



GAY GIANO
INTERNATIONAL

INTERIM REPORT
SIX MONTHS ENDED 30 SEPTEMBER 2004

GAY GIANO INTERNATIONAL GROUP LIMITED
(Incorporated in Bermuda with limited liability)

INTERIM RESULTS

The board of directors (the "Board" or the "Directors") of Gay Giano International Group Limited (the "Company") announces the unaudited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the six months ended September 30, 2004 together with the comparative figures for the corresponding period in the previous year as follows:

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT
For the six months ended September 30, 2004

		Unaudited Six months ended September 30,	
		2004	2003
	Notes	HK\$'000	HK\$'000
TURNOVER	2	55,086	46,309
Cost of goods sold		<u>(14,745)</u>	<u>(18,705)</u>
GROSS PROFIT		40,341	27,604
Other revenue		324	48
Distribution costs		(20,969)	(24,291)
Administrative expenses		<u>(18,540)</u>	<u>(18,518)</u>
PROFIT/(LOSS) FROM OPERATION	4	1,156	(15,157)
Finance costs		<u>(140)</u>	<u>(351)</u>
PROFIT/(LOSS) BEFORE TAX		1,016	(15,508)
Taxation	5	<u>—</u>	<u>(94)</u>
NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS		<u>1,016</u>	<u>(15,602)</u>
DIVIDEND	6	<u>Nil</u>	<u>Nil</u>
EARNINGS/(LOSS) PER SHARE	7		
— Basic		<u>HK0.51 cent</u>	<u>HK(7.80) cents</u>
— Diluted		<u>N/A</u>	<u>N/A</u>

CONDENSED CONSOLIDATED BALANCE SHEET
As at September 30, 2004

		UNAUDITED September 30, 2004 HK\$'000	AUDITED March 31, 2004 HK\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment	8	20,576	21,295
Rental deposits		5,846	3,855
		<u>26,422</u>	<u>25,150</u>
CURRENT ASSETS			
Inventories		21,332	17,306
Accounts receivables	9	1,885	2,269
Prepayments, deposits and other receivables		4,862	7,204
Bank balances and cash		1,519	2,629
		<u>29,598</u>	<u>29,408</u>
CURRENT LIABILITIES			
Accounts payables	10	3,135	3,272
Tax payable		92	42
Accrued liabilities and other payables		9,811	8,791
Bank loans (secured)		529	522
Other loans (secured)		370	369
Finance lease payables		68	165
		<u>14,005</u>	<u>13,161</u>

CONDENSED CONSOLIDATED BALANCE SHEET *(continued)*
As at September 30, 2004

	UNAUDITED September 30, 2004 <i>Note</i>	AUDITED March 31, 2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
NET CURRENT ASSETS	15,593	16,247
TOTAL ASSETS LESS CURRENT LIABILITIES	42,015	41,397
NON-CURRENT LIABILITIES		
Bank loans (secured)	3,279	3,545
Other loans (secured)	1,875	1,983
Finance lease payables	20	44
	<u>5,174</u>	<u>5,572</u>
NET ASSETS	<u>36,841</u>	<u>35,825</u>
CAPITAL AND RESERVES		
Share capital	11 20,003	20,003
Reserves	16,838	15,822
	<u>36,841</u>	<u>35,825</u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended September 30, 2004

	Share capital HK\$'000	Share premium HK\$'000	Exchange fluctuation reserve HK\$'000	Investment property revaluation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At April 1, 2003	20,003	26,121	116	—	(1,923)	44,317
Revaluation reserve for the period	—	—	—	500	—	500
Net loss for the period	—	—	—	—	(15,602)	(15,602)
At September 30, 2003	<u>20,003</u>	<u>26,121</u>	<u>116</u>	<u>500</u>	<u>(17,525)</u>	<u>29,215</u>
At April 1, 2004	20,003	26,121	116	—	(10,415)	35,825
Net profit for the period	—	—	—	—	1,016	1,016
At September 30, 2004	<u>20,003</u>	<u>26,121</u>	<u>116</u>	<u>—</u>	<u>(9,399)</u>	<u>36,841</u>

