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Managing Director's Report

Turnover of the Group for the period under review increased to HK\$1.2 billion, up 29%. The unaudited profit attributable to shareholders for the six months ended 31st March 2001 was HK\$65.6 million, up 5.5% from the corresponding period last year. Earnings per share increased to 21 HK cents, up 10.5%.

The board of directors declared an interim dividend of 7 HK cents per share (2000: 7 HK cents).

Branded Labels

August Silk

This was a challenging period for the US retail business. Our own branded label, August Silk, continued to show a strong retail performance in the USA. We are building on the success of the US market to establish the August Silk brand in Europe and Greater China. Our vision is to make August Silk a global brand.

Theme

We believe that the PRC, Theme's principal market, will provide tremendous business opportunities for us. We have taken a strategic initiative to promote franchised shops in the PRC. We are confident about the growth prospect of Theme.

U-campus

U-campus pursues university students and the younger customers who are predominantly 15-25 years of age in Greater China. It planned to open the first 10 franchised stores in the PRC in the third quarter and another 30 stores in the fourth quarter.

Private Label Business

We emphasize on proactive customer-centered services. Our strategised strengths in providing our customers with innovative silk and silk-blended products provide us a competitive edge to step up to the challenge of price pressure across the industry.

Manufacturing Operations

We acquired the entire 40% minority interests of Hangzhou Westlake High Fashion Industry Co. Ltd. ("HZHF"), our key vertically integrated manufacturing operation in the Eastern China, making it a more efficient wholly owned subsidiary company.

Outlook

At the prospect of the slowdown in the USA and a weak European apparel retail market, the business environment will be challenging. We continue to drive our business by providing our customers with fashion and newness, with depth and speed. Our strategic investments in machinery and technology will maintain our leadership in the industry to secure business growth. We will continue to build on the strengths of our branded labels to expand our business. China's impending entry to the WTO and her strong consumer spending power will provide tremendous business opportunities for our retail business.

Appreciation

On behalf of the Board, I would like to take this opportunity to extend my sincere thanks to our customers, suppliers and shareholders for their continuous co-operation and support to the Group. I wish to thank the management and staff for their devotion and hard work.

Lam Foo Wah

Managing Director

Hong Kong, 11th June 2001

Financial Results

Condensed Consolidated Profit and Loss Account

		Six months ended 31st March	
		2001	2000
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
	<i>Notes</i>		
Turnover	2	1,203,034	934,694
Cost of sales		(854,497)	(693,459)
Gross profit		348,537	241,235
Other revenue		12,128	7,224
Selling and distribution expenses		(127,870)	(65,038)
Administrative expenses		(151,364)	(105,623)
Profit from operating activities	2,3	81,431	77,798
Finance costs	4	(18,668)	(13,025)
Share of profits less losses of:			
Jointly-controlled entities		5,589	4,512
Associates		322	140
Profit before tax		68,674	69,425
Tax	5	(2,872)	(6,987)
Profit before minority interests		65,802	62,438
Minority interests		(180)	(250)
Net profit from ordinary activities attributable to shareholders		65,622	62,188
Interim dividend		21,835	21,403
Earnings per share	6		
Basic		21.0 cents	19.0 cents
Diluted		20.4 cents	18.8 cents

Condensed Consolidated Statement of Recognised Gains and Losses

	Six months ended 31st March	
	2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000
Exchange differences on translation of the financial statements of foreign entities	(650)	187
Net gains/ (losses) not recognised in the profit and loss account	(650)	187
Net profit for the period attributable to shareholders	65,622	62,188
Total recognised gains and losses	64,972	62,375
Goodwill eliminated directly against reserves	(3,167)	-
	61,805	62,375

Condensed Consolidated Balance Sheet

	<i>Notes</i>	31st March 2001 (Unaudited) HK\$'000	30th September 2000 (Audited) HK\$'000
Non-current assets			
Fixed assets		190,586	125,581
Investment property		47,725	–
Trademarks		6,917	6,917
Interests in jointly-controlled entities		51,406	79,486
Interests in associates		6,321	5,999
Long term investments		13,118	15,078
		316,073	233,061
Current assets			
Cash and bank balances		110,358	99,528
Time deposits		78,090	163,565
Bills receivable		135,958	17,537
Trade receivables	7	219,804	231,573
Inventories		260,360	197,623
Deposits, prepayments and other receivables		103,224	64,024
Amounts due from jointly-controlled entities		20,874	42,112
		928,668	815,962
Current liabilities			
Bank loans and overdrafts		236,024	89,238
Finance lease and hire purchase contract payables		453	246
Other loans, secured		10,124	3,515
Bills payable		4,250	46,021
Trade payables and accrued purchases	8	196,550	164,118
Other payables and accruals		178,772	138,677
Tax payable		8,307	5,234
Proposed dividend		21,835	39,926
Amounts due to associates		1,732	3,085
Amounts due to jointly-controlled entities		10,138	22,180
		668,185	512,240

