MANAGEMENT DISCUSSION AND ANALYSIS

During the year ended 30 June 2002, the Group's business activities were organised into two operating units, namely Manufacturing & Brands, and a Corporate cost centre. It should be noted that the Brands unit, previously referred as Distribution, is so renamed to better reflect its products, its business and activities.

	Turnover		Profit (loss) before taxation	
	2002	2001	**2002**	2001
	HK$'000	HK$'000	**HK$'000**	HK$'000
Manufacturing	**817,792**	887,272	**110,246**	90,166
Brands	**29,054**	32,193	**(3,651)**	51
Corporate	**–**	–	**(26,863)**	(33,428)
Total	**846,846**	919,465	**79,732**	56,789

MANUFACTURING

Fiscal year 2001/2002 saw the first decline in OEM sales after years of continuous growth. Total sales turnover was HK$817.8 million, a decrease of almost 8% from the previous year.

Most of the sales shortfall took place in the first half of the fiscal year. Our customers were extremely cautious in inventory management in the long global recession. They cut back their production needs to the bare minimum; some even suspended the production orders shortly after the 9.11 disaster. The situation also explains the dramatic surge in production demand later in the year. As the market started to show signs of recovery around Christmas of 2001, our customers began to realize that they were losing business because of insufficient inventory. They all rushed out production orders and pressed for immediate deliveries within the last six months of the fiscal year. While the Company produced more units and made more shipments in the second six months, sales for the year still fell short as compared with the previous year.

On the other hand, the business unit attained record high in profit performance - profit before taxation increased 22% to HK$110.2 million from the previous year. The improvement was attributed to two major factors. Firstly, since January 2002, two major quota categories for export of brassiere products from China to the U.S. have been eliminated immediately upon China's integration into the WTO. This development resulted in savings in quota expenses for China production. Additionally, the Company switched a portion of its productions from Thailand and the Philippines to China where production costs, now without the burden of quota expenses, became the most efficient in the region. The move resulted in an improvement in profit margin.

MANAGEMENT DISCUSSION AND ANALYSIS

Included in the result of this business segment is a one-off non-operating profit of HK$10.4 million arising from the deemed disposal of the Group's interest in Elastex Manufacturing Company Limited ("Elastex"). In November 2001, we completed a transaction by which we disposed of a 40% interest in Elastex, previously a wholly-owned subsidiary of the Group which produced elastic materials primarily for consumption by our manufacturing business, to an independent third party who is specialised in procurement and distribution of apparel materials. The sale proceeds from the disposal would be entirely reinvested in Elastex for expansion of capacity and broadening sales to third party users through the existing distribution network of the new partner.

In March 2002, the Company commenced construction of a new factory in Jiangxi province in China. The project, when totally completed in the second quarter of year 2004, will result in an increase of our total capacity by 20%. Phase I of the project is being completed in October. We are hopeful that we could use the new facility to support our pressing needs for additional production in China.

BRANDS

The retailing market in the region turned extremely soft during the year under review, especially during the months after the 9.11 disaster. Our Branded business, which distributed own branded products in Taiwan, Hong Kong and China, was directly affected. Sales turnover for the year decreased 10% to HK$29.1 million and a loss before taxation of HK$3.7 million was recorded. While business was extremely challenging in all three markets that the Group operated, Taiwan was particularly difficult and its operating loss as a percentage of sales was the highest among all. Considering the continued losses and the lack of prospect for a turnaround in the local market, the Group decided to exit Taiwan and ceased operation there since 30 June 2002.

CORPORATE

Corporate expenses reduced 20% from the previous year to HK$26.9 million. The improvement was primarily attributed to the decrease in interest expenses on the Group's repayment of HK$50 million bank borrowings, and the profit of HK$2.3 million derived from the disposal of the Group's investment in securities. The generally low interest rate, had also helped to minimize the interest expenses of the Group during the year.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL POSITION

The Group accomplished some major achievements in its financial position during the year. The shareholders' funds was able to swing from a deficiency of HK$31.5 million as at 30 June 2001 to a positive balance of HK$44.0 million as at 30 June 2002. This is largely attributed to the continuous improvements in the Group's earning performance, and the conversion of US$1.4 million from the Convertible Loan Notes ("CLN"), resulting in the issue of 34,912,718 shares by the Company in May 2002. Meanwhile, we continued to reduce the bank borrowings from HK$142.2 million as at 30 June 2001 to HK$92.7 as at 30 June 2002 in accordance with the Amendment Agreement entered into with the banks in January 2001.

In December 2001, an event of default was triggered under the terms of the CLN Agreement as a result of the completion of an agreement for a major change in the shareholding structure of the Company. Accordingly, the CLN holders would have the right to demand the Company for repayment of the outstanding CLN which are due to expire in January 2003. In view of the situation, the management has entered into discussions with the Group's lending banks with the intention to restructure the existing banking facilities in order to meet the Group's financial needs and obligations. We are pleased to report that we have reached agreement in principle with the banks and the matter is very close to finalisation.

OUTLOOK

Our Branded business, after the exit from Taiwan, will focus its resources on improving the operations in Hong Kong, and expanding the market in China. Considering the still stagnant economy and the highly promotional retailing environment in Hong Kong, the management will remain prudent in anticipating for any dramatic turn around in the near future. China, being a growing consumer market, on the other hand offers much room for expansion and it is in this direction that the Group seeks opportunities for broadened distribution of the branded products. Discussions for working relations with parties who have established distribution networks in China have been taking place. We are hopeful that we will soon see positive results.

The outlook of our Manufacturing business remains encouraging. Our plant capacities are almost fully booked until March 2003. The Company is striving to speed up the construction of the new plants in China in order to support its increasing business needs. We believe we are well positioned in advance of the situation where competition would intensify as the quota barrier is removed. We are committed to maintaining our position as the leading OEM supplier in the brassiere trade.