

## MANAGEMENT DISCUSSION AND ANALYSIS ON THE INTERIM RESULTS

### Capital Reorganization

During the interim period ended September 2001, the Group undertook significant changes in its capital structure by a Capital Reorganization. After the disposal of the Group's printing business in June 2000, substantial loss was incurred and accumulated in the Group's retained loss. The Directors consider that the substantial accumulated losses represent a permanent loss of assets and it is unlikely that they can be offset by profits in the near future. In addition, the accumulated deficit restricts the flexibility of the dividend policy of the Group. Therefore, a proposal of Capital Reorganization was put forward to the shareholders for approval in 2001 Annual General Meeting ("AGM").

With the passing of the special and ordinary resolutions by the shareholders at the AGM on 3 August, 2001, the Capital Reorganization became effective immediately. In brief, the Capital Reorganization involved the reduction of the entire amount standing to the credit of the Company's share premium account ("Premium Reduction"), the consolidation of every 50 issued and unissued shares of HK\$0.02 each into one share of HK\$1.00 ("Consolidation"), the reduction of the nominal value of all the issued Consolidated shares from HK\$1.00 each to HK\$0.01 each by canceling paid-up capital to the extent of HK\$0.99 on each issued consolidated share ("Share Reduction") and the subdivision of each unissued consolidated share into 100 shares of HK\$0.01 each ("Share Subdivision"). The credit resulting from the Premium Reduction and the Share Reduction together with the balance standing to the contributed surplus account was applied in eliminating the accumulated deficit.

### Operation Review

The decrease in the Group's turnover for the six months ended September 2001 compared to the corresponding period in 2000 was solely due to the disposal of the subsidiaries which engaged in newspaper publications and offset printing services. In fact, the turnover of the Group's core business in garment manufacturing compared to last corresponding period has increased by 23% from HK\$87 millions to HK\$108 millions. The result attributable to shareholders has turned from a loss of HK\$2.9 millions in 2000 to a profit of HK\$1.8 millions in 2001. It was mainly due to the significant decrease in finance cost through the reduction of the Group's loan and bank borrowings.

After the incident of 911 in USA, there was a great adverse impact on the global economy. Although there was only a little effect on the sales order in our garment business, the selling price of our garment products has been cut back by our US customers. This selling price cut back also applies to the couple of months before the 911 incident and this explains why our gross profit ratio has dropped to 12% for the six months ended September 2001 from 17% in 2000. The demand for our garment products from our US customers remains stable as it is presently maintaining back orders of five months.

### **Liquidity and Capital Resources**

The Group relied principally on its internal resources to fund its operation and investment activities. The gearing ratio of the Group, which is expressed as a percentage of total borrowings to shareholders' funds, remains 0% since 31 March, 2001. However, the Company has contingent liabilities of HK\$20 million in the form of a corporate guarantee to secure general banking facilities granted to a subsidiary. Besides, the Group's exposure to foreign currency risk is insignificant because of its US\$ based stream of income.

### **Employees**

The Group maintains 28 employees. Salaries are reviewed and adjusted annually based on their performance and experience. Other employee benefits include mandatory provident fund and educational subsidies which are offered to promote the development of staff. There is a share option scheme in place designed to award employees for their performance at the discretion of the directors. There was no share option granted to any employee during the period.

### **Future plan and prospect**

On the front of new businesses, the Group is launching a worldwide well known Designer-label, and especially in USA, "Gillian" to serve the niche market for matured ladies in China, the age group is from 25 to 45. In addition, we will also manufacture the same label for women of the larger sizes, "Gillian II" will be introduced for this purpose. We will use most of our existing equipments and machineries and will add a new team of personnel in China for domestic retail market development.

On technology-related ventures, the Group is currently in discussion with two separate parties; one in Beijing and the other in Shanghai. The Beijing project is Bio-tech oriented, and its counterpart being the Medical Department of the Beijing University. If things go smoothly, we can expect the actual signing of the joint-cooperation agreement by early 2002. The Shanghai project is also in the medical field, we consider Shanghai project has great growth potential for our Group. However, it is still in the infant stage.

We sincerely hope the discussions and researches on these projects will bear fruit for the Group in the not-too-distant future.

By Order of the Board  
**Ling Tai Yuk, John**  
*Chairman*

Hong Kong, 7 December, 2001