

Management Discussion and Analysis

Interim Dividend

The Board has declared an interim dividend of HK8.0 cents per share (2002 : HK11.0 cents) for the six months ended 30th September 2003. The interim dividend will be payable on Tuesday, 10th February 2004 to shareholders registered on the Register of Members at the close of business on Friday, 16th January 2004.

Closure of Register of Members

The Register of Members will be closed from Monday, 12th January 2004 to Friday, 16th January 2004 (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 not later than 4:00 p.m. on Friday, 9th January 2004. Tengis Limited is located at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.

Business Review

For this interim period, the Group's total turnover amounted to HK\$2,878 million, an increase of 14 %. Net profit from ordinary activities attributable to shareholders dropped by 41% to HK\$180 million. The board of directors has declared an interim dividend of HK8.0 cents per share.

Knitted fabric

The textile business recorded a turnover of HK\$1,820 million, an increase of 17%. This represented 63% of the Group's total turnover. During the period, cotton prices went up substantially by over 60% when compared with the same period of last year. Owing to the adverse effects brought about by the Severe Acute Respiratory Syndrome ("SARS") and the global unfavourable economic conditions, the Group was unable to pass all the increase in raw material cost to the customers. As the raw material prices were volatile, the Group had to give up some rush orders which had higher profit margins. As a result, gross margin declined by 9%, to 16% from 25% last year. Despite the business environment was tough, the Group experienced strong demand from its customers. Production capacity grew by about 20% in the period with high rate of utilization.

Retail and distribution

Sales of the retail business amounted to HK\$1,037 million, a growth of 8% and represented 36% of the Group's total turnover. All our major markets experienced year-on-year revenue improvement. Sales performance was greatly affected by the SARS epidemic in the first quarter. However, business expansion was speeded up in the second quarter with promising

Management Discussion and Analysis

results. In the period, there were about 350 new stores opened in the Mainland China, exceeding the projected target of 200 stores. The growth in Hong Kong and Taiwan markets was also encouraging. At the interim end, the performance of Mainland China, Hong Kong, Taiwan and Singapore was as below:

	Sales		Growth	Retail Outlets*		
	Six months ended 30th September			30th September	31st March	30th September
	2003 HK\$'000	2002 HK\$'000	rate %	2003	2003	2002
Mainland China	662,423	646,351	2	1,410	1,060	945
Hong Kong	167,818	147,169	14	56	45	39
Taiwan	165,418	142,469	16	185	155	128
Singapore	41,100	25,185	63	26	17	15
	<u>1,036,759</u>	<u>961,174</u>	8	<u>1,677</u>	<u>1,277</u>	<u>1,127</u>

* Include self-owned and franchised outlets

Garment

Net profit contributed by our associated garment manufacturing business was HK\$17 million, a drop of 27%. During the period, about 83% of the associate's fabric consumption was supplied by the Group's fabric division and the associate's sales to the Group's retail division was about 30% of the associate's turnover. Profit margin of the associate was also affected by the sharp increase in raw material cost.

Financial Condition

The Group maintained a strong financial position. As at 30th September 2003, cash and cash equivalents amounted to HK\$506 million. Total bank borrowings were HK\$31 million and unutilized bank facilities were HK\$1,100 million. Total debt to equity ratio was 0.6. The revenue and procurement of the Group were mainly denominated in U.S. dollar, Hong Kong 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 reporting period, the Group's contingent liabilities were HK\$165 million, which were mainly related to discounted export bills receivable.

Management Discussion and Analysis

Human Resources

As at 30th September 2003, the Group had a total of 15,955 employees in Greater China and Singapore. Besides offering competitive remuneration packages to the employees, discretionary bonuses and share options are also granted to eligible staff based on individual and Group's performance.

Outlook

Cotton prices are still staying at a high level. With the improvement of global economic conditions, the Group is now at a better bargaining position on the product prices. The Group is working extremely hard in cost management and margin improvement.

The Group is planning to set up a new spinning factory in the existing production site. In the first stage, the capital investment is budgeted to be HK\$150 million. Production is expected to commence in the third quarter of 2004. With spinning facilities, the Group will be more efficient in inventory control and able to capture quick response orders.

For the retail business, the Group is diversifying the product mix as well as the customer base to accelerate profit margin. While "Baleno" and "S & K" are in a stable growth, more effort will be placed on "Baleno Attitude" and "ebase" which are concentrated on ladies wears.

The global economy is still in a period of uncertainty. Although the operation environment may remain challenging in the coming days, the Group remains confident of its leading market position and its proven product quality. The management is optimistic to have an improved results in the coming half year.