

REVIEW AND OUTLOOK

The First Half of 2003 was gratifying from the point of view of revenue growth. The Group achieved the highest level of revenues in this period over the past 3 years. Despite the war in Iraq and tepid consumer demand, our clients placed more business with us for the Spring, Summer and Fall 2003 seasons. The drivers behind this growth were several – consistent delivery of high quality garments at a reasonable price, extensive development and merchandizing support to our customers and dependability of our production execution. The broad product range the Group manufactures enabled it to serve clients from Ladies' Bridge and Better on the one end of the spectrum, through Ladies Career (Suiting and Related Separates), to Casual, Moderate and Men's and Ladies' Outerwear. Very few companies are able to serve this broad a spectrum of customers.

The Group had recorded turnover of HK\$1,211 million for the first half of 2003, which represents an increase of HK\$388 million, or 47% compared with the First Half of 2002. Margins, however, were challenged due to continued pricing pressure, while quality standards remained high, and even becoming higher. The trend in the fashion business is toward higher quality and more design oriented construction. Wholesale and retail clients alike are focused on providing greater variety and innovation to consumers. This translates into a greater number of seasons or "buys" placed with manufacturers such as the Group, with a significant proliferation of styles but smaller quantities per style. From a merchandizing and manufacturing point of view, this continues to put pressure on margins, adversely affects productivity, and increases merchandizing and sales support costs. In short, while the complexity of the business has increased, prices continue to be under pressure.

The accounting irregularity discovered in one of the Group's China subsidiaries required an adjustment to 2002 inventory positions. While this adjustment is being made in 2003, the Group's financial condition remains strong. This issue has been addressed swiftly and forcefully, and financial controls have been strengthened. Order flow for the Second Half is robust, and sales visibility extends through the end of December.

The biggest challenge during the Second Half will be restructuring the Group's 17 factories (including 7 under the Hua Thai Group) to be profitable on a stand-alone basis within the context of China's accession to the WTO in 2005 and the changing quota landscape, which will erode the competitive advantages of several countries. In 2005, on the one hand, it is expected that demand for China production will increase significantly. However, there is a high likelihood that restraints will be imposed on China by the United States and, also potentially, the EU countries in the face of very rapid increase in exports, invoking the WTO "surge mechanism". To mitigate against these uncertainties, the Group offers our customers a great degree of geographic diversification, with factories in China, Macau, Taiwan, the Philippines, Thailand, and Vietnam. The risk of being faced with quota limitations or over concentration in China will be well managed. At the same time, the cost base and productivity of each factory will be further tightened in view of the elimination of the quota subsidies outside of China. In the First Half of 2003, the Group weathered the imposition of new quotas on Vietnam well. Client orders placed prior to the restraints were executed in an orderly manner, and production has been converted to the quota free categories.

Management's focus in the Second Half will be twofold – externally on serving our valued clients in the full range of products and geographies we offer and internally on achieving profitability and strengthening financial controls. We will be focusing on the needs of our key customers and working with them in a partnership mode in development, engineering, merchandizing and production. We will continue to drive productivity improvements and implement cost reductions through greater purchasing and supply chain efficiencies. Finally, we will seek to be very nimble in adapting to the new quota environment and be well diversified and prepared to serve our clients in 2005.

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' brand names. The Group is also engaged in the retailing and trading of men's casual sportswear and ladies' fashion under various brand names in Hong Kong, 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 8 million pieces of garments during the period under review in 2003 (2002 – 5 million pieces) from 13 factories located in Hong Kong, Macau, China, the Philippines, Taiwan and the Union of Myanmar. The Group has about 19,800 (2002 – 18,300) employees who are entitled to a string of benefits in addition to their basic salaries.

Operating Results and Financial Position

For the six months ended 30th June 2003, total turnover of the Group increased from HK\$822.6 million in 2002 to HK\$1,210.8 million in 2003, representing an increase of 47%. The Group's turnover from manufacturing operation was up by 71% from HK\$557.8 million to HK\$955.7 million while the Group's turnover from trading operation was down by 3% from HK\$216.2 million to HK\$208.6 million. For retail business, the turnover was slightly down by 4% from HK\$48.7 million to 46.6 million.

