

MANAGEMENT DISCUSSION AND ANALYSIS ON THE INTERIM RESULTS

Operation review

The Group's turnover for the six months ended 30 September, 2002 has declined compared to the corresponding period in 2001 due to the decrease in both the sales order by and selling price to US retailers after the September 11 incident. Nevertheless, the Group managed to increase profit attributable to shareholders by 8% from HK\$1.8 millions in 2001 to HK\$2.0 millions in 2002, while gross profit margin remained steady at around 12-13%. This was mainly due to the decrease in the distribution and administration expenses in 2002, which was the result of new cost saving measures introduced last year. The Group's basic earnings per share has increased by 10% from HK1.08 cents in 2001 to HK1.19 cents in 2002.

Dividend

The Board of Directors does not recommend the payment of an interim dividend for the six month period ended 30 September, 2002 because of the high administration and distribution costs associated with the dividend payments. In the absence of unforeseeable circumstances, the Board will keep a steadily growing dividend policy in the future.

Liquidity and capital resources

The Group has relied principally on its internal resources to fund its operation and investment activities. The gearing ratio of the Group, which is expressed as a percentage of total borrowings to shareholder's funds, remains at 0% for the last six months. The Company has contingent liabilities of HK\$20 million in the form of a corporate guarantee provided to secure general banking facilities for a subsidiary. The Group's exposure to foreign currency risk is insignificant because of its US Dollar based income stream.

Employees

The Group maintains 22 employees, whose salaries are reviewed and adjusted annually based on performance and experience. Other employee benefits include mandatory provident fund and educational subsidies which are offered to promote staff development. There is a share option scheme in place designed to award employees for their performance at the discretion of the directors. There was no share option granted to any employee during the period.

Future plan and prospect

On the foundation of its core apparel manufacturing business, the Group continues its focus of diversifying into other industries. The Group is now in advance stages of negotiation with respect to a medical and healthcare center joint venture in Shanghai. In addition, the Group is reviewing the prospect of entering into various Chinese herbal health supplement ventures with the medical school of a major Chinese university. Always focusing on shareholder benefits, the Group strives to seek and build potentially profitable businesses, particularly in mainland China.