

## MANAGEMENT DISCUSSION AND ANALYSIS BUSINESS REVIEW

For the six months ended 30th September, 2006, the Group recorded a turnover of HK\$296,316,000 (2005: HK\$270,207,000), representing an increase of 9.7% as compared with the corresponding period of the previous year. An amount of HK\$57,001,000 of the turnover was contributed by the cosmetics business, representing an increase of 65% as compared with the corresponding period of the previous year (2005: HK\$34,552,000). The turnover from fashion business increased by 1.6% from the corresponding period of the previous year. The profit for the period was HK\$14,609,000 (2005: HK\$31,659,000), representing a decrease of 53.9% over the corresponding period of the previous year. This was attributable to the fact that the increase in fair values of investment properties was HK\$12,750,000 during the corresponding period of the previous year, while this amount of income recorded during the six months ended 30th September, 2006 was only HK\$200,000. If the effect of such special income was excluded, the profit before taxation would have recorded a 27.1% decrease as compared with the corresponding period of the previous year.

### Fashion Business

#### *Fashion Business – Hong Kong and Macau Market*

The fashion retail business in Hong Kong and Macau remained the major source of income of the Group, accounting for 60.1% of the overall turnover of its fashion business. For the six months ended 30th September, 2006, the Hong Kong and Macau market recorded a turnover of HK\$143,925,000, representing an increase of 10.9% as compared with the corresponding period of the previous year. As at 30th September, 2006, the Group had altogether 59 outlets in Hong Kong and Macau (30th September, 2005: 62 outlets). The Group will maintain the number of its outlets at the existing level, making adjustments according to rental levels.

#### *Fashion Business – Taiwan Market*

In the first half of this financial year, the retail business in Taiwan recorded a turnover of HK\$61,133,000, representing a 13% decrease over the corresponding period of the previous year. This was primarily attributable to the weak economy and unstable political status in Taiwan which continuously weakened its consumption capability and confidence and aggravated the market environment. As at 30th September, 2006, the Group had 63 outlets in Taiwan, similar to the number of the previous year. During the period under review, Taiwan market accounted for 25.5% of the Group's total turnover in the fashion business.

## *Fashion Business – Singapore Market*

In the first half of this financial year, the retail business in Singapore recorded a turnover of HK\$17,331,000, representing a 17.1% increase over the corresponding period of the previous year, which was mainly attributable to the strategic closing of several outlets with unsatisfactory performance in Singapore during the previous year. Together with the strengthened local management team, the segment results in Singapore experienced a significant improvement and maintained positive momentum. As at 30th September, 2006, the Group had 11 outlets in Singapore (30th September, 2005: 10 outlets).

## *Fashion Business – Other Markets*

As at 30th September, 2006, there were 62 outlets in China offering the Group's **Veeko** and **Wanko** products (30th September 2005: 53 outlets) apart from the markets in Hong Kong and Macau, Taiwan and Singapore. The outlet network under **Veeko** and **Wanko** brand names now covers not only first-tier cities such as Beijing, Shanghai, Chengdu, Guangzhou, Shenzhen and Zhuhai, but also includes other cities such as Chongqing, Wuhan, Nanjing, Tianjin, Xiamen, Quanzhou, Nanning, Qingdao, Yantai, Jiangmen, Zhongshan and Yibin.

## **Cosmetics Business**

The Group launched its cosmetics retail chain business in October 2004 and established the **Colourmix** stores. As at 30th September, 2006, the Group had 15 outlets (30th September 2005: 11 outlets), of which 12 were in Hong Kong and 3 in Macau. During the period under review, the Group's cosmetics retail business recorded a turnover of HK\$57,001,000 (30th September 2005: HK\$34,552,000), accounting for 19.2% of the Group's total turnover. An approximate loss of HK\$5,645,000 was recorded, representing an approximate decrease of 24.1% as compared with the loss of HK\$7,433,000 of the corresponding period of the previous year. The improvement was largely attributable to the positive response to the exclusive products directly imported from overseas since the end of 2005, which brought along a significant growth of gross profit margin. The turnover of the exclusive brands of skin care product series accounted for approximately 36% of the total turnover for the six months ended 30th September, 2006 while the percentage was approximately 24% during the corresponding period of the previous year. The overall gross profit margin was approximately 45.9% during the period under review and approximately 31.2% during the corresponding period of the previous year. Since the middle of March 2006, the Group has successively established **Colourmix** counters in the **Veeko** and **Wanko** fashion outlets in Taiwan, which mainly sold its exclusive branded cosmetics and skin care products of the Group to make initial trials in the Taiwan market. The Group has established 14 **Colourmix** counters so far and the response received was up to expectation. Although a loss was still recorded for the cosmetics business, the Group will continue the development of cosmetics business with prudence.