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended September 30, 2004

	Six months ended September 30,	
	2004	2003
	HK\$'000	HK\$'000
Net cash generated from/(used in) operating activities	375	(1,541)
Net cash (used in)/generated from investing activities	(998)	2,014
Net cash used in financing	(487)	(2,483)
Net decrease in cash and cash equivalents	(1,110)	(2,010)
Cash and cash equivalents at beginning of period	<u>2,629</u>	<u>3,568</u>
Cash and cash equivalents at end of period	<u>1,519</u>	<u>1,558</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS
For the six months ended September 30, 2004

1. **Basis of Preparation**

These unaudited consolidated condensed interim financial statements are prepared in accordance with Hong Kong Statements of Standard Accounting Practice ("SSAP") 25, "Interim Financial Reporting", issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

These condensed interim financial statements should be read in conjunction with the 2004 annual financial statements.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended March 31, 2004.

2. **Turnover**

Turnover represents the aggregate of the net invoiced value of goods sold, after allowances for goods returned and trade discounts, from retail and wholesale of ladies' and men's fashion apparel and complementary accessories.

3. **Segment Information**

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

(a) **Business Segments**

The following table presents revenue and results information for the business segments of the Group.

	UNAUDITED							
	Six months ended September 30,							
	Fashion apparel		Property investment		Corporate and other		Consolidated	
2004	2003	2004	2003	2004	2003	2004	2003	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Segment Revenue:								
Sales to external customers	55,086	46,309	—	—	—	—	55,086	46,309
Other revenue	16	53	—	—	308	(5)	324	48
Total	55,102	46,362	—	—	308	(5)	55,410	46,357
Segment results	1,260	(13,968)	(56)	(707)	(48)	(482)	1,156	(15,157)
Interest income							—	—
Profit/(loss) from operating activities							1,156	(15,157)
Finance costs							(140)	(351)
Profit/(loss) before tax							1,016	(15,508)
Taxation							—	(94)
Net profit/(loss) attributable to shareholders							1,016	(15,602)

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3. Segment Information *(continued)*

(b) Geographical Segments

The following table presents revenue and results information for the geographical segments of the Group.

	UNAUDITED					
	Six months ended September 30,					
	Hong Kong		People's Republic of China		Consolidated	
	2004	2003	2004	2003	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment revenue						
Sales to external customers	53,747	44,206	1,339	2,103	55,086	46,309
Other revenue	324	48	—	—	324	48
Total	<u>54,071</u>	<u>44,254</u>	<u>1,339</u>	<u>2,103</u>	<u>55,410</u>	<u>46,357</u>
Segment results	<u>1,622</u>	<u>(15,067)</u>	<u>(466)</u>	<u>(90)</u>	<u>1,156</u>	<u>(15,157)</u>

4. Profit/(Loss) From Operation

	UNAUDITED	
	Six months ended	
	September 30,	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of inventories sold	14,745	18,705
Depreciation	1,029	1,337
Loss on disposal of property, plant and equipment	688	—
Finance cost —		
Interest expense on:		
Bank loans and overdrafts	70	92
Finance leases	22	22
Other loans wholly repayable within five years	48	237
	<u>48</u>	<u>237</u>

5. Taxation

	UNAUDITED	
	Six months ended	
	September 30,	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Provision for the period:		
Hong Kong	—	—
Overseas	—	94
	<u>—</u>	<u>94</u>

No provision for Hong Kong profits tax has been made since the Group did not generate any assessable profits in Hong Kong during the period. The Company's subsidiary established in The People's Republic of China is subject to Enterprise Income Tax at a rate of 15%. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

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6. Dividend

The Directors have resolved that no interim dividend be declared in respect of the six months ended September 30, 2004 (six months ended September 30, 2003: Nil).

