MANAGEMENT DISCUSSION AND ANALYSIS

Review of operations

I am pleased to report that for the 6 months ended 30 June 2003, our Group enjoyed a 23.8% increase in sales. Global retail markets continue to grow, confirming underlying economic strength and recovery. Of the increased orders received by us, casual shoes grew fastest, and provided higher profit margins. This is in line with current trends in the US for casual and antiqued shoes.

Stringent control over operating expenses helped kept it at the same level while sales increased, and we were able to achieve a 67.7% increase in operating profits. Net profits after tax grew by 36.3% while earnings per share grew 36.5%. Accordingly, the Board has declared an interim dividend of HK$0.08 per Share or HK$0.02 per Subdivided Share.

Our growth is within management expectations. There are several major trends in the global manufacturing market that Symphony stands to benefit in the long term. The increasing importance of logistics as a competitive advantage has seen the concentration of manufacturing into a smaller number of major manufacturing centres, of which the Pearl River Delta in China is one. Escalation of conflict, much of it religious based, saw the re-allocation of manufacturing orders and reliance away from certain countries into our region. All of this is further boosted by China's newly acquired membership into the World Trade Organisation. The Pearl River Delta, with long experience and international trade and export practices, is the manufacturing centre of choice for many businesses around the world.

Our management team firmly believes in the value of a modern, healthy work and living environment for our workforce, as this is directly reflected in increased productivity and quality, factors which are vital to our continual growth. Our factories and dormitories are built, equipped and maintained to very high standards. Safety and hygiene are among our top priorities. During the SARS outbreak in southern China, we implemented early and comprehensive measures for prevention and detection. Workers were provided with the latest information on the epidemic, as well as free surgical masks even when supplies were short. Mandatory body temperature checks were enforced. As a backup measure, our Group also formulated contingency plans for production. We are pleased that there had not been any incidence of the disease among our workforce. In recent months, there has been growing concern in North America about "sweatshops" in Asia. We are proud that we are a shining example of the high standards that is achievable with the commitment of proper resources and management priority.

Outlook

Continuing industry consolidation and increased outsourcing of casual brands will benefit the Group as orders are aggregated and awarded only to the best and proven manufacturers. Our marketing team is in touch with the market and is quick to identify moving trends. We will continue to expand our customer base and select new high quality customers with whom we will work together, as is our policy, to understand and fulfill their needs to meet market demand.

As our existing production capacity is fully utilised, the addition of 8 production lines in Dongguan gives the Group growth potential and flexibility. The Board is certain that the addition will prove to be a great asset to the Group, and is considering further expansion of our production capacity to meet anticipated growth in demand in the run up to the 2008 Olympics and the 2010 World Expo.

The Board is excited about opportunities for the China market and is continuing to explore possibilities but will remain prudent in all its business decisions.

Segment information

Sales to North America have increased by 7% and constituted approximately 63% (2002: 72%) of the Group's total turnover; Europe accounted for 23% (2002: 17%) of sales, and the remaining 14% sales were shared between Asia, Africa, Australia, Latin America and the Middle East.

There has been a shift in consumer tastes and lifestyles, particularly in the US where casual shoes and retro style have become very popular. The Group has been receiving more orders for casual styles and foresee that this trend will continue for the second half of the year. Orders for the coming months look promising.

Liquidity and capital resources

As at 30 June 2003, the Group had cash and bank balance of HK$194.2 million (31 December 2002: HK$127.0 million). The Group was offered banking facilities amounting to HK$39 million, none of which had been utilised, indicating a nil gearing ratio on the basis of total borrowings over shareholders' fund.

There are currently no charges on group assets and the Group does not have any significant exposure to foreign currency fluctuation.

Staff

The total number of employees as at 30 June 2003 has not changed materially from that of the last financial year. Employee cost (excluding directors' emoluments) amounted to approximately HK$106.5 million (2002: HK$94.6 million). In addition to competitive remuneration packages, discretionary bonuses are awarded to eligible staff based on the Group's performance and individual merits. No share option has been granted under the new share option scheme adopted on 22 October 2001.

Our staff's well-being is one of the Group's top priorities. The Group will continually improve and ensure that our staff is provided with a safe and pleasant working and living environment. The Group will continue to honour its commitment on international environment and human rights standards.

Appointment/Resignation of Directors

At the annual general meeting of the Company held on 5 May 2003 ("AGM"), Mr. Fung Cheong Yee, Alfred and Mr. Chow Ching Kit retired as directors of the Company and did not offer themselves for re-election.

On 12 May 2003, Dr. Chow King Sing, Gerald and Mr. Lam Lap Wai resigned as independent non-executive director and non-executive director, respectively, and Mr. Feng Lei Ming was appointed as an independent non-executive director on the same day.

As from 12 May 2003 and up to the date of this report, the directors of the Company are:

Executive Directors
Mr. Li Kwok Lung, Alfred Ronald *(Chairman)*
Mr. Sze Sun Sun, Tony *(Deputy Chairman)*
Mr. Chan Ting Chuen *(Managing Director)*
Mr. Ku Edward Y.
Mr. Chan Lu Min

Non-executive Director
Mr. Li I Nan

Independent Non-executive Directors
Mr. Cheng Kar Shing
Mr. Feng Lei Ming

Auditors

The term of office of Messrs. Ernst & Young expired at the close of the AGM. The shareholders of the Company passed a resolution at the AGM to appoint Messrs. Deloitte Touche Tohmatsu as the Company's auditors to hold office until the conclusion of the Company's next annual general meeting.

Acquisition of subsidiary and increased capacity by 8 production lines

The Group expanded its total capacity by the addition of 8 production lines in Dongguan, PRC by the acquisition of a subsidiary on 1 July 2003.

Disposal of interests in Converse, Inc. by Union Overseas Holdings Limited

On 30 July 2003, the Board was informed by Union Overseas Holdings Limited ("UOHL"), a 50% owned jointly controlled entity of the Company, that its board of directors and shareholders have approved and adopted a merger proposal ("Proposal") received from an independent third party to acquire its entire interest in Converse, Inc. ("Converse"). Consummation of the Proposal is subject to receipt of certain third party consents and regulatory approvals in the USA, but if the Proposal materialises, the net gain from the disposal attributable to the Group for the year ending 31 December 2003 is estimated to be between HK$134 million to HK$136 million.

Pursuant to a sourcing rights agreement ("SRA") entered into between UOHL and Converse at the time when UOHL acquired interests in Converse in 2001, Converse is required to source certain footwear product requirements from the Group. If the Proposal materialises and consequently there is a change of controlling shareholders of Converse, the SRA will terminate. However, based on the well-established working relationship between the Group and Converse in the past years and the orders already received from Converse for the coming months, the Board is confident that the termination of the SRA and the disposal of interests in Converse will not have a significant impact on the Group's business and operation. The Board does not envisage Converse's outsourcing requirements from the Group will change in the foreseeable future.