MANAGEMENT DISCUSSION AND ANALYSIS

The six months ended 31 December 2002 recorded the best interim result ever for the Group. Total Sales was HK$551.6 million, up 37%, and Net Earning was HK$65.4 million, up 173% comparing with the same period in the previous year.

Our basic earnings per share has increased by 150% to HK¢8 from HK¢3.2 in the corresponding period. Subsequent to 31 December 2002, US$5.8 million of our Convertible Loan Notes were converted in 145,666,799 shares of the Company. Had this conversion taken place on 31 December 2002, the pro forma earnings per share calculated on the profit attributable to shareholders of HK$65,368,000 and 958,897,340 shares (being the sum of weighted average of 813,230,541 shares in issue and 145,666,799 shares to be issued after conversion) is HK¢6.8.

The Group's impressive performance was driven primarily by the strong growth in our OEM business. During the period we shipped over 26 million units of brassiere products. We had increased production demands from customers in all markets. Our plants were virtually 100% filled including the capacities for July and August, traditionally the two slack months in our business. We were also thankful for the timely completion of Phase I of the expansion project we staged in China; the added low-cost capacity has helped to support our increase in sales. Following the elimination of two major quota categories for export of brassiere products from China to the U.S. last year, we were free to reshuffle our product mix and load our plants among the different regions on basis of their capabilities instead of quota limitations. This to a great extent has enhanced our manufacturing efficiency and lowered our cost.

Our branded business posted a loss of HK$6.3 million during the period. Subsequent to our recent exit from the Taiwan market, the turnover of the business unit has fallen to a level that could not be cost efficient. It was for this reason and as mentioned in my last report, your management decided to rebuild the business with a focus on the China market. It should be noted that over 50% of the loss posted during the period was a onetime charge to those inventories deemed obsolete in our business plan to reposition our brands and in the market.

Corporate expenses decreased by HK$4 million or 31% from the correspondent period in the previous year. This was attained largely due to the reduction of bank borrowings, resulting in savings in interest expenses.

On the financial side, I would like to highlight the following developments:

- The Convertible Loan Note Agreement we entered into as part of the Group's financial and business restructuring five years ago had come to a conclusion last month. The noteholders collectively converted 87% of the notes (amounting to approximately HK$104.2 million) to common stocks and the Company has settled the balance Convertible Loan Notes amount (amounting to approximately HK$15.8 million) by cash repayment. The notes conversions effectively reversed debt to equity. HK$48.3 million of the total conversions took place during the six months period and it helped to strengthen the Group's balance sheet.

- The profit generated by business operations during the period had resulted in an increase of our bank balances and an improvement in our cash position from HK$70.6 million as at 30 June 2002 to HK$113.6 million as at 31 December 2002.

- We decreased the Group's bank borrowings from HK$92.7 million to HK$85.1 million in accordance with the Amendment Agreement entered into with the banks in January 2001.

- Our gearing ratio, which is measured by net borrowing to net worth, was reduced substantially to 22% only as at 31 December 2002 compared to 318% as at 30 June 2002. This was accomplished by a combination of the above factors.

- The net worth of the Group, had attained approximately HK$150.4 million as at 31 December 2002 as compared to a negative net worth of HK$13.3 million as at the same date last year.

Additionally, we have recently entered into an agreement with Hongkong Bank, Hang Seng Bank and ING Bank under which the three banks have become the only bankers of the Group, providing a line of revolving credit facilities amounting to HK$140 million sufficient to support our business needs. All these reflect the gaining strength in the Group's financial position.

Outlook for the second half of the current fiscal year remains positive on basis of the production orders we have received on hand. Nevertheless, the lackluster retail performance over the last Christmas season, and the prospect of a war in the Middle East, have caused concerns in the market and prompted your management to take a cautious approach to business.

Our Branded business, while being redeveloped with a focus on the China market, is not expected to have much meaningful impact on the Group's overall performance in the short term. However, it bears strategic significance in sustaining the Group's continuous growth beyond the expansion project of our OEM business in China.