Condensed Consolidated Balance Sheet *(continued)*

	31st March 2001 (Unaudited) HK\$'000	30th September 2000 (Audited) HK\$'000
<i>Note</i>		
Net current assets	260,483	303,722
Total assets less current liabilities	576,556	536,783
Non-current liabilities		
Finance lease and hire purchase contract payables	291	214
Deferred tax	2,200	2,200
	2,491	2,414
Minority interests	19,189	18,900
	554,876	515,469
Capital and reserves		
Issued capital	31,192	31,234
Reserves	523,684	484,235
	554,876	515,469

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Condensed Consolidated Cash Flow Statement

	Six months ended 31st March	
	2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000
Net cash inflow/(outflow) from operating activities	(29,057)	42,498
Net cash outflow from returns on investments and servicing of finance	(54,733)	(40,786)
Taxes paid	(1,680)	(726)
Net cash inflow/(outflow) from investing activities	(37,742)	9,899
Net cash inflow/(outflow) before financing activities	(123,212)	10,885
Net cash inflow/(outflow) from financing activities	47,360	(17,921)
Decrease in cash and cash equivalents	(75,852)	(7,036)
Cash and cash equivalents at beginning of period	258,288	295,029
Effect of foreign exchange rate changes, net	(620)	158
Cash and cash equivalents at end of period	181,816	288,151
Analysis of balances of cash and cash equivalents		
Cash and bank balances	110,358	104,745
Time deposits with original maturity of less than three months when acquired	76,886	193,100
Bank overdrafts	(5,428)	(9,694)
	181,816	288,151

Notes to Condensed Consolidated Financial Statements

1. Accounting policies

The unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting". The accounting policies and basis of preparation used in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 30th September 2000.

2. Segmental information

	Turnover		Contribution to profit from operating activities	
	2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000
United States of America	945,663	810,973	67,824	60,160
Europe	92,789	98,254	4,922	8,638
Greater China	146,876	14,275	6,832	7,416
Others	17,706	11,192	1,853	1,584
	1,203,034	934,694	81,431	77,798

3. Profit from operating activities

The Group's profit from operating activities is arrived at after charging:

	Six months ended 31st March	
	2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000
Depreciation	12,716	7,048

4. Finance costs

	Six months ended 31st March	
	2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000
Interest on bank loans, overdrafts and other loans wholly repayable within five years	10,772	6,247
Interest on finance leases and hire purchase contracts	178	23
Factoring expenses	2,793	2,690
Bank charges	4,925	4,065
	18,668	13,025

5. Tax

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profits arising in Hong Kong during the period under review. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Six months ended 31st March	
	2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000
Group:		
Hong Kong	1,500	1,484
Elsewhere	933	4,879
	2,433	6,363
Share of tax attributable to jointly-controlled entities	439	624
	2,872	6,987

6. Earnings per share

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the period of HK\$65,622,000 (2000: HK\$62,188,000) and the weighted average of 311,957,982 (2000: 327,286,232) ordinary shares in issue during the period.

The calculation of diluted earnings per share is based on the net profit attributable to shareholders for the period of HK\$65,622,000 (2000: HK\$62,188,000). The weighted average number of ordinary shares used in the calculation is 311,957,982 (2000: 327,286,232) ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average of 9,834,794 (2000: 4,021,657) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the period.

7. Trade receivables

	31st March 2001 (Unaudited) HK\$'000	30th September 2000 (Audited) HK\$'000
Current to 90 days	202,322	228,697
91 to 180 days	11,199	3,342
181 to 360 days	5,420	1,744
Over 360 days	863	790
	<hr/>	<hr/>
General provision	219,804	234,573
	-	(3,000)
	<hr/>	<hr/>
	219,804	231,573
	<hr/>	<hr/>

The Group allows an average credit period of 30 to 60 days to its trade debtors.

