



DIRECTORS' REPORT

The directors are pleased to present the Group's interim report and condensed financial statements for the six months ended 30 June 2003 which have been reviewed by the Group's audit committee. The consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity for the Group for the six months ended 30 June 2003, and the consolidated balance sheet as at 30 June 2003 of the Group, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 7 to 21 of this report.

BUSINESS OVERVIEW

For the six months ended 30 June 2003, the Group's turnover decreased by 7% to approximately HK\$143 million and profit attributable to shareholder increase