

## MANAGEMENT DISCUSSION AND ANALYSIS

### Operational review

The Group's core business continued to be focused on the design, manufacture and sale of a range of high-end men's and women's apparel and uniforms. For the six months ended 31 December 2003, the Group's turnover was approximately HK\$111,412,000 (2002: HK\$165,063,000). Net profit from ordinary activities attributable to shareholders amounted to approximately HK\$31,968,000 (2002: HK\$41,068,000), representing earnings per share of HK1.35 cents (2002: HK1.74 cents).

During the period, the People's Republic of China (the "PRC") continued to be the Group's most important market, contributing approximately 88% of the Group's total turnover. The Group recorded a decrease in turnover during the current interim post-SARS period. The PRC economy was adversely affected by the dramatic outbreak of the Severe Acute Respiratory Syndrome ("SARS") during the first half of the year 2003. In consequence, the Group's business was adversely affected by the carry-over effect of the reduced sales orders received during the SARS period. The Group's production during the period was also affected by the temporal disruption in electricity supply in the Fujian area, the PRC, where the Group's manufacturing base was located. In addition, the keen competition in the PRC apparel market has also contributed to the Group's reduced sales for the period.

In recent years, the Group has launched into the field of Nano technology business applications in order to diversify its business and broaden its revenue base. The Board is pleased to witness the encouraging growth during the period of Zhongke Nanotech Engineering Center Co., Ltd. ("Zhongke Nanotech"), the Group's joint venture with the Chinese Academy of Science, which ranks amongst the foremost authorities in the research of Nano technology application in the PRC. Within a short time horizon of its establishment, Zhongke Nanotech successfully developed a number of Nano technology applications and related products that have their active commercial production already commenced. During the period, Zhongke Nanotech attained prominent growth in turnover and profitability through undertaking the dual business models of the transfer of Nano application technologies; and the manufacture and sale of Nano products in diverse areas including textile and garment industry, building materials and engineering plastic. As a result of these successful ventures, Zhongke Nanotech has recorded remarkable growth in business during the period. The Group's net share of profits earned by Zhongke Nanotech during the period amounted to approximately HK\$12 million (2002: nil).

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### Future prospects

Moving forward, the Group aspires to a bounce back in volume of business following the post-SARS recovery of the PRC economy. It is anticipated that the PRC's accession to the World Trade Organization, as well as the anticipated favourable outlook of the 2008 Olympic Games to be hosted in Beijing shall encourage economic growth in the country. While the Group's diversification into the hi-tech industry is expected to take on increasing importance, its garment business will continue to provide a stable revenue platform in the immediate future through the Group's excellence in product quality and the maintenance of its well-established market niche.

The Group looks forward to increasing promising returns from our hi-tech joint venture investment in Zhongke Nanotech. At present, Zhongke Nanotech is negotiating strategic relations with certain major PRC enterprise of leading position in their respective industries to jointly develop nano products with applications in various horizons. In anticipation of the growth in demand for nano products and nano technology applications, the construction of a new industrialization plant of Zhongke Nanotech in the Suzhou area of the PRC is being planned. The new plant will cover an area of 150 acres and it is expected that the involved construction works will be completed within three years. In order to increase the Group's profit sharing in Zhongke Nanotech, Holt Hire Holdings Limited, a wholly-owned subsidiary of the Company, has entered into an acquisition agreement pursuant to which the Company's effective interest in Zhongke Nanotech will be increased from 33% to 55%. The Group is confident that its successful venture into the Nano technology business will create highly positive shareholders' value in the foreseeable future.

### Liquidity, Charge on Assets and Financial Resources

The Group generally finances its operations with internally generated cash funding. As at 31 December 2003, the Group's interest-bearing bank borrowings were approximately HK\$2.6 million. The Group's bank borrowing facilities are secured by certain of the Group's leasehold land and buildings in Hong Kong; pledged bank deposits of approximately HK\$44 million; and corporate guarantees given by the Company. As at 31 December 2003, the Group's cash and bank balances, which were principally Renminbi and Hong Kong dollar denominated, amounted to over HK\$147 million. The Group was not exposed to any substantial risk in foreign exchange fluctuations.

As at 31 December 2003, the Group's gearing ratio, which was calculated on the basis of bank borrowings to net asset value, was less than 1% (2002: 1%).

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### Employees

At 31 December 2003, the Group employed approximately 850 employees in our factory premises and approximately 17 staff in Hong Kong. In addition to competitive package offered to the employees, other benefits for eligible candidates include contributions to mandatory provident fund, group medical and accident insurance. On-going training sessions were also conducted to enhance the competitiveness of the Group's human assets.

