

Management Discussion and Analysis

(I) REVIEW OF RESULTS

As a result of the recent change of the financial year end of the Group from 31st December to 31st March, the fiscal year of the Group under review covered a period of fifteen months ended 31st March, 2001.

Group profit attributable to shareholders for the fifteen-month period ended 31st March, 2001 amounted to HK\$7.2 million. Earnings per share were 0.5 cent. The Group's turnover for the period was HK\$944.4 million, compared with HK\$563.9 million for the previous 9-month reporting period ended 31st December, 1999.

The gross margin was healthily maintained at 55.6% during the period mainly due to the weak Euro, which has kept the cost of imported merchandise at a low level.

During the fifteen-month period, the performance of the first half is better than the second half. The performance was in tandem with the general economic environment of Hong Kong and Taiwan. In particular, the high end retail market was very soft during the first quarter of 2001.

In Taiwan, the Joyce core fashion business operating result is favourable for the fiscal period under review. Net profit stands at breakeven level. The largest loss contribution for the Group is the Ad Hoc Division. This newly established business division is competing in a highly competitive market segment, with heavy start up investment costs. As a result, the total attributable loss over the 15 months is \$24 million.

During the period under review, three Hugo Boss outlets were added/expanded, in addition to the opening of four new Ad Hoc stores and one new free-standing Joyce Beauty store. The Group continues to look for expansion opportunities to both build value for the shareholders and to mitigate the impact of the expiration of the Armani franchise agreement.

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 25% respectively. As a result of the expiration of franchise agreements with Giorgio Armani SpA, a closure cost provision of HK\$17.0 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 March, 2001, the Group's total net deposits and cash amounted to HK\$259.0 million, representing total deposits and cash of HK\$261.2 million less total bank borrowings of HK\$2.2 million which are all repayable within one year.

Most of the Group's imported purchases are denominated in foreign currencies, primarily being Euro, for which no hedging was done during the financial period due mainly to the weakness of the Euro. To minimise exposure on foreign exchange fluctuations, the Group will from time to time review its foreign exchange position and, when it considers appropriate and necessary, will hedge its foreign exchange exposure by way of forward foreign exchange contracts. There are no forward foreign exchange contracts outstanding as at 31st March, 2001.

(III) FINANCE

On 22nd June, 2000, the Company entered into a subscription agreement with Wheelock and Company Limited ("Wheelock") in relation to the subscription of 820,000,000 new shares of the Company 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\$205.0 million.

During the period under review, the Group secured and renewed committed banking facilities in a total amount of HK\$224,650,000 (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 had approximately 470 staff as at 31st March, 2001. 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. The staff cost for the 15 months ended 31st March, 2001 amounted to HK\$136,602,000.