7. Earnings/(Loss) Per Share

The calculation of basic earnings per share is based on the unaudited net profit attributable to shareholders for the six months ended September 30, 2004 of HK\$1,016,000 (2003: Loss HK\$15,602,000) and the weighted average of 200,030,000 (2003: 200,030,000) ordinary shares in issue during the period.

Diluted earnings/(loss) per share has not been disclosed as the potential ordinary shares outstanding during the period had an anti-dilutive effect on the basic earnings/(loss) per share for the period.

8. Property, Plant and Equipment

During the period, the Group spent approximately HK\$1,018,000 (2003: HK\$384,000) principally in leasehold improvements for newly established and existing retail outlets.

9. Accounts Receivables

The following is an ageing analysis of accounts receivables at the balance sheet date, based on the invoice date:

	UNAUDITED	AUDITED
	At	At
	September 30,	March 31,
	2004	2004
	<i>HK\$ '000</i>	<i>HK\$ '000</i>
0 — 30 days	724	1,100
31 — 60 days	151	305
over 60 days	1,010	864
	1,885	2,269

Normal credit term granted by the Group to its customers ranges from 30 to 60 days from the invoice date.

10. Accounts Payables

The following is an ageing analysis of accounts payables at the balance sheet date:

	UNAUDITED	AUDITED
	At	At
	September 30,	March 31,
	2004	2004
	<i>HK\$ '000</i>	<i>HK\$ '000</i>
0 — 30 days	1,578	2,286
31 — 60 days	1,023	632
over 60 days	534	354
	3,135	3,272

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11. Share Capital

	UNAUDITED At September 30, 2004 <i>HK\$'000</i>	AUDITED At March 31, 2004 <i>HK\$'000</i>
Authorised:		
1,000,000,000 ordinary shares of HK\$0.10 each	<u>100,000</u>	<u>100,000</u>
Issued and fully paid:		
200,030,000 ordinary shares of HK\$0.10 each	<u>20,003</u>	<u>20,003</u>

12. Operating Lease Commitments

At balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases falling due as follows:

	UNAUDITED At September 30, 2004 <i>HK\$'000</i>	AUDITED At March 31, 2004 <i>HK\$'000</i>
Within one year	24,281	24,215
In the second to fifth years, inclusive	<u>24,056</u>	<u>18,235</u>
	<u>48,337</u>	<u>42,450</u>

13. Contingent Liabilities

At September 30, 2004, the Company and the Group had no significant contingent liabilities (March 31, 2004: Nil)

14. Connected Transaction

During the year ended March 31, 2004, Gay Giano International Limited, a wholly-owned subsidiary of the Company, entered into a tenancy agreement with Boldsmore International Limited ("Boldsmore"), a fellow subsidiary of the Company. Pursuant to the agreement, Boldsmore leased an office and a warehouse to the Group for a term of one year from November 1, 2003 to October 31, 2004 at a monthly rent of HK\$182,000.

FPDSavills (Hong Kong) Limited, an independent firm of professional valuers, has reviewed the terms of the above lease agreement and has confirmed to the directors that the rental payable under the agreement is based on normal commercial terms and is fair and reasonable.

The independent non-executive directors are of the opinion that the terms of the above transaction is fair and reasonable so far as the shareholders of the Company are concerned; and that the transaction has been entered into by the Group in its ordinary course of business and on normal commercial terms and was carried out in accordance with the terms of the agreement governing such transaction.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at September 30, 2004, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and the chief executives of the Company were deemed or taken to have under such provisions of the SFO), or which were recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

(i) Long positions in ordinary shares of the Company

As at September 30, 2004, none of directors and chief executives of the Company has any long positions in ordinary shares of the Company, which was required to be notified to the Company and the Stock Exchange pursuant to the SFO or which was recorded in the register required to be kept pursuant to the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code in the Listing Rules.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(continued)*

