

Management Discussion and Analysis

(I) REVIEW OF 12-MONTH INTERIM RESULTS

Group profit attributable to shareholders for the twelve months ended 31st December, 2000 amounted to HK\$12.1 million. Earnings per share were 1.1 cents. The Group has managed to generate profits after the Asian economic crisis.

The Group's turnover for the period was HK\$799.4 million, showing a 6.2% increase over the corresponding period in the previous year, which was mainly due to an improvement of consumer sentiments.

The gross margin was healthily maintained at 56.5% during the period mainly due to the weak Euro, which has kept the cost of imported merchandise at a low level.

The operating expenses were continuously kept under control during the period with the staff costs to sales ratio and the premises costs to sales ratio maintained at 14% and 24% respectively. As a result of the expiration of franchise agreements with Giorgio Armani SpA, a closure cost provision of HK\$18.8 million has been included in the operating expenses for the period.

No tax provision was required for the period as assessable profits generated during the period were all offset by tax losses brought forward from prior years.

(II) LIQUIDITY AND FINANCIAL RESOURCES

At 31st December, 2000, the Group's total net deposits and cash amounted to HK\$223.5 million, representing total deposits and cash of HK\$235.9 million less total bank borrowings of HK\$12.4 million which are all repayable within one year.

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(continued)

(III) FINANCE

On 22nd June, 2000, the Company entered into a subscription agreement with Wheelock and Company Limited in relation to the subscription of 820,000,000 new shares at an issue price of HK\$0.25 per share. Following completion of the subscription on 17th August, 2000, the Company received a total cash consideration of HK\$205 million.

During the period under review, the Group secured and renewed committed banking facilities in a total amount of HK\$221,400,000 (31st December, 1999 – HK\$223,167,000).

With the net proceeds from the share subscription and the banking facilities available to the Group, the Group should have sufficient fund to cater for its future expansion needs.

(IV) EMPLOYEE

The Group has approximately 530 staff as at 31st December, 2000. Employees are remunerated according to nature of the job and market trend, with built-in merit component incorporated in the annual increment to reward and motivate individual performance. The Group provides various job-related training programmes to staff periodically.