

## MANAGEMENT DISCUSSION AND ANALYSIS

### REVIEW AND PROSPECTS

The Group's turnover increased by approximately 12% to approximately HK\$140 million (2004: HK\$125 million) during the six months ended 30 September 2005 compared with the corresponding period last year. As the development of sales network in the PRC has generated encouraging performance, the revenue of the region outside Hong Kong increased by 50% to approximately HK\$47,272,000 (2004: HK\$31,436,000) during the period under review. The segment revenue reached approximately 34% of the Group's turnover during the period following the increasing trend of the past few years.

During the period, the Group's gross profit margin was approximately 76%, as compared to approximately 78% for the corresponding period in 2004. The slight decrease of two percentage points was mainly attributed to the increased portion of sales in the region outside Hong Kong.

Operating expenses for the six months ended 30 September 2005 totaled approximately HK\$77,389,000, compared to approximately HK\$68,879,000 for the same period last year with an increase of approximately 12%. The increase was mainly attributed by the increase in rental expenses and staff costs which were in line with the increase in turnover.

The profit attributable to shareholders for the period was approximately HK\$28.2 million (2004: HK\$29.6 million), approximately 5% lower than the corresponding period last year. The decrease is mainly attributable to the capital gain on disposal of land and buildings of approximately HK\$4 million arisen during the corresponding period last year.

There were totally 60 *MOISELLE* stores located in various cities in the PRC as at 30 September 2005 (2004: 39 *MOISELLE*). The new store locations included cities of Suzhou, Taiyuan and Jinan. Approximately one-third of the stores were franchised stores and two-third was consignment stores. The consignment system will continue to play a more important role in the overall development of the market in mainland China.

Concerning Hong Kong retail market, the Group operated 19 *MOISELLE*, 6 *imaroon* and 3 *mademoiselle* retail outlets as at 30 September 2005 (2004: 21 *MOISELLE*, 9 *imaroon* and one *mademoiselle*). The launch of the co-operated line with Walt Disney proved to be a successful step to bring the Group's brands into international brand awareness.

At 30 September 2005, the Group retained in Taiwan market 6 *MOISELLE* stores (2004: 5 *MOISELLE*). The Taiwan business improved in line with the growth in the Greater China market and maintained the contribution to the Group.

### **FINANCIAL POSITION**

During the period, the Group financed its operations with internally generated cash flows. The Group adopts a prudent financial policy such that it can meet the financial obligations when they fall due and maintain a sufficient operating fund for the development of the Group's business. At the end of the financial period, the Group's aggregate fixed deposits and cash balances amounted to approximately HK\$72 million (31 March 2005: HK\$96 million). As at 30 September 2005, the Group maintained aggregate composite banking facilities of approximately HK\$38 million (31 March 2005: HK\$53 million) with various banks, of which approximately HK\$2 million (31 March 2005: HK\$2 million) was utilised.

The Group continues to enjoy healthy financial position. As at 30 September 2005, the current ratio (current assets divided by current liabilities) was approximately 5.5 times (31 March 2005: 6.4 times) and the gearing ratio (aggregate of bank borrowings and finance lease payables divided by shareholders' equity) was approximately 1.6% (31 March 2005: 1.6%).

### **Charge on assets**

As at 30 September 2005, investment properties and leasehold land and buildings with a carrying value of approximately HK\$69 million (31 March 2005: HK\$73 million) were pledged to secure mortgaged loans and other banking facilities granted to the Group.

### **Contingent liabilities**

At 30 September 2005, the Company had contingent liabilities in relation to guarantees given to banks against mortgage loans and other banking facilities extended to certain wholly owned subsidiaries amounted to approximately HK\$5 million (31 March 2005: HK\$6 million).

### **EMPLOYEE**

As at 30 September 2005, the Group employed 827 (31 March 2005: 693) staff in Hong Kong and the PRC. Salaries of employees are maintained at competitive levels while bonuses are granted on a discretionary basis. Other employee benefits include mandatory provident fund, medical insurances, training programmes and a share option scheme.