(ii) Interests in options to subscribe for the Company's shares

As at September 30, 2004, the directors had personal interests in share options to subscribe for shares in the Company under the Old Scheme (as defined in the Section "Share option scheme" below) as follows:

Name of directors	Exercise period of share options	Exercise price of share options HK\$	Number of share options			
			Outstanding at beginning of the period	Granted during the period	Exercised during the period	Outstanding at end of the period
Cheung Yin Sheung Subraina	February 5, 2001 to February 4, 2011	0.2528	1,800,000	—	—	1,800,000
Tong Kwong Fat	February 5, 2001 to February 4, 2011	0.2528	1,800,000	—	—	1,800,000
Yung Wing Sze Vivian	February 5, 2001 to February 4, 2011	0.2528	1,170,000	—	—	1,170,000

(iii) Long positions in ordinary shares of an associated corporation of the Company

Name of Directors	Name of the associated corporation	Capacity	Type of interests	Number of shares held	% of the issued share capital
Cheung Yin Sheung Subraina ("Ms. Cheung")	Gay Giano (BVI) Group Limited ("Gay Giano (BVI)") (Note 1)	Beneficial owner	Personal	250	12.50
		Interest of spouse	Family	50 (Note 2)	2.50
Tong Kwong Fat ("Mr. Tong")	Gay Giano (BVI) (Note 1)	Beneficial owner	Personal	50	2.50
		Interest of spouse	Family	250 (Note 2)	12.50

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(continued)*

- (iii) Long positions in ordinary shares of an associated corporation of the Company *(continued)*

Notes:

1. Gay Giano (BVI) which holds 120,000,000 shares, or 60% equity interest in the Company, is an associated corporation of the Company under the SFO.
2. Mr. Tong is the spouse of Ms. Cheung. By virtue of the SFO, Mr. Tong and Ms. Cheung are taken to be interested in the shares held by each other.

Save as disclosed above, none of directors or chief executives or their associates held any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporation as at September 30, 2004 which had to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Apart from as disclosed under the heading "Directors' interests and short positions in shares, underlying shares and debentures" above and "Share option scheme" below, at no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or chief executive, or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company or any of its subsidiaries and fellow subsidiaries, a party to any arrangement to enable the directors, chief executives, their respective spouse or children under 18 years of age to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

In 2001, the Stock Exchange announced changes to the Listing Rules which set out the revised requirements for share option schemes operated by listed companies. In this respect, the operation of the share option scheme adopted by the Company on March 14, 2000 (the "Old Scheme") was terminated upon the adoption of the New Scheme (as defined below). In such event, no further option would be granted under the Old Scheme. However, all options granted prior to such termination and not yet exercised shall continue to be valid and exercisable subject to and in accordance with the Old Scheme.

On September 10, 2002, at the annual general meeting, the Company adopted a new share option scheme (the "New Scheme") under which the board of directors may, at their discretion, invite any full time and part time employees, directors, suppliers, customers, consultants, advisors or shareholders of any of the companies within the Group to take up options to subscribe for ordinary shares of the Company at any time during ten years from the date of adoption. The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other schemes of the Company shall not exceed such number of shares as shall represent 30% of the issued share capital of the Company from time to time. Other details of the New Scheme were disclosed in the circular dated July 29, 2002. As at September 30, 2004, no options have been granted under the New Scheme.