As a result of the Group's business initiatives on Key Account Management implemented since last year, the export sales to US was increased by 63% to HK\$858.6 million (2002 – HK\$525.9 million). The corresponding increase in export sales to Europe and Asia were up by 18% and 19% to HK\$179.2 million (2002 – HK\$151.4 million) and HK\$173.0 million (2002 – HK\$145.3 million). US remains to be the dominant market for the Group accounting for 71% (2002 – 64%) of the total turnover.

Gross profit of the Group increased from HK\$163.5 million in 2002 to HK\$215.0 million in 2003, representing an increase of 32%. The change was mainly attributable to the increase in sales volume but partially offset by pressure for price reduction.

A loss from operations of HK\$36.0 million was recorded in 2003 (2002 – HK\$21.0 million) which included HK\$14.5 million (the “Adjustment”) being the adjustment of certain errors relating to the inventory as at 31st December 2002 in one of the Group’s wholly-owned subsidiaries in China as mentioned in the above section of “Accounting Issue”. The operating losses, after excluding the Adjustment, were HK\$21.5 million which increased by HK\$0.5 million from HK\$21.0 million in 2002. The operating losses were mainly attributable to the keen competition and intense price reduction in the US market. The operating loss from manufacturing, excluding the Adjustment, was HK\$17.1 million which improved from last year’s loss of HK\$25.7 million. In the trading segment, the operating profit was compressed by HK\$5.4 million to HK\$0.7 million (2002 – HK\$6.1 million). The outbreak of SARS in Hong Kong and China had an adverse effect on the retail business of the Group. The retail operation resulted at a loss of HK\$5.1 million in 2003 as compared to the loss of HK\$1.5 million in 2002.

The selling and distribution expenses were HK\$112.1 million (2002 – HK\$71.6 million) and increased by HK\$40.5 million. The increase was mainly volume-driven and extra quota expenses were incurred during the period. The general and administrative expenses were HK\$135.9 million (2002 – HK\$114.2 million) and increased by HK\$21.7 million. The increase was mainly due to the written back of provisions for retirement benefits in last year amounted to HK\$10 million. The increase was also in line with the increase in human resources investment to strengthen the management team to cope with the business expansion and development.

Based on the above discussion and analysis, the loss attributable to shareholders for the period was HK\$44.5 million. If excluding the Adjustment, the loss attributable to shareholders was HK\$30.0 million, which increased by HK\$2.8 million from the loss of HK\$27.2 million in 2002.

Other than the acquisition of the minority interests in one of its subsidiaries, there were no material acquisitions and disposals of subsidiaries and associates during the period.

Working Capital and Liquidity

During the period, the Group continues to have healthy working capital and sound liquidity position. Receivable turnover was improved from last year’s 56 days to 32 days, mainly due to continuous effort on collection of receivables. Inventory turnover was under strict control and was better off to be 65 days from last year’s 92 days. The impact of piling up of inventory in last year was rectified.

Current ratio improved from last year’s 1.26 to 1.52 while quick ratio was slightly increased from last year’s 0.72 to 0.78. All these indicated that the Group had 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 30th June 2003 amounted to HK\$163.4 million.

Total bank loans and overdrafts increased from HK\$155.5 million as at 30th June 2002 to HK\$163.4 million as at 30th June 2003, representing an increase of 5%. Such bank borrowings were short-term in nature and were mainly used to facilitate the settlement of fabric purchases for production. Cash and bank balances decreased by HK\$19.0 million to HK\$49.7 million as at 30th June 2003 comparing with the same period in 2002. Gearing ratio was sustained at 27% as at 30th June 2003 (30th June 2002 – 26%). The ratio had been calculated based on the total bank borrowings to the total shareholders’ equity of the Group.

During the period, the Group entered into a number of forward exchange contracts to hedge its foreign currency denominated operating expenses for overseas manufacturing facilities against the fluctuation of exchange rates.

