

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

For the six months ended 30 September 2001, turnover of the Group was HK\$338,691,000, representing an increase of about 12% compared to HK\$301,542,000 for the same period last year. Profit from operations amounted to HK\$25,204,000, up about 7% of corresponding six months last year. Loss per share was 3.64 HK cents (2000: earnings per share 61.3 HK cents).

During the period, the Group recorded an unrealised loss on other investments of HK\$40,597,000. The sum represents the unrealised loss on revaluation of investments in 21 CN CyberNet Corporation Limited ("21CN"), to fair value at the reporting date. As a result of the revaluation, though both turnover and profit from operations were higher than the corresponding period last year, the Group has net loss for the period of HK\$28,755,000.

Business Review

For the six months ended 30 September 2001, the Group continues its principal operation in the garment sourcing and export, turnover from this business segment contributes 97% of the Group's total turnover. The figure amounts to HK\$329,859,000, an increase of approximately 13% from the same period last year. Among the different geographical segments, the US contributed the major portion of the garment operations. Turnover of garment exported to the US was HK\$319,080,000, up approximately 17% over last year, and represented around 94% of the Group's total turnover. Demand for the Group's garment product from the US increased during the period under review, offsetting the decrease from Europe and Canada.

The Group has set up a regional headquarter in New York to handle the garment operation in the US. This facilitated the provision of comprehensive services to the valued overseas customers. On the other hand, the establishment could enlarge the Group's customer base and to capitalise on a larger market coverage.

The deteriorating and stagnant property market in Hong Kong has affected the Group's property letting business. The turnover of the segment was HK\$8,832,000, down 11% over the same period last year.

Prospects

Confronting with the current global economic downturn, the Group is determined to make every endeavor to overcome the obstacles ahead by strategic solutions. These include effective cost control and reallocation of resources to profitable operations.

The Group believes that the successful accession of the PRC to the WTO and the hosting of 2008 Olympic Games represent substantial growth momentum and business opportunity for the Group. The management will strive to expand the market coverage and improve the profit margin of the Group's garment business. The Group plans to expand the dyeing factory in Dongguan in order to increase the capacity of the factory. Since the garment operation will be the Group's continuing focus, the expansion of the dyeing factory will facilitate the overall performance of the garment business. The management will make every endeavour to excel the Group's business in the future.

Significant Corporate Events

The Group has completed the Rights Issue of 367,687,053 Rights Shares during the period under review, of which, the Controlling Shareholder of the Company has taken up its entire provisional allotment of 135,090,189 Rights Shares. It will be beneficially interested in a total of 405,270,567 Shares immediately upon completion of the Rights Issue, representing approximately 36.74% of the issued share capital of the Company as enlarged by the Rights Issue. Among the proceeds of HK\$55 million, before expenses from the Rights Issue, HK\$30 million is applied to repay outstanding bank borrowings, and HK\$20 million to finance a property under development in Hong Kong and the remaining for working capital.

The Group has completed the Debt Restructuring Agreement (the "Agreement") of HK\$366.4 million with bank creditors on 18 October 2001. The Agreement comprised of two parts, the Rescheduled Debt of HK\$363.7 million which is payable within 5 years of Completion and, the Excluded Trade Facility of up to HK\$2.7 million granted by one of the bank creditors which is to be gradually run down. On Completion the bank creditors will make available to the Group New Trade Facilities of up to HK\$40 million.

Employment, Training, Development and Remuneration Policy

As at 30 September 2001, the number of staff of the Group in the PRC and Hong Kong was about 30 and 50 respectively. The Group remunerates its employees based on their performance, experience and prevailing industry practice. The remuneration policy and package is adjusted according to the human resources market environment. The Group has set up provided retirement benefits, in the form of Mandatory Provident Fund entitlement to Hong Kong's employees.

Capital Expenditure

During the period under review, there is no material capital expenditure for business development.

Liquidity and Financial Resources

As at 30 September, 2001, the Group's bank deposits amounted to HK\$60,327,000. Net current liabilities were HK\$83,218,000. After the Completion of Debt Restructuring in October 2001, the financial position of the Group will be greatly improved.

The Group's gearing ratio at the period ended was 1.0 time (31.3.2001: 1.1 times), which was calculated based on the total borrowings (excluding obligations under finance leases) of HK\$363,735,000 (31.3.2001: HK\$366,154,000) and shareholders' funds of HK\$372,412,000 (31.3.2001: HK\$346,014,000).