SHARE OPTION SCHEME (continued)

Details of the movements in the share options granted and exercised during the period ended September 30, 2004 under the Old Scheme are as follows:

Name or category of participant	Date of grant of share options (Note 1)	Exercisable period of share options	At April 1, 2004	Granted during the period	Number of share options Exercised during the period	Number of share options Lapsed during the period	Cancelled during the period	At September 30, 2004	Exercise price of share options HK\$ (Note 2)
Directors									
Cheung Yin Sheung Subralna	February 5, 2001	February 5, 2001 to February 4, 2011	1,800,000	—	—	—	—	1,800,000	0.2528
Tong Kwong Fat	February 5, 2001	February 5, 2001 to February 4, 2011	1,800,000	—	—	—	—	1,800,000	0.2528
Yung Wing Sze Vivian	February 5, 2001	February 5, 2001 to February 4, 2011	1,170,000	—	—	—	—	1,170,000	0.2528
			<u>4,770,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>4,770,000</u>	
Other employees									
In aggregate	February 5, 2001	February 5, 2001 to February 4, 2011	10,610,000	—	—	—	(30,000)	10,580,000	0.2528
			<u>15,380,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(30,000)</u>	<u>15,350,000</u>	

Notes:

1. The vesting period of the share options is from the date of the grant until the commencement of the exercise period.
2. The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

SHARE OPTION SCHEME *(continued)*

The Directors consider that it is not appropriate to value the share options on the ground that certain crucial factors for such valuation are variables which cannot be reasonably determined at this stage. Any valuation of the share options based on speculative assumptions in respect of such variables would not be meaningful and the results thereof may be misleading to the shareholders.

SUBSTANTIAL SHAREHOLDERS

As at September 30, 2004, other than the interests and short positions of the directors or chief executives of the Company as disclosed above, the following parties had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name	Capacity	Type of interests	Number of shares held	% of the issued share capital
Gay Giano (BVI)	Beneficial owner	Corporate	120,000,000	60
K&E Industries Limited	Beneficial owner	Corporate	30,000,000	15
Cheung Sing Chi	Interest of Controlled Corporation (Note)	Corporate	120,000,000	60

Note:

Mr. Cheung Sing Chi holds 72.5% of the shares in issue of Gay Giano BVI and therefore has a controlling interest in it. By virtue of the SFO, Mr. Cheung Sing Chi is taken to be interested in the shares of the Company held by Gay Giano BVI.

Save as disclosed above, as at September 30, 2004, the Company was not notified by any person (other than the directors or the chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

BUSINESS REVIEW AND PROSPECT

Business Review

The Group has achieved turnaround result from the unaudited consolidated net loss attributable to shareholders of approximately HK\$15.5 million in the last corresponding period to the unaudited consolidated net profit attributable to shareholders of approximately HK\$1 million for the six months period ended September 30, 2004. This encouraging interim results reflects the positive impacts of the management's struggle.

In the first half of the fiscal year, turnover of the Group was approximately HK\$55 million; represented a considerable increase of approximately 19% as compared to approximately HK\$46 million for the corresponding period in last fiscal year. The improved performance in turnover was largely helped by our dexterous marketing strategies; the recovery of consumer's buying sentiment after the SARS crisis and the relaxation of policy governing cross-border visits to Hong Kong.

During the first half year, the Group achieved gross profit margin of 73%, up 13% compared to 60% in the corresponding period in 2003. The significant improvement represents the strength of our brand, consumer recognition of our quality products, a favorable response to the Group's continued repositioning efforts and consistent strategies executed by our management.

Compared to the last corresponding period, administrative expenses in this period maintained at HK\$18.5 million and distribution costs reduced from HK\$24 million to HK\$21 million. The results of cost reductions were mainly due to the appropriate operating overhead management and stringent cost control. By our effective strategic planning of the distribution network, rental savings achieved and increase in sales per square-foot realized.

