Management Discussion and Analysis

Interim Dividend

The Board has declared an interim dividend of HK10.0 cents per share (2003 : HK8.0 cents) for the six months ended 30 September 2004. The interim dividend will be payable on Wednesday, 2 February 2005 to shareholders registered on the Register of Members at the close of business on Friday, 14 January 2005.

Closure of Register of Members

The Register of Members will be closed from Monday, 10 January 2005 to Friday, 14 January 2005 (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 4:00p.m. on Friday, 7 January 2005. 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 ended 30 September 2004, the Group's total turnover amounted to HK$3,600 million, an increase of 25%. Net profit from ordinary activities attributable to shareholders rose by 32% to HK$237 million. The Board has declared an interim dividend of HK10.0 cents, an increase of 25% over last year's HK8.0 cents.

Textile business

The business recorded a turnover of HK$2,272 million, an increase of 25% over the same period last year. This shared 63% of the Group's total turnover. During the period, the operating environment was more favourable when compared with last year as cotton prices were stabilizing. As planned, production capacity grew by about 20% and the Group remained strong in capturing uninterrupted order flow. The new spinning plant has commenced trial operation since October 2004 and is expected to supply about 10% of internal yarn requirements. This upstream integration would help to handle more rush orders and to shorten the inventory turnover days.

Retail and distribution

Sales of the retail operation reached HK$1,303 million, a rise of 26%, and represented 36% of the Group's total turnover. All our major markets achieved good year-on-year revenue growth. In the period, business expansion was speeded up in view of improved market conditions. There were about 640 new stores opened in Asia, much exceeding the original target of 250 stores. Mainland China remained the focus market with outlets existed in 256 cities. Gross profit margin improved to 48.4% from last year's 46.5%. At the interim end, the performance of our major markets was as below:

	Sales			**Retail Outlets***		
	Six months ended 30 September			**30 September**	31 March	30 September
	2004	2003	Growth rate	**2004**	2004	2003
	HK$'000	*HK$'000*	%			
Mainland China	**821,640**	662,423	24	**2,322**	1,750	1,410
Hong Kong and Macau	**195,890**	167,818	17	**72**	62	56
Taiwan	**222,261**	165,418	34	**241**	196	185
Singapore and Malaysia	**63,110**	41,100	54	**45**	32	26
	1,302,901	1,036,759	26	**2,680**	2,040	1,677

* *Include self-owned and franchised outlets*

Garment

The associated garment business recorded a turnover of HK$418 million, a growth of 14%. During the period, about 77% of its fabric consumption was supplied by the Group's textile division and its sales to the Group's retail division accounted for about 32% of its turnover. During the period, production capacity grew by about 15%.

Financial condition

Liquidity and financial resources

Liquidity of the Group remained strong. The net cash inflow from operating activities during the interim period increased by HK$248 million to HK$528 million compared with the same period of last year. The robust increase in the net cash inflow from operating activities was mainly attributable to :

(i) the increase in profit from operating activities by HK$66 million to HK$251 million;

(ii) the reduction of inventory turnover days and receivable turnover days by 3 days to 49 days and by 7 days to 27 days respectively.

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At 30 September 2004, the cash and cash equivalents and the unutilized banking facilities were HK$720 million and HK$1,633 million respectively. The Group mainly financed its operation by internal resources, bank borrowings and a shareholder loan. The bank borrowings outstanding at 30 September 2004 amounted to HK$337 million and these borrowings were mainly HIBOR based HKD loans with maturity due within three years. At 30 September 2004, the shareholders' equity and the gearing ratio were HK$2,530 million and 0.9 respectively. Gearing ratio refers to the ratio of total liabilities and minority interests to shareholders' equity. For the period under review, the interest coverage ratio was 72 times.

Contingent liabilities

At 30 September 2004, the contingent liabilities, not reflected in the interim financial statements, were HK$228 million. These mainly represented the discounted export bills of HK$206 million and the guarantees of HK$13 million made by the Group in respect of the banking facilities of an associated company.

Capital expenditure

Total capital expenditure of the Group for the period under review was HK$438 million. Capital expenditure of HK$333 million was incurred by the Textile Business mainly for the increase of the production capacity of the knitting and dyeing factories and the establishment of a new spinning factory. Capital expenditure of HK$104 million was incurred by the Retail & Distribution Business for the addition of outlets and the establishment of a commercial mall in Taiwan.

Pledge of assets

As at 30 September 2004, no significant assets were pledged.

Foreign exchange and interest rate risks

The Group has clear policies in managing the foreign exchange and interest rate risks. During the interim period, the Group's major revenues, expenses, procurements and loans were denominated in HKD, USD, Renminbi, Euro and Yen. To reduce the foreign exchange risk, the Group had arranged forward contracts to cover its foreign exchange exposure.

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Human Resources

As at 30 September 2004, the Group had about 19,100 employees in the Greater China, Singapore and Malaysia. The remuneration of the employees was largely based on industry practice and the performance of individual employee.

Outlook

Cotton prices have been softening and the operating environment has stabilized. The Group will continue to grow production capacity to enlarge market share. The removal of quotas next year will also provide a growth opportunity.

For the retail business, the Group will continue its aggressive expansion in Mainland China by using the multi-brand strategy. More self-managed stores will be established there to facilitate tighter management control. The Group is also working extremely hard to extend the retail profit margin.

The global economic recovery is likely to continue. The management is optimistic to enhance an improved results in the coming half year.