The Group had unutilized banking facilities of HK\$759.0 million as at 30th June 2003 (30th June 2002 – HK\$758.0 million). Save as disclosed in the unaudited interim accounts, 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\$94.2 million as at 30th June 2003 (30th June 2002 – HK\$167.8 million). 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 loss after taxation of the Hua Thai Group increased from HK\$2.4 million in 2002 to HK\$6.1 million in 2003.

As at 30th June 2003, the Group had other long-term investments of HK\$1.2 million (2002 – HK\$5.4 million). It also held investment properties of HK\$6.4 million (2002 – HK\$7.1 million). These investments were not considered as significant investments to the Group as the return on these investments did not have any significant impact to the Group’s operating results.

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 the operations. As at 30th June 2003, the Group did not have any outstanding discounted bills with recourse to the banks (30th June 2002 – 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 30th June 2003 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 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 business. The implementation of various high-impact business initiatives have created a number of unique competitive advantages for the Group. Through the execution of these initiatives, the Group will be able to meet the new challenges ahead.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at 30th June 2003, the Directors and Chief Executive of the Company had the following interests or short positions in shares, underlying shares and debentures of the Company and associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) of the Company as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "SEHK") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"):

(A) Interests in shares of the Company

<u>Name</u>	<u>Type of interest</u>	<u>No. of ordinary shares in the share capital of the Company</u>	<u>Percentage of issued share capital of the Company</u>	<i>Note</i>
Wang Kin Chung, Peter	Corporate interest	138,260,000	51.45%	1
	Other interest	12,069,445	4.49%	12
Wu Ching Her	Personal interest	2,636,289	0.98%	–
Wang Koo Yik Chun	Other interest	1,537,000	0.57%	2
Tang Yue Nien, Martin	Personal & other interest	52,338,047	19.48%	3, 4, 9 & 10
Leslie Tang Schilling	Family interest	4,312,193	1.60%	5 & 9

(B) Interests in shares of an associated corporation of the Company
Hua Thai Manufacturing Public Company Limited (“Hua Thai”)

<u>Name</u>	<u>Type of interest</u>	<u>No. of ordinary shares in the share capital of Hua Thai</u>	<u>Percentage of issued share capital of Hua Thai</u>	<i>Note</i>
Wang Kin Chung, Peter	Family interest	1,085,800	10.86%	13
Wang Koo Yik Chun	Personal & family interest	10,000	0.10%	14

All the interests disclosed in sections (A) and (B) above represent long positions in the shares of the Company and Hua Thai, respectively.

SUBSTANTIAL SHAREHOLDERS

As at 30th June 2003, the following persons’ (other than a Director or the Chief Executive of the Company) interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO are as follows:

<u>Name</u>	<u>Type of interest</u>	<u>No. of ordinary shares in the share capital of the Company</u>	<u>Percentage of issued share capital of the Company</u>	<i>Note</i>
Silver Tree Holdings Inc.	–	138,260,000	51.45%	1
Daisy Ting	Family interest	138,260,000	51.45%	15
Tang Chi Chien, Jack	Personal interest	12,069,445	4.49%	6, 7 & 10
	Deemed interest	138,260,000	51.45%	11
Bermuda Trust (New Zealand) Limited	–	75,648,500	28.15%	3, 4, 5, 6, 7 & 8

All the interests disclosed under this section represent long positions in the shares of the Company.

Notes (information as at 30th June 2003):