8. Trade payables and accrued purchases

	31st March 2001 (Unaudited) HK\$'000	30th September 2000 (Audited) HK\$'000
Trade payables:		
Current to 90 days	123,166	120,918
91 to 180 days	9,019	5,134
181 to 360 days	6,207	6,611
Over 360 days	9,653	11,643
	<hr/>	<hr/>
Accrued purchases	148,045	144,306
	48,505	19,812
	<hr/>	<hr/>
	196,550	164,118
	<hr/>	<hr/>

9. Reserve movement

	Share premium account HK\$'000	Exchange fluctuation reserve HK\$'000	Reserve funds HK\$'000	Capital reserve/ (goodwill) HK\$'000	Capital redemption reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st October 2000	275,941	(3,028)	9,071	(57,941)	4,661	255,531	484,235
Transfer from retained profits	-	-	-	-	42	(42)	-
Write off of premium paid on repurchase of shares	-	-	-	-	-	(521)	(521)
Exchange realignments	-	(650)	-	-	-	-	(650)
Retained profits for the period	-	-	-	-	-	43,787	43,787
Goodwill on acquisition	-	-	-	(3,167)	-	-	(3,167)
At 31st March 2001	275,941	(3,678)	9,071	(61,108)	4,703	298,755	523,684

10. Related party transactions

The Group had the following transactions with related parties during the period:

	Six months ended 31st March	
	2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000
Purchases of raw materials and finished goods from jointly-controlled entities	199,172	255,707
Purchases of raw materials and finished goods from an associate	2,900	1,849
Rental income from a jointly-controlled entity	344	344
Management fee income from jointly-controlled entities	1,244	1,244
Professional fees paid to Wilkinson & Grist	101	151

11. Contingent liabilities

	31st March 2001 (Unaudited) HK\$'000	30th September 2000 (Audited) HK\$'000
Bank guarantees given in lieu of utility, property rental and other service deposits	2,805	2,805
Bills discounted with recourse	64,137	31,434
Trade receivables factored with recourse	291	736
Guarantees given to banks in connection with facilities granted to: Jointly-controlled entities	-	37,383
Third parties	45,776	-
	113,009	72,358

Management Discussion and Analysis

Results

The unaudited profit attributable to shareholders for the six months ended 31st March 2001 was HK\$65.6 million, up 5.5% from the corresponding period of last year. Basic earnings per share increased to 21 HK cents, up 10.5%. The net asset value per share was HK\$1.78.

Turnover for the period amounted to HK\$1.2 billion, up 29%. The gross profit percentage was increased by 3% due to consolidating the higher gross profit margin of Theme International Holdings Limited ("Theme").

Review of Operations

Branded Labels

August Silk

Notwithstanding the slowdown of US economy, August Silk Inc. managed to increase sales volumes by 15% with a good sell through in the stores. August Silk has a recognized American brand image and is diversifying into the European and the Greater China markets.

Theme

The performance of Theme in Hong Kong and Taiwan was fair due to tough retail environment. The PRC market was promising, but competitive.

Theme's operating expenses were trimmed to a competitive level and began to embark on an aggressive expansion plan to take advantage of strong economic growth in the PRC. It was planned to increase the number of shops in the PRC from 55 to about 100 by the end of 2001.

U-campus

U-campus, a newly launched label, offers mainly cotton collections for young customers 15 to 25 years of age in Greater China. It planned to open the first 10 franchised stores in the PRC by the end of July 2001 and another 30 stores by the end of this year.

Manufacturing Operations

Silk prices soared, but we moderated its impact on us. The new European machinery installed in our weaving mill was put into full operation, cost-efficiently supported our down stream operations. The Group continued to invest in product development and technology to maintain our leadership position.

Accounting Impact of Acquisition of Companies

The Group acquired the entire 40% minority interest of HZHF in December 2000 for a consideration of HK\$22 million, making it our wholly owned subsidiary. In addition, the Group completed its acquisition of Theme in August 2000. As a result of the consolidation of the accounts of Theme and HZHF, the base for comparison with that of last year has changed. The following notes are prepared for comparison purposes.

