

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

During the year ended 30th June, 2001, the Group's total turnover increased by approximately 56.9% to HK\$240,000,000. Profit attributable to shareholders fell by 18.8% to HK\$16,697,000.

Basic earnings per share amounted to HK1.3 cents for the year. As at 30th June, 2001, net asset value per share amounted to HK60 cents.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's principal source of funds for the year ended 30th June, 2001 is derived from interest income, total cash so generated amounted to HK\$50.2 million.

As at 30th June, 2001, the Group had cash balances of approximately HK\$207.8 million and other investments at a value of approximately HK\$510 million. Other investments comprised of equity securities of approximately HK\$3 million and debt securities of approximately HK\$507 million. All debt securities held by the Group were of good investment grades. They were denominated in either Hong Kong dollars or US dollars and with maturity dates within 10 years. During the year, the Group had switched some of its investments in debt securities and resulted in a gain of approximately HK\$6.2 million. With the continuous easing of interest rates, the Directors are optimistic that the investments in debt securities would yield satisfactory returns to the Group.

The Group also has import-related and other banking facilities of approximately HK\$40 million provided by its principal banker in Hong Kong.

CHANGE OF USE OF PROCEEDS FROM NEW ISSUE

When the Company applied for the listing of its shares on The Stock Exchange of Hong Kong Limited in November 1995, the plan then was to utilise approximately HK\$254 million of the proceeds (the "Designated Proceeds") from the new issue for acquiring other recognised brandnames. So far, after successive negotiations with a number of prospective candidates, both local and international, the Directors had not finalised any agreement with them. The whole of the Designated Proceeds have, since the initial public offer, been placed in short-term deposits with banks in accordance with the manner set out in the Company's prospectus dated 3rd November, 1995. As the Directors are not optimistic that the Group will be able to find any good opportunity to acquire or obtain any rights to suitable recognised brandnames in the foreseeable future, the Directors do not wish to tie up the Designated Proceeds in short-term deposits indefinitely and believe that the Group should actively explore other business opportunities so as to put the Designated Proceeds to more efficient use and to diversify and strengthen the Group's business activities.

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Accordingly, the Group has announced on 16th May, 2001 that it intended to change the use of the Designated Proceeds of HK\$254,000,000 for the following purposes:

- (a) approximately HK\$15 million for developing the Group's own brand "IXESSE" in Hong Kong and China and to enhance the image and popularity of the brand;
- (b) approximately HK\$50 million to acquire plants, machinery, office setup and equipment to expand and improve the Group's own manufacturing facilities in Guangzhou, China for the production of clothing, leather goods, accessories or other related products; and
- (c) the remaining balances of approximately HK\$189 million for herbal and health products, skin care and pharmaceutical products and other business ventures.

To the extent that the Designated Proceeds are not immediately used for the above-mentioned purposes, the Group would place not less than 20% thereof in short-term deposits with banks for terms not exceeding 6 months and the balance in debt securities with maturity dates within 15 years.

For the period up to 30th June, 2001, the Group has spent approximately HK\$2 million in advertising and promotion of its own brand "IXESSE" in China. The Group has also paid deposits of approximately HK\$4.7 million with further commitment to spend HK\$9.8 million in acquiring plant, machinery, office setup and equipment for the manufacturing facilities in China.

CAPITAL STRUCTURE

As at 30th June, 2001, the Company had 1,249,144,400 shares in issue with total shareholders' funds of the Group amounting to HK\$750.3 million.

EMPLOYEES AND REMUNERATION POLICIES

As at 30th June, 2001, the Group employed approximately 60 full time employees in Hong Kong and The People's Republic of China. The Group remunerates its employees based on their performance, experience and prevailing industry practice. Employee benefits provided by the Group include a provident fund scheme, medical scheme, discretionary performance-related bonus and a share option scheme.