Management Discussion and Analysis

Interim Dividend

The Board has declared an interim dividend of HK8.0 cents per share (2000: HK6.0 cents) for the six months ended 30th September, 2001. The interim dividend will be payable on 8th February, 2002 (Friday) to shareholders registered on the Register of Members at the close of business on 23rd January, 2002 (Wednesday).

Closure of Register of Members

The Register of Members will be closed from 17th January, 2002 (Thursday) to 23rd January, 2002 (Wednesday) (both days inclusive), during which period no transfer of shares can be registered. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Registrar in Hong Kong, Tengis Limited at 4/F., Hutchison House, 10 Harcourt Road, Central, Hong Kong for registration not later than 4:00 p.m. on 16th January, 2002 (Wednesday).

Business Review

For this interim period, the Group's total turnover and net profit from ordinary activities attributable to shareholders were HK\$2,484 million and HK\$271 million respectively, an increase of 19% and 17% over the same period of last year. The Board has recommended an interim dividend of HK8 cents per share. Compared to HK6 cents per share of the same period of last year, the increase was 33%.

Turnover for the knitted fabric business was HK\$1,527 million, a rise of 13%, and represented 61% of total turnover. During the period, a steady growth in sales was achieved despite a slowdown in the US economy and the September 11 terrorist attack on New York. Whilst there was downward pressure on prices, the costs of raw materials also came down, as a result profit margin was not much affected. The management has continued with its plan to expand productivity with an aim to increase market share and improve cost effectiveness.

Business Review (continued)

Turnover for the retail and distribution business was HK\$946 million, a rise of 31%, and represented 38% of total turnover. The development in the Mainland China, Hong Kong, Taiwan and Singapore at the end of the period was as follows:

	Sales Six months ended 30th September			Retail Outlets*		
				30th	31st	30th
				September	March	September
	2001	2000	Growth	2001	2001	2000
	HK\$'000	HK\$'000	rate			
			%			
Mainland China	657,542	535,102	23	747	637	545
Hong Kong	143,690	128,014	12	37	39	28
Taiwan	127,705	57,177	123	117	96	62
Singapore	17,027		N/A	13		_
	945,964	720,293		914	772	635

^{*} Include self-owned and franchised outlets

In view of the robust Chinese economy, we have revised upwards our target for new outlets from 100 to 150 for this year. Our strategy for the China market is predominantly to increase market share, currently we have outlets in 30 provinces and 210 cities. The Taiwan market has been growing quickly. However, due to bad weather conditions, sales during the period were not up to our expectations. As for the Hong Kong market, a more conservative policy has been adopted under current economic conditions, and efforts have been made to reduce rental costs. Sales in the newly developed Singapore market have reached our target. As to other parts of the world, the Group also has franchised shops in South Korea, Malaysia. Iran, Jordan. Kuwait. Saudi Arabia and Macau.

For the current interim period, profit before tax contributed by the associated garment manufacturing business was HK\$35 million, an increase of 35% over the same period of last year. Growth in productivity and sales was satisfactory, with Asia remaining our major market during the half year. As Vietnam had been granted the Normal Trade status by the US, the management decided to increase our productivity in Vietnam in order to further develop the US market.

Financial Condition

The financial condition of the Group remained sound. At 30th September, 2001, cash and cash equivalents amounted to HK\$367 million. Total bank borrowings were HK\$68 million. At the end of the period, unutilized banking facilities were HK\$1,156 million. Total debt to equity ratio was 0.6. The revenue and procurement of the Group were mainly denominated in US dollar, HK dollar and Renminbi. During the period, the Group had entered into forward foreign exchange contracts and other financial instruments to reduce foreign exchange risks. At the end of the interim period, the Group's contingent liabilities were HK\$73 million, which were mainly related to discounted export bills.

Human Resources

As at 30th September, 2001, the Group had a total of 10,694 employees, an increase of 585 people over the end of last year. The Group offers very competitive remuneration packages for its employees, these as well as the remuneration policy are reviewed on a regular basis. We are fully committed to the training of our staff, moreover, the personal development of our employees is also a concern of the Group.

Outlook

The effect of a rapidly decelerating US economy is not clear at the moment, so contingency plans have been made by the management to provide for the worst. Nevertheless, the management believes that the September 11 terrorist attack has actually quickened the economic cycle of the US. With the war with Afghanistan nearing an end, and interest rates at a very low level, we believe that the US economy will recover soon. Consequently the management is still optimistic about our business with the US. The entrance of China into the WTO and Vietnam being granted the Normal Trade status also provide business opportunities for the Group. The management is working aggressively to profit from these recent developments.

Although the Group had been able to make progress in developing new markets, cost control and productivity enhancement, it was not an easy half year for our business developments. For the next half year, the management will continue with our developments as planned. The manufacturing business remains competitive in the market, so efforts will be made to increase productivity in order to cope with market demand. The focus of the retail business will continue to be the Mainland China, where the expansion of our market share is expected to continue. The retail business in Taiwan has matured, and is expected to produce better results. With a sound financial condition, the management does not foresee any obstacles in our business development, and is very confident about the results of the coming half year.