MANAGEMENT DISCUSSION AND ANALYSIS

Despite a slight decline in sales turnover for the six months ended 31 December, 2003, the Group achieved an increase in earnings. While sales turnover decreased 3% to HK$534.7 million, earnings increased 2% to HK$65.4 million. Basic earnings per share was 6.1 HK cents, comparing with 7.9 HK cents for the same period in the previous year before the conversion of the Convertible Loan Notes in January 2003.

The result, which was driven by our core business, was not totally unexpected. As reported in my Chairman's statement six months ago, most economies including the U.S., our major market, were clouded by the Middle East War in the first half of 2003 which resulted in soft markets and weakened consumer spending. In this pessimistic business climate, our OEM customers became extremely cautious in inventory management and began to cut back demand for production.

For the first quarter of the fiscal year, our plants were at 85% capacity, compared with virtually 100% in the corresponding period of the previous year. With the upturn in the U.S. economy two months after the War ended, our customers immediately rushed for inventory replenishment, resulting in a surge in demand for production in the second quarter. This increase in demand was particularly evident during the two months before Christmas. The Company was quick to respond to the market changes, and was able to recover most of the lost sales in the preceding quarter through overtime operations. It should be noted that, despite the market volatility and the additional costs associated with the excess capacity and overtime operations, we were able to improve our gross profit margin and maintain an operating profit in line with sales performance during the six month period. The management is also pleased with the additional capacity provided by the new manufacturing plant in Jiangxi province. The plant has contributed towards stabilizing operating costs because of its low cost structure.

The development of our Branded business is making progress, albeit at a slow pace. Sales turnover for the six month period decreased 11% to HK$11 million, as a result of our decision to discontinue relationship with underperforming wholesale customers. The operating loss narrowed down by 43% to HK$3.6 million. In December 2003, we successfully renegotiated our contract with the wholesale agent for the Yangtze River Delta. The new contract will provide not only more favorable business terms to the Company, but will also enable management to concentrate the resources in developing other regions in the China market. We have also begun launching more advertising programs to build brand recognition in the China market.

The improvement of the Group's overall profit performance was also attributed to the continued savings achieved in corporate spending over the past six months. Total corporate expenses decreased 44% to HK$4.9 million, with the reduction in interest expenses accounting for most of the savings. The Company's gearing, which is measured by total bank borrowings to net worth, was at 22% and we were in a net cash position of HK$35 million as at 31 December 2003, evidencing the stability of the Group's financial health. As the Group has successfully reduced its need for borrowed funds, we expect interest to become less of a cost factor in the future. The management will continue to focus on maintaining control over other elements in corporate spending.

Looking ahead towards the rest of the year, we are confident that the current positive economic trend will continue. Our OEM operations have successfully acquired new customers in the U.S., Europe and Japan markets and we are comfortable with the orders we have on hand for the next six months. We believe our growth driver going forward will come from the expansion of our clientele in the Europe market, in addition to the U.S.

Despite the positive outlook, however, there are some causes for concern. The fluctuation in the exchange rates of our trading currencies has had a mixed impact on our business. While on the one hand the growth of our non-U.S. exports has been stimulated by the strong Euro and the Yen, on the other hand our Thailand operations, which account for 38% of our total capacity, have been under mounting pressure for cost increases due to the appreciation of the Thai Baht. The Safeguard Quota recently imposed by the U.S. on China's export of bras, though not a real crisis for us under the new limit, remains an uncertainty because the Chinese Government has yet to finalize the quota allocation system.

As for our Branded business, most of the key issues have been addressed as part of the restructuring. While we are on track in terms of focusing efforts on rebuilding sales over the next few months, we do not expect this business unit at its foreseeable level of sales turnover to have a significant impact on the Group's performance.