## PROSPECTS

### Fashion Business

As at 30th September, 2006, there were a total of 195 outlets under the Group's brand names, of which 59 were in Hong Kong and Macau, 63 in Taiwan, 11 in Singapore and 62 in mainland China. In the future, the Group will concentrate on the growth of its existing outlets in Hong Kong and Macau by maintaining the number of its outlets at the existing level and strengthening its cost control and human resources management. As such, the Group will be able to increase its turnover and profit and counter part of the pressure arising from rental increase. The total turnover of the comparable outlets in Hong Kong and Macau from October to November 2006 recorded an approximate 9.9% increase as compared with the corresponding period of the previous year. **Veeko** and **Wanko** brands have occupied a leading position in Taiwan's ladies fashion market. In the future, the Group will make corresponding adjustments based on the considerations towards the economic environment in Taiwan and close the outlets with unsatisfactory performance. Meanwhile, as the Singapore market is turning up, the Group will prudentially develop its local business. The China market will become the Group's key market for future development. In the China market, after years of development by way of franchise, the outlet network under **Veeko** and **Wanko** brand names now covers not only those first-tier cities, but also other second-tier cities. According to the franchisees, these two brands are well-received by female consumers in China. To capture this business opportunity, the Group already established a foreign-invested company in September 2006 and successfully obtained a foreign-owned business license in the mainland which allows it to carry out retail and wholesale business in the territory directly. The Group plans to open self-operating outlets successively in key cities in the mainland, realizing a parallel development with the existing franchised operations. The Group has been implementing internal strengthening measures including continuous enhancement of product quality and commitment in staff training to improve the overall service quality of staff and effective cost control. These measures will be helpful in countering part of the pressure arising from rental increase. The Group is confident about its future development in fashion retail business, especially in China market.

## Cosmetics Business

It has been two years since the establishment of the cosmetics business. With two years' experience, the Group has mastered the operation and management of the business and is actively improving its operation mode and strategy. As a result, the business is on the track. The number of the existing outlets was close to the budget base and the basic scale of operation has been achieved. The Group will concentrate on the integration of internal management, such as enriching the product series, increasing exclusive cosmetics products and training employees to offer excellent and professional services. The major brands of exclusive cosmetics products retailed by the Group include *Amadoris*, *Coréana*, *Entia*, *Esterel*, *Frais Monde*, *Geo*, *Helenere*, *Inseta* and *Swissological*, which are mainly brands from France, Switzerland, Italy and Korea. Besides the above series of skin care products, the Group has also obtained some perfume and other personal care products which are exclusively and directly imported from foreign countries, which helped to increase the gross profit margin. As a result, the loss of the cosmetics business during the period under review has experienced a significant improvement as compared with the corresponding period of the previous year and the operation performance has gradually turned up. From October to November 2006, the turnover of comparable outlets recorded an approximate 8.9% increase over the corresponding period of the previous year and the gross profit margin of these two months was approximately 47.8%, representing a remarkable increase as compared with the corresponding period of the previous year, which was 36.9%. Although a loss was still recorded for the cosmetics business, the Group believes that it has promising long-term prospects.

The Group will continue to offer products with superb value, and improve product quality and enhance the service standards of its employees through staff training, with a view to providing even better services and strong support to its brands' development.

## LIQUIDITY & FINANCIAL RESOURCES

The Group's working capital decreased from HK\$178,040,000 as at 31st March, 2006 to HK\$175,833,000 for the period end while its current ratio and quick ratio were maintained at a healthy level of 3.7 and 1.4 times respectively.

As at 30th September, 2006, the Group's cash and bank balances amounted to HK\$19,715,000 (31st March, 2006: HK\$53,065,000) and the outstanding bank borrowings and overdraft amounted to HK\$7,931,000 (31st March, 2006: Nil) whereas the total borrowings was HK\$7,931,000 (31st March, 2006: HK\$80,000).

As at 30th September, 2006, the gearing ratio of the Group is 0.027 (31st March, 2006: 0.0003) which is calculated based on the Group's total borrowings of HK\$7,931,000 (31st March, 2006: HK\$80,000) and the shareholders' fund of HK\$290,539,000 (31st March, 2006: HK\$293,149,000).

As at 30th September, 2006, the Group had banking facilities amounting to HK\$108,200,000 (31st March, 2006: HK\$108,200,000), of which HK\$11,247,000 (31st March, 2006: HK\$8,732,000) was utilised by the Group. The management believes that existing financial resources will be sufficient to meet future expansion plans and, if necessary, the Group will be able to obtain additional financing on favorable terms.

## CONTINGENT LIABILITIES

At 30th September, 2006, the Company had provided guarantees of HK\$121,200,000 (31st March, 2006: HK\$121,200,000) to certain banks in respect of banking facilities granted to certain subsidiaries of the Company. The amount utilised by the subsidiaries was HK\$11,247,000 (31st March, 2006: HK\$8,732,000) as at 30th September, 2006.

## FOREIGN EXCHANGE EXPOSURE

Certain trade payables and purchases of the Group are denominated and settled in foreign currencies. The management will continue to monitor its foreign exchange position and, if necessary, will hedge its foreign currency exposure by way of forward foreign exchange contract.

## STAFF AND REMUNERATION POLICIES

As at 30th September, 2006, the Group had 3,461 employees. The Group mainly determines staff remuneration (including insurance and medical benefits) in accordance with the industry's practices. The Group also implemented a reward scheme for its staff based on their individual performances. In addition to their basic remuneration and welfare, some key employees were granted share options as reward and incentive to enhance their loyalty to the Group.