garment industry, backed by its well-established market niche and quality uniform products. The Group will grasp the opportunities bring forth by the PRC's accession to the World Trade Organization, as well as the successful bidding as the host country of the World Expo in 2010. The Group is well poised, in terms of production techniques, capacity and the research and development capability, to explore the enormous market in the PRC by providing high-quality and high-performance clothing products.

The Group is a pioneer in developing and applying Nano technology to the production of western-styled clothing. The Group will continue to develop a wide range of western-styled clothing products applied with Nano processing technology to diversify its product portfolio, and hence, open up more income streams.

Moreover, the Group will also put much emphasis on the joint venture of Zhongke Nanotech. Several transfer of technique contracts are entered and commenced to generate income for the Group at the beginning of 2003. While at the same time, the investment in GNC will also serve as another high technology project for the Group and a wide range of software products are expected to be launched in the market in the future.

Employees

At 31 December 2002, the Group employed approximately 900 employees in our Putian Factory and approximately 17 staff in Hong Kong. In addition to competitive package offered to the employees, share options of the Company may be granted by the Group to enable its employees to participate in the growth of the Group. On-going training sessions were also conducted to enhance the competitiveness of the Group's human assets.