

Business Review

GARMENT

In the past year, consumer price index in USA and other major export markets remained at a low level. Garment sector also received considerable price pressure. Under the environment of generally lower prices, the Group's garment business still achieved 3% and 7% growth in turnover and operating profit respectively. This is a very satisfactory performance for the division.

By area, North American distribution business and Central American manufacturing business achieved outstanding performance: about 40% growth in total turnover, more than double distribution profit and production factories turned from loss to profit. Such good performance is attributable to improved sales effectiveness and the active and flexible supports from the China and Guatemala factories.

In South Africa, business slowed down a little after 2 years of strong growth. Turnover and operating profit reduced by 12% and 2% respectively. In other markets, despite the endeavour made by the sales force, the turnover still declined slightly as compared with last year, whereas operating profit reduced significantly from last year. This was a result of substantial price pressure from Japanese and European customers. In order to maintain competitiveness, the Group has started systematic training for staff and re-arranged work flow to reduce headcount.

As orders for second half of 2003 is slow in all major markets including USA, outlook for the coming financial year is not promising. In order to maintain turnover and operating profit growth, the Group has employed more experienced sales staff in USA and will continue to improve production efficiency and competitiveness in China, South Africa and Guatemala factories.

▼ Our two garment factories in Pan Yu occupied about 15,000 sq.m. of land.



▼ Our South African factories employs nearly 2000 workers and supplies over 40% of South African jeans market.



G a r m e n t



▲ Supported by our Guatemala factories, North American market recorded significant growth during the year.



▲ Sales team in Vancouver office working on proposed collection for customers for the coming season.

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RESTAURANT AND FOOD

Restaurant and food turnover reduced slightly by 1% while operating profit increased by 5% from last year. Taking away the effect of SARS and new food manufacturing business started during the year, turnover should be roughly the same as last year while operating profit should record even bigger growth from last year.

The source of operating profit growth continued to come from Chinese restaurant and food sales. Hong Kong restaurants sector continued to be difficult. The outspread of SARS in March offset part of operating profit growth in China. During the year, the Group renovated Carrianna Restaurants in Tsimshatsui and Shenzhen so as to improve dining environment and attract more customers.

During the year, the Group established a food manufacturing factory in Shenzhen for the production of traditional Chinese cakes and modern Hong Kong style cakes. Carrying the premium brand of "Carrianna" and the insistence of high quality food products has made out retail cake shops chain one of the most famous cake shop brand in Shenzhen.

The effect of SARS extended into April and May of 2003, the Group has taken measures, such as less working days and negotiate for lower rental, to reduce cost. Together with reduction in taxes and certain levies by China and Hong Kong government, the effect of SARS will not be very significant for the coming year restaurant profit. In the two months after SARS, China restaurants recorded satisfactory growth while Hong Kong restaurants recovered slower than China. After first year of start up, the food factory is approaching breakeven and will become a new source of profit for the group in the coming years. Overall, the Board is optimistic on the coming year restaurant and food operations.

▼ Grand Dining hall in Shanghai Carrianna Restaurant.



▼ Carrianna Restaurant in Regent Hotel, Shenzhen is one of the most famous high class restaurant in Shenzhen.



R e s t a u r a n t a n d F o o d



▲ Carrianna Cakes has become one of the most famous cake shop brand in Shenzhen within a few months' time.



▲ Newly renovated function room in Tsimshatsui Carrianna Restaurant.



▲ Carrianna Cake Shop at Carrianna Friendship Square, Shenzhen

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PROPERTY INVESTMENT AND DEVELOPMENT

As reported in the interim report, the sales of the Group's remaining residential property had slowed down. The Group has started to rent out some of these remaining properties. Together with rental growth in "Carrianna Friendship Square", the increase in rental income during the year partially offset reduction in profit due to lower property sales.

The Group's remaining residential properties are located in Shenzhen city centre where rental market is very active and rental yield is also satisfactory at 7% to 8%. Considering the current low finance cost, the Board decided not to reduce price substantial in order to sell the remaining properties but to rent out these units.

During the year, the Group invested in "China South International Industrial Materials City" located in the Pinghu Logistics Base of Shenzhen. The project is jointly developed by the Group, Man Sang Group and 3 other companies which are either Hong Kong listed companies or industrial leaders in their respective industries. The project is a gigantic wholesale market for industrial materials which provides trading, exhibition, information sharing, warehousing, distribution, transportation and settlement services. The project offers huge potential for growth and is planned to bring in substantial and long term profit for the investors.

For the coming year, rental income will continue to grow and become the major source of income for property business. The Group is planning to establish a jewellery distribution centre in "Carrianna Friendship Square" which will start business before the end of 2003. This project will further improve rental income from "Carrianna Friendship Square". In the coming year, China South International Industrial Materials City will start construction and capital requirement will be under HK\$20 million and will not cause pressure on the Group's cash flow.

Overall, the Board continues to be optimistic about the prospects of the Group.

▼ *Carrianna Friendship Square, a Landmark in Shenzhen City.*



▼ *Fashion corner in Carrianna Friendship Square.*



Property Investment and Development



▲ *“China South International Industrial Materials City” is planned to be a gigantic wholesale market for industrial materials.*



▲ *The Group's other property development project in Shenzhen – Imperial Palace.*



▲ *Jewellery corner in Carrianna Friendship Square will be opened in late 2003.*