- 138,260,000 shares were beneficially owned by Silver Tree Holdings Inc., a company wholly-owned by Mr. Wang Kin Chung, Peter.
- 1,379,000 shares were held by Euroworld Trustee Holdings Corporation as trustee of a unit trust, the units of which were held under a trust, the discretionary objects of which included Ms. Wang Koo Yik Chun. 158,000 shares were held by Main World Investment Limited, the entire issued share capital of which was beneficially owned by the same unit trust.
- Bermuda Trust (New Zealand) Limited held 38,371,533 shares as trustee of a trust, of which Mr. Tang Yue Nien, Martin was a discretionary beneficiary.
- Bermuda Trust (New Zealand) Limited held 13,966,514 shares as co-trustee with Mr. Tang Yue Nien, Martin of various trusts of which Mr. Tang Yue Nien, Martin was a discretionary beneficiary.
- Bermuda Trust (New Zealand) Limited held 4,312,193 shares as co-trustee of a trust of which Mrs. Leslie Tang Schilling’s minor children were discretionary beneficiaries.
- Bermuda Trust (New Zealand) Limited held 4,299,492 shares as co-trustee of a trust of which Mr. Tang Chi Chien, Jack’s wife was a discretionary beneficiary.
- Bermuda Trust (New Zealand) Limited held 7,769,953 shares as co-trustee with Mr. Tang Chi Chien, Jack of a trust of which Mr. Tang Chi Chien, Jack was a discretionary beneficiary.
- Bermuda Trust (New Zealand) Limited held 75,648,500 shares as trustees for various trusts and all the shares were registered in the name of its nominee company, Somers Nominees (Far East) Limited.
- 4,312,193 shares held by Mr. Tang Yue Nien, Martin overlap that of family interests of Mrs. Leslie Tang Schilling.
- 4,299,492 shares held by Mr. Tang Yue Nien, Martin overlap that of family interests of Mr. Tang Chi Chien, Jack.

11. By virtue of section 317 of the SFO, Mr. Tang Chi Chien, Jack was taken to be interested in the interest of Mr. Wang Kin Chung, Peter in the equity securities of the Company, namely 138,260,000 shares, which were held by Silver Tree Holdings Inc., a company wholly-owned by Mr. Wang Kin Chung, Peter (see also note 1 above).
12. By virtue of section 317 of the SFO, Mr. Wang Kin Chung, Peter was taken to be interested in the interest of Mr. Tang Chi Chien, Jack, in the equity securities of the Company, namely the family interests of 4,299,492 shares (see notes 6 and 10 above) and the personal and other interests of 7,769,953 shares (see note 7 above).
13. 1,085,800 shares were held by Ms. Daisy Ting, the spouse of Mr. Wang Kin Chung, Peter, in Hua Thai.
14. 7,500 shares were held by Ms. Wang Koo Yik Chun and 2,500 shares were held by the late Mr. Wang Seng Liang, the spouse of Ms. Wang Koo Yik Chun, in Hua Thai.
15. 138,260,000 shares were beneficially owned by Silver Tree Holdings Inc., a company wholly-owned by Mr. Wang Kin Chung, Peter (see note 1 above), the spouse of Ms. Daisy Ting.

SHARE OPTION SCHEME

Pursuant to the share option scheme adopted by the Company on 28th November 1997, options may be granted to full-time employees (including Executive Directors) of the Company or its subsidiaries to subscribe for ordinary shares in the Company. As at 30th June 2003, the particulars in relation to the share option scheme of the Company, as required under Rules 17.07 and 17.09 of Chapter 17 of the Rules Governing the Listing of Securities on the SEHK (the "Listing Rules") were as follows:

Type of grantees	Date of grant	Exercise period	Exercise price per share <i>HK\$</i>	Number of share options			
				Balance as at 1st January 2003	Exercised during the period	Lapsed during the period	Balance as at 30th June 2003
Employees	22nd May 2000	22nd May 2001 to 21st May 2003	1.20	1,000,000	–	1,000,000	–

During the period, 1,000,000 share options granted lapsed as the exercise period had expired.

Save as disclosed above, no share options were exercised or cancelled or lapsed during the six months ended 30th June 2003.

No share options were granted during the six months ended 30th June 2003 and accordingly, a valuation of share options granted was not necessary.

Save as disclosed above, at no time during the six months ended 30th June 2003 was the Company or any of its subsidiaries, a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the Directors, their spouses or their children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right during the six months ended 30th June 2003.

AUDIT COMMITTEE

The Audit Committee and the management have reviewed the accounting principles and practices adopted by the Group together with the auditing, internal control and financial reporting matters, including the review of the unaudited interim accounts for the six months ended 30th June 2003.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares during the period.