	Selling and distribution expenses <i>HK\$'000</i>	Administrative expenses <i>HK\$'000</i>	Finance costs <i>HK\$'000</i>
Per accounts	127,870	151,364	18,668
Less: Theme's portion	51,065	21,191	1,241
HZHF's portion	1,740	10,039	3,591
	<u>75,065</u>	<u>120,134</u>	<u>13,836</u>
1/10/2000 - 31/3/2001			
1/10/1999 - 31/3/2000	<u>65,038</u>	<u>105,623</u>	<u>13,025</u>
	Fixed assets <i>HK\$'000</i>	Bills and trade receivables <i>HK\$'000</i>	Bank loans and overdraft <i>HK\$'000</i>
Per accounts	238,311	355,762	236,024
Less: HZHF's portion	57,768	13,083	142,991
	<u>180,543</u>	<u>342,679</u>	<u>93,033</u>
At 31/3/2001			
At 30/9/2000	<u>125,581</u>	<u>249,110</u>	<u>89,238</u>

The turnover for the first quarter of 2001 was HK\$117 million more than that of the corresponding last period, causing substantial increase in bills and trade receivables on the balance sheet date. Bills and trade receivable as of 31st May 2001 reduced to about HK\$196 million.

Capital Expenditure

Other than the foregoing acquisition of HZHF, the Group acquired the remaining portion of the property of its Headquarters in Hong Kong for HK\$46 million, funded from its internal reserves.

Segmental Information

	For the six months ended 31st March					
	2001		2000		Change %	
	Turnover HK\$'000	Contribution HK\$'000	Turnover HK\$'000	Contribution HK\$'000	Turnover	Contribution
USA	945,663	67,824	810,973	60,160	17	13
Europe	92,789	4,922	98,254	8,638	(6)	(43)
Greater China	146,876	6,832	14,275	7,416	929	(8)
Others	17,706	1,853	11,192	1,584	58	17
	<u>1,203,034</u>	<u>81,431</u>	<u>934,694</u>	<u>77,798</u>	29	5

The turnover of High Fashion's core business increased by 15%. Consolidating HK\$112 million turnover from Theme, the Group's total turnover increased by 29%. The operating profit for the period increased by 5.5% only, due to the diluting effect of Theme's profit contribution.

Liquidity and Financial Resources

HZHF had about HK\$143 million Renminbi bank loans on 31st March 2001. These bank borrowings were mainly used to finance material purchases and subcontracting charges. As a result of the acquisition of the minority interest of HZHF, the Group's total outstanding bank borrowings were approximately HK\$236 million.

The Group had cash and bank balances of HK\$188 million on the balance sheet date, after payment of final dividend and capital expenditures mentioned above. Cash and bank balances as of 31st May 2001 were HK\$272 million.

Gearing ratio of non-current liabilities to shareholders' funds was 0.45% and the current ratio was 1.4 at 31st March 2001.

The Group's receivables were denominated mainly in US dollars, and our manufacturing cost and expenses were mainly in Renminbi. Since Hong Kong dollar is pegged to US dollar and Renminbi is relatively stable, the Group considers the exchange risk not significant.

Other than trade bills discounted in the ordinary course of business, the Group had no material contingent liabilities. The Group had a pledge of trade receivables of certain subsidiaries of about HK\$83 million (2000: HK\$62 million) and a subsidiary's mortgage loan of about HK\$2 million. There are no other charges on the Group's assets.

General

The total number of employees of the Group including jointly controlled entities and associated companies was about 15,000.

Other Information

Dividend

The Board of Directors declared an interim dividend of 7 HK cents (2000: 7 HK cents) per share on the shares in issue aggregating a total of HK\$21,835,000 (2000: HK\$21,403,000), which will be payable on or about 9th July 2001 to shareholders whose names appear on the Register of Members on 3rd July 2001.

Closure of Register of Members

The Register of Members of the Company will be closed from 27th June 2001 (Wednesday) to 3rd July 2001 (Tuesday), both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfer of shares accompanied by the relevant share certificates must be lodged with the Company's sub-registrar and transfer agent in Hong Kong, Secretaries Limited of 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong for registration by no later than 4:00 p.m. on Tuesday, 26th June 2001.

