

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **REVIEW OF GROUP OPERATIONS FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2001**

The Group reported a profit attributable to shareholders of HK\$8.8 million compared to HK\$15.6 million last year.

#### **Retail and Trading Division**

The Group's retail and trading subsidiaries within this Division which includes City Chain, Optical 88 and Hipo.fant and its export arm managed to maintain and in some cases, better their respective sales turnovers compared to the corresponding period last year. Turnover increased by 6% compared to the previous half year. This was due to improvements made in key areas like, product development, product mix and quality, shop location and prices.

However, a very competitive business environment affected profit margins. Half yearly profits generated by this Division fell to HK\$9 million compared to profits of HK\$15.9 million last year.

The accelerated downturn of the U.S. economy has severely affected retail sentiment in Asia. In Hong Kong, City Chain maintained its sales turnover but a loss of HK\$2.5 million was recorded compared to a profit of HK\$5.9 million for the same period last year. City Chain in Singapore and Malaysia reported satisfactory growth with improved sales turnovers. In Thailand, sales turnover was maintained.

Optical 88 in Hong Kong reported breakeven results with slightly improved turnover figures compared to the corresponding period last year. The local optical industry remains extremely saturated. To improve margins, product mix with healthier margins were introduced. We have also introduced various packaged services and products at very competitive prices. Thailand and Singapore Optical 88 also reported satisfactory turnover figures and it is expected that these two operations will contribute profits in the second half of the year.

In Hong Kong, Hipo.fant reported similar sales turnover figures with a loss of HK\$1.6 million compared to breaking even over the same period last year. Customers continued to bargain hunt and this has again affected profit margins. Following the Group's efforts, during the last few years, Hipo.fant now enjoys instant brand recognition in Hong Kong. To further strengthen the brand, we will focus more on selecting sites away from fringe locations and in central areas. Shop sizes will also be increased. There are now 4 Hipo.fant shops in Singapore. All these shops are located in main business or prime shopping districts. Initial sales have been satisfactory.

Cost cutting measures to reduce operational costs are still in place. Non-performing shops will be closed when their leases expire.

The Group's total stores increased from 401 as at 31st March 2001 to 408 as at 30th November 2001.

Our export and overseas trading subsidiaries reported a profit of HK\$5 million, a slight improvement from the corresponding period last year whilst overall turnover improved by 16%. Greater advertising activity for adidas brought an increasing number of distribution points and sales.

## **Property Investment Division**

Stelux House continues to contribute stable income. Leases which are due for expiry have been renewed on satisfactory terms, considering the very poor local leasing conditions. After 30th September 2001, a shop property was disposed of for HK\$21 million.

## **Prospects**

In the very short term, we do not expect to see any major turnaround in retail sentiment in Hong Kong or regionally. However, we hope that efforts made to increase the attractiveness of Hong Kong as a major tourist hub and particularly, the expected lifting of the quota for mainland visitors will bring some cheer back to this sector. Overall, we remain cautiously hopeful of maintaining the performance for the three chains in the second part of the year.

Last year with improving Asian economies, we adopted a strategy to further strengthen the market shares of our three retail chains. Following the unexpected turn of events in the U.S., we have since modified this strategy. We have suspended existing plans for the opening of further shops in Hong Kong, where City Chain, Optical 88 and Hipo.fant already have a substantial, if not, major presence. We will however continue to selectively open new shops in countries like Thailand, Singapore and Malaysia, where rentals and other costs are still relatively low as we see opportunities for growth in these places in the medium to longer term.

At the same time, the Group has been exploring different ways to expand its watch business in the PRC and hopes soon to implement plans to increase either watch brand counters or City Chain counters in the PRC.