MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group's consolidated turnover for the six months ended 30 September 2001 was HK$700,365,000, representing an increase of 1.4% as compared to the figure of HK$690,828,000 for the corresponding period last year. However, in spite of the Group achieving a 4 percentage point improvement in gross margin, sales fell short of expectations, while operating costs were not immediately brought down in line with the disappointing level of sales. This combination of factors put considerable pressure on net profit, driving the Group into a loss-making position. The net loss attributable to shareholders for the period was HK$35,251,000, equivalent to a loss per share of HK12.85 cents, whereas in the same period last year a profit of HK$10,646,000 was recorded, resulting in an earnings per share of HK3.88 cents.

The unsatisfactory results of the period derived from both external and internal adverse forces.

Externally, the global economic slow-down exacerbated economic conditions in Asia during the period. The performance of most retail markets in Asia (including Hong Kong) remained soft. Moreover, a lack of public confidence in the economic outlook and a rise in the unemployment rate led people to be more prudent in their spending. Unavoidably, the Group was adversely affected by these unfavourable external forces.

Internally, the products offered by the Group during the period were not sufficiently distinctive in style to further stimulate customers' desire to spend in the face of economic adversity. At the same time, the Group's advertising during the period did not achieve the desired effect, failing to convey a simple, clear message. The overall market downturn and the unsatisfactory response to our products, advertising and promotions adversely affected the comparable-store sales for the period, which fell by 18 percent compared to the same period last year.

On the other hand, the Group believes that quality customer service is one of the keys to success for a retail fashion chain. Accordingly, the Group invested substantially in its human resources during the period, hiring a professional consultancy firm to carry out a series of extensive training programmes for the front-end staff in Hong Kong. Through these training activities and the introduction of more effective performance assessments, the Group has achieved great advances in improving its service quality. Following the training, our shops earned a positive response from a full-scale survey in assessing the level of service standards.

Outlook

Despite the uncertain economic prospects of the Asian region and the continuing difficult business environment, the Group is confident that the measures it has taken to address identified problems will gradually take effect. Consequently, results for the second half of the financial year should become steady, and improved profitability is expected in the next financial year.

As a fashion retailer and distributor, the Group clearly understands that product design is the soul of its business. In view of this, the Group has restructured its product design team. In October this year, an executive director was appointed to head the team. Besides, another executive director was recruited to oversee the buying and image-building functions of the Group. The Group is confident that their experience and talents will stimulate the generation of a new look fashionable casual wear from the 2002 Spring season and onwards, giving our customers the trendy styles, high quality and competitive pricing they expect from our products.

The Group has implemented various measures to control its operating costs and to reinforce operating efficiency as follows:

(1) the establishment of a back-up office in Shenzhen to support the headquarters in Hong Kong and to further reduce operating costs;

(2) cutting manpower and related costs;

(3) actively negotiating with landlords to obtain reduced shop rentals;

(4) expanding the sourcing channels for our products to enjoy more competitive purchasing costs;

(5) adjusting the Group's advertising strategies and focus while heightening their effectiveness, making reasonable reductions in advertising and promotion expenditures; and

(6) increasing the application of information technology to improve work efficiency.

The Group's overall business strategy continues to be the development of a diversified international market. Within this strategic framework, the Group is adjusting the scale of its operations in different territories in response to changes in the economic environment, thereby improving the operational efficiency of its distribution network.

In response to the continued economic depression in the local retail market, the Group has decided to consolidate the number of outlets in Hong Kong and Macau from 36 at 30 September 2001 to 33 by the end of the financial year.

The clothing market in Mainland China will still be the main focus of expansion. Mainland China's entry into the World Trade Organisation, the country's steady economic growth and rising living standards will increase the demand for fashionable casual wear. To satisfy this growing demand, the Group expects to complete its planned expansion to 120 outlets by the end of the financial year.

Taiwan is another market with good potential. However, given the current economic stagnation there, the Group will suspend its expansion plan for the time being and will maintain its scale of operations at around 60 outlets. In view of the continued economic slowdown in Singapore, the Group also plans to maintain its operational scale at 30 September 2001 of 27 outlets.

As the Group's business strategy progresses, Hong Kong's proportion of the Group's business will gradually reduce. The Group will develop a diversified market in order to reduce its reliance on the contribution of a single market, which will be beneficial to maintaining the stability and growth capability of the Group in the long term.

Financial Position

The Group relied on its internally generated cash flows, bank borrowings, and import and export-related banking facilities to finance its business development during the period. As at 30 September 2001, the Group had unused banking facilities (including trade finance, revolving loans and guarantees) totalling HK$264,019,000 (31 March 2001: HK$276,854,000).

As at 30 September 2001, the Group maintained a current ratio of 1.44 (31 March 2001: 1.98) while its total debt to equity ratio was 1.05 (31 March 2001: 0.63). The latter was calculated by dividing the total liabilities of HK$303,429,000 (31 March 2001: HK$203,673,000) by the total shareholders' equity of HK$287,725,000 (31 March 2001: HK$322,387,000).