

MANAGEMENT DISCUSSION AND ANALYSIS BUSINESS REVIEW

For the six months ended 30th September, 2004, the Group recorded a turnover of HK\$217,898,000 (2003: HK\$175,380,000), representing an increase of 24.2% as compared with the corresponding period of the previous year. The profit attributable to shareholders during the period was HK\$30,400,000 (2003: HK\$12,337,000), representing an increase of 146.4% as compared with the corresponding period of the previous year.

Hong Kong and Macau Market

The retail business in Hong Kong and Macau remained the major source of income of the Group, accounting for 58.9% of its overall turnover, which was comparable with that of the corresponding period of the previous year. As at 30th September, 2004, the Group had altogether 60 outlets in Hong Kong and Macau. During the period under review, the improving local economy, coupled with the relaxation of policy governing cross-border visits to Hong Kong and Macau, boosted the continued growth in retail business in the regions. In addition, the relatively low base figures due to the outbreak of the Severe Acute Respiratory Syndrome in the first quarter of the previous financial year resulted in a 24.3% increase in turnover, amounting to HK\$128,317,000, as compared with that of the previous year. During the period under review, the Group closed down 3 outlets with unsatisfactory performance, while opened 4 new outlets at premium locations available at reasonable rentals. Such moves enhanced the profitability of the outlets and achieved a segment results in Hong Kong and Macau of HK\$26,903,000, as compared with that of HK\$11,912,000 in the corresponding period of the previous year.

Taiwan Market

In the first half of the financial year, the retail business in Taiwan recorded a turnover of HK\$61,235,000, representing a 26.4% increase over the previous year. As at 30th September, 2004, the number of outlets in Taiwan was increased from 52 in last year to 56, and a **Wanko** flagship store was opened on Chung Hsiao East Road, one of the most flourishing district in Taipei, in August 2004. The outstanding image of the flagship store further strengthened the leading position of the **Wanko** brand name in Taiwan's ladies fashion market. During the period under review, Taiwan market accounted for 28.1% of the Group's total turnover. The Group will continue expanding its business in Taiwan in the future and as at 30th November, 2004, the Group had 60 outlets in Taiwan.

Singapore Market

In the first half of the financial year, the retail business in Singapore recorded a turnover of HK\$14,354,000. Notwithstanding a slight decrease of 1.8% as compared with that of the previous year, the turnover of comparable outlets showed a 20.8% increase, which was mainly attributable to the decrease in the number of outlets in Singapore from 13 last year to 9 as a result of the strategic closing of 4 outlets with unsatisfactory performance. Together with the strengthened local management team, the segment results in Singapore was narrowed down from a loss of HK\$2,503,000 for the six months of the previous year to a loss of HK\$745,000 for the six months ended 30th September, 2004.

PROSPECTS

Apparel Business

As at 30th September, 2004, there were a total of 168 outlets under the Group's brand name, of which 60 in Hong Kong and Macau, 56 in Taiwan, 9 in Singapore and 43 in China. In the coming 6 months, the Group will maintain the number of its outlets in Hong Kong and Macau at the existing level. However, certain outlets with minimal profitability will be strategically closed down when their leases expire, while continue to open new outlets at premium locations available at reasonable rentals, in order to enhance its profitability. As the overall performance in Taiwan remains favorable, it will become the Group's key market for future development. The Group will continue to identify positions with potentials for steady development of its business in Taiwan and it is expected that the number of outlets in Taiwan will reach 63 by the end of March 2005. Meanwhile, the Group will keep abreast of the market trend in Singapore, from time to time review its Singapore business, making adjustments where necessary, and prudentially develop its local business. In the China market, the outlet network under **Wanko** and **Veeko** brand names now covers not only those first-tier cities, such as Beijing, Shanghai, Chengdu, Guangzhou, Shenzhen and Zhuhai, but also other cities, such as Chongqing, Wuhan, Nanjing, Kunming, Nanchang, Nanning, Zhengzhou and Xi'an. In the future, the Group will continue its development in the China market by way of franchise. The Group has been implementing internal strengthening measures including continuous enhancement of product quality, commitment in staff training to improve the overall service quality of staff and effective cost control. With such measures, coupled with the expected increase in visitors to Hong Kong and the recovery of Hong Kong's economy, the Group is confident about its future development in retail business. Figures between October and November 2004 showed an impressive performance that the overall retail turnover in Hong Kong and Macau, Taiwan and Singapore increased approximately 12.6% and the turnover of comparable outlets also increased 7.4%, as compared with that of the corresponding period of the previous year.