Prospect

The improvements in turnover, gross profit margin, coupled with a tight fiscal discipline on operating overheads, have contributed to make profit in the first half of the fiscal year. With an improved macro environment and consumer sentiment, management is optimistic with the outlook for the rest of the year. The Group will continue to deploy prudent distribution strategies on our future

BUSINESS REVIEW AND PROSPECT *(continued)*

retail outlets development to maximize the contribution to the Group. Looking ahead, we believe that our firm commitment to building brand loyalty, effective operational and financial strategies, along with our sophisticated yet contemporary apparel products and effective distribution channels, will support the Group's healthy growth and enable us to gain access to additional business opportunities that may be presented to the Group in the future.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and Financial Resources

At as September 30, 2004, net current assets and current ratio of the Group were HK\$15.6 million and 2.1, respectively. The current assets mainly comprised inventories of HK\$21.3 million, prepayments, deposits and other receivable of HK\$4.9 million, accounts receivables of HK\$1.9 million and bank balances and cash of HK\$1.5 million. The Group had total assets of HK\$56 million, current liabilities of HK\$14 million, non-current liabilities of HK\$5.2 million and shareholders' equity of HK\$36.8 million.

As at September 30, 2004, the overall gearing ratio of the Group is 16.6% as total borrowings of HK\$6.1 million to net worth of HK\$36.8 million.

The Group recorded a net cash inflow from operating activities of approximately HK\$0.4 million for the period and repaid aggregate bank and other loans of HK\$0.5 million.

Treasury Policies

The Group generally finances its operations with internally generated cash flows and loans facilities provided by banks and financial institutions in Hong Kong. As of September 30, 2004, the total outstanding short-term borrowings was approximately HK\$1 million. Borrowing methods used by the Group mainly include bank loans and other loans from financial institutions. The interest rates of most of these loans are determined by reference to the Hong Kong dollar prime rate. The Group had no interest rate hedging arrangement during the period under review. The Directors believe that the Group has sufficient financial resources to discharge its debts and to finance its operations and capital expenditures.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Capital Expenditure

Capital expenditure amounted to approximately HK\$1 million for the period under review. These expenditure were mainly used in leasehold improvement for new and existing retail outlets. There were no material capital commitments at September 30, 2004.

Pledge of Assets and Contingent Liabilities

At September 30, 2004, the Group pledged leasehold land and buildings and investment properties in Hong Kong with an aggregate net book value of HK\$8 million and HK\$4 million respectively. At September 30, 2004, the Group had no significant contingent liabilities.

Employees and Remuneration Policies

As at September 30, 2004, the Group had 164 full-time employees in Hong Kong and 377 full-time employees in the PRC. Competitive remuneration packages are structured to commensurate with individual responsibilities, qualification, experience and performance. The Group has a share option scheme for the benefit of its directors and eligible employees of the Group.

Foreign Exchange Exposure

The Group had limited exposure to fluctuation in foreign currencies as most of its transactions were conducted in Hong Kong dollars and Renminbi. Exchange rates between these currencies were relatively stable during the period under review. However, the recent fluctuation of the exchange rate of EURO may increase the exchange risk of the Group in the forthcoming year as certain of the Group's raw materials are sourced from European countries. The Group had no foreign exchange rate hedging arrangement during the period under review.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period under review.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules ("Code of Best Practice") throughout the period covered by the interim report except that the independent non-executive directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meeting in accordance with the bye-laws of the Company.

AUDIT COMMITTEE

The Company has an audit committee (the "Committee") which was established on March 14, 2000 in accordance with the requirements of the Code of Best Practice, for the purpose of reviewing and providing supervision over the financial reporting process and internal control of the Group. The Committee comprises three independent non-executive directors. The financial statements of the Group for the period ended September 30, 2004 have been reviewed by the Committee. The Committee is of the opinion that such statements comply with the applicable accounting standards, and the Listing Rules and legal requirements, and that adequate disclosures have been made.

APPRECIATION

On behalf of the Board, I would like to extend my sincere gratitude to our shareholders, customers, suppliers, bankers and professional advisors for their continued support. May I also thank my fellow directors and our staff for their dedication and contribution in the first half of the year.

By order of the Board
Cheung Yin Sheung Subraina
Chairman

Hong Kong, December 3, 2004