Purchase, Sale or Redemption of Listed Securities

During the period, the Company repurchased a total of 412,000 ordinary shares of HK\$0.10 each of the Company on The Stock Exchange of Hong Kong Limited, all of which were cancelled. The repurchases of the Company's shares during the period were effected by the directors, pursuant to the mandate from shareholders, with a view to benefiting shareholders as a whole by enhancing the net asset value and earnings per share of the Company. Details of the repurchased shares are as follows:

Month of repurchase	Number of shares repurchased	Price per share		Total price paid HK\$'000
		Highest HK\$	Lowest HK\$	
October 2000	<u>412,000</u>	1.38	1.33	<u>563</u>

Save as disclosed above, the Company did not redeem any of its listed securities during the period. Neither the Company, nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the period.

Code of Best Practice

In the opinion of the directors, the Company has 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 during the period under review.

Directors' Interests in Shares

As at 31st March 2001, the interests of the directors in the share capital of the Company and its subsidiaries as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

(i) The Company

Name of director	Notes	Number of ordinary shares held and nature of interest		
		Personal	Family	Other
Poon Hon Kam	1,5	–	–	59,269,074
Lam Foo Wah	2,3,5	–	–	109,026,655
Ip Weng Kun	4,5	–	–	33,492,198
So Siu Hang, Patricia		1,436,961	–	–
Hui Yip Wing		–	2,652,007	–
Wong Shing Loong, Raymond		2,500,000	–	–
Jack Weinstock		932,000	–	–

(ii) Subsidiary – High Fashion Knitters Limited

Name of director	Note	Nature of interest	Number of ordinary shares held
Lam Foo Wah	6	Corporate	5,339,431

Notes:

- Mr. Poon Hon Kam is deemed to have an interest in 31,404,724 ordinary shares which are beneficially owned by Excel Investments Ltd., the entire issued share capital of which is held under a related discretionary trust.
- Mr. Lam Foo Wah is deemed to have an interest in 10,164,569 ordinary shares which are beneficially owned by Annick Investment Limited, the entire issued share capital of which is held under a related discretionary trust.
- Mr. Lam Foo Wah is deemed to have an interest in 70,997,736 ordinary shares which are beneficially owned by Hinton Company Limited, the entire issued share capital of which is held under a related discretionary trust.
- Mr. Ip Weng Kun is deemed to have an interest in 5,627,848 ordinary shares which are beneficially owned by Major Rank Holdings Limited, the entire issued share capital of which is held under a related discretionary trust.

5. Messrs. Poon Hon Kam, Lam Foo Wah and Ip Weng Kun are deemed to have interests in 27,864,350 ordinary shares which are beneficially owned by High Fashion Charitable Foundation Limited, the entire issued share capital of which is held under a related discretionary trust.
6. These shares are held through three companies beneficially owned by Mr. Lam Foo Wah.

The interests of the directors in the share options of the Company are separately disclosed in the section "Directors' rights to acquire shares".

Save as disclosed above, none of the directors, chief executives or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company, its subsidiaries or any of its associated corporations as defined in the SDI Ordinance as at 31st March 2001.

Directors' Rights to Acquire Shares

Pursuant to the Company's share option scheme, the Company has granted options on the Company's ordinary shares in favour of certain directors, the details of which are as follows:

Name of director	Number of share options outstanding at end of period	Exercise price of share options HK\$
Lam Foo Wah	3,800,000	0.505
Ip Weng Kun	1,500,000	0.505
So Siu Hang, Patricia	1,200,000	0.505
Wong Shing Loong, Raymond	1,000,000	0.505
Jack Weinstock	500,000	0.505
	<hr style="border-top: 1px solid black;"/>	
	<u>8,000,000</u>	

Note: 40% of the options granted are exercisable during the period from 5th May 2002 to 4th May 2009, 30% of the options granted are exercisable during the period from 5th May 2003 to 4th May 2009 and the remaining 30% are exercisable during the period from 5th May 2004 to 4th May 2009.

As at 31st March 2001, no options were granted pursuant to the existing share option scheme during the period.

Apart from the Company's share option scheme, during the six months ended 31st March 2001 no rights were granted to the directors, chief executives of the Company, or any of their spouses or children under 18 years of age to subscribe for equity or debt securities of the Company.

Substantial Shareholders

As at 31st March 2001, the following interests of 10% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance.

Name	Number of ordinary shares held	%
Hinton Company Limited	70,997,736	About 23
Excel Investments Ltd.	31,404,724	About 10

These interests have also been disclosed as the interests of Messrs. Lam Foo Wah and Poon Hon Kam respectively under the section "Directors' interests in shares".

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests in shares", had registered an interest in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.