Cosmetics Business

The Group has long been seeking other expansion and development opportunities in retail business with high value-adding prospects. After due and careful planning over a long period of time, the Group has launched its chain cosmetics retail business in October 2004. The **Colourmix** cosmetics chain-stores have been established and the primary business of which is the sale of cosmetics products of multiple brands, including (i) skincare products (ii) perfume and cosmetics (iii) personal care products. The colorful and trendy outlet design provides the customers with a comfortable environment for shopping and thus a unique cosmetics chain-store image is established. There are 5 outlets by now, of which 3 in Hong Kong and 2 in Macau. Since the initial responses have reached our expected targets, the development will be speeded up in the future and it is expected that the number of outlets will reach 10 by the end of March 2005. **Colourmix** has currently obtained 6 exclusive cosmetics products which are mainly brands from France, Switzerland and Australia, including Chen Yu make up series, Monteil, Ericson Laboratoire, Helenere, Kismayly and Geo. After years of development, the popular brand names of **Wanko** and **Veeko** have established themselves as key players in the ladies fashion market. The future development in cosmetics retail business will enable the Group to become even more value-added and we are confident that this business will bring about a room for development with considerable potentials.

LIQUIDITY AND BORROWINGS

The Group's working capital increased from HK\$167,748,000 as at 31st March, 2004 to HK\$195,412,000 for the period end while its current ratio and quick ratio were maintained at a healthy level of 6.3 and 4.1 times respectively.

As at 30th September, 2004, the Group's cash and bank balances amounted to HK\$97,262,000 (31st March, 2004: HK\$100,278,000) and there was no outstanding bank borrowings and overdraft (31st March, 2004: Nil) whereas the total borrowings was HK\$373,000 (31st March, 2004: HK\$466,000).

As at 30th September, 2004, the gearing ratio of the Group is 0.001 (31st March, 2004: 0.002) which is calculated based on the Group's total borrowings of HK\$373,000 (31st March, 2004: HK\$466,000) and the shareholders' fund of HK\$262,051,000 (31st March, 2004: HK\$232,359,000).

As at 30th September, 2004, the Group had banking facilities amounting to HK\$60,565,000 (31st March, 2004: HK\$60,567,000), of which HK\$2,881,000 representing bank guarantees (31st March, 2004: HK\$3,365,000) was utilised by the Group. The management believes that existing financial resources will be sufficient to meet future expansion plans and, if necessary, the Group will be able to obtain additional financing on favorable terms.

STAFF AND REMUNERATION POLICIES

As at 30th September, 2004, the Group had 3,343 employees. The Group mainly determines staff remuneration (including insurance and medical benefits) in accordance with the industry's practices. The Group also implemented a reward scheme for its staff based on their individual performances. In addition to their basic remuneration and welfare, some key employees were granted share options as reward and fostering a sense of loyalty to the Group.

SHARE OPTION SCHEME

Pursuant to ordinary resolutions passes at the annual general meeting of the Company on 17th September, 2003, a new share option scheme (the "2003 Scheme") was adopted by the Company and the share option scheme adopted on 15th April, 1999 (the "1999 Scheme") was terminated. No option had been granted under the 1999 Scheme.

During the period ended 30th September, 2004, no options were granted to the directors of the Company under the 2003 Scheme.

SHARE OPTION SCHEME (Continued)

The following table discloses details of options granted under the 2003 Scheme held by employees of the Group and movements in such holdings during the period ended 30th September, 2004:

Date of Grant	Exercisable period	Vesting period (from the date of grant)	Exercise price per share	Balance at 1.4.2004	Granted during the period	Cancelled during the period	Outstanding at 30.9.2004
18th November, 2003	18th November, 2005 to 17th November, 2007	2 years	HK\$0.162	18,600,000	-	(600,000)	18,000,000
18th November, 2003	18th November, 2007 to 17th November, 2009	4 years	HK\$0.162	18,600,000	-	(600,000)	18,000,000
21st September, 2004	21st September, 2006 to 20th September, 2008	2 years	HK\$0.255	-	2,000,000 (Note)	-	2,000,000
21st September, 2004	21st September, 2008 to 20th September, 2010	4 years	HK\$0.255	-	2,000,000 (Note)	-	2,000,000
				37,200,000	4,000,000	(1,200,000)	40,000,000
				37,200,000	4,000,000	(1,200,000)	40,000,000

Note: The closing price of the shares immediately before the date on which the options were granted was HK\$0.280.

The financial impact of share options is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted during the period. Upon exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.