### Dividend

The Board does not recommend the payment of an interim dividend in respect of the six months period ended 31 December 2003.

## DISCLOSURE OF ADDITIONAL INFORMATION

### Directors' and chief executive's interests in shares or short positions in shares and underlying shares

At 31 December 2003, the interests or short positions of Directors or chief executive of the Company or their respective associates in shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO were as follows:

Name	Personal interest	Family interests	Corporate interests	Total interests	Total interests as	Interests underlying	Total interests (including underlying shares) as
					% of the issued share capital	in (share options)	% of issued share capital
Mr. Ng Leung Ho	60,946,000	–	960,000,000 (Note 1)	1,020,946,000	43.2%	7,200,000 (Note 2)	43.5%

#### Notes:

- These shares were held by Golden Prince Group Limited, a company incorporated in the British Virgin Islands. The entire issued share capital of Golden Prince Group Limited is directly wholly owned by Mr. Ng Leung Ho.
- The share options, exercisable at HK\$0.10 per share, were granted pursuant to the old share option scheme previously adopted by the Company. They are exercisable from 1 May 1999 to 24 October 2008.

## DISCLOSURE OF ADDITIONAL INFORMATION (continued)

Save as disclosed above, none of the Directors and chief executive of the Company or their associates had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be maintained under section 352 of the SFO or as otherwise notified to the Company or the Stock Exchange pursuant to the Model Code for Securities transaction by Directors of Listed Companies.

### Directors' rights to acquire shares or debentures

Apart from as disclosed under the heading "Share options" in note 12 to the unaudited condensed consolidated interim financial statements, at no time during the period was the Company, its subsidiaries or any of its associated corporations (within the meaning of Part XV of the SFO) a party to any arrangement to enable the Directors of the Company or their associates (as defined in the Listing Rules) to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

### Substantial shareholders

At 31 December 2003, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO showed that the Company had been notified of the following substantial shareholder's interests or short positions, being 5% or more of the Company's issued share capital.:

Name	Capacity	Number of shares	Percentage of holding
Mr. Ng Leung Ho	Beneficial owner	1,028,146,000 ( <i>Note 1</i> )	43.5%
Golden Prince Group Limited	Beneficial owner	960,000,000 ( <i>Note 2</i> )	40.6%

## DISCLOSURE OF ADDITIONAL INFORMATION (continued)

Notes:

1. The corporate and personal interests of Ng Leung Ho in 1,028,146,000 shares comprises corporate interest in 960,000,000 shares held through Golden Prince Group Limited and personal interest in 68,146,000 shares, comprising 60,946,000 shares and 7,200,000 underlying shares in respect of shares options granted by the Company to him.
2. The entire issued share capital in Golden Prince Group Limited is beneficially owned by Mr. Ng Leung Ho, whose interests in shares of the Company are disclosed in the section headed "Directors' and chief executive's interests in shares or short position in shares and underlying shares".

Save as disclosed above, at 31 December 2003, the register of substantial shareholders maintained under Section 336 of the SFO shows that the Company had not been notified of any substantial shareholders' interest and short positions, being 5% or more of the Company's issued share capital.

### Expiry of warrants

As at 21 December 2003, the Company had 360,000,000 outstanding warrants (stock code: 944) in issue and listed on The Stock Exchange of Hong Kong Limited. Each of the warrant entitles the holder thereof to subscribe for one ordinary share in the Company at a subscription price of HK\$0.37 per share. Save for the exercise subsequent to 31 December 2003 of 97,180,000 warrants for the subscription of new shares in the Company, the subscription right attaching to each of the warrant expired upon close of trading on 4:00 p.m. 15 March 2004. The listing of the Company's warrants have also been withdrawn on the same date upon lapse of the warrant subscription rights.

### Purchase, Sale or Redemption of the Company's Listed Securities

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

### Audit Committee

The Company has established an audit committee for the purposes of reviewing and providing supervision over the Company's financial reporting process and internal controls. The audit committee of the Company presently comprises the three non-executive directors of the Company, namely Mr. Chen Ming Kui, Mr. Lo Cheung Kin and Mr. Zou Zi Ping. This interim report has been reviewed by the Company's audit committee.

## DISCLOSURE OF ADDITIONAL INFORMATION (continued)

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### Code of Best Practice

In the opinion of the Directors of the Company, the Company complied with The Code of Best Practice, as set out in appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, throughout the period.

On behalf of the Board

**Ng Leung Ho**

*Chairman*

Hong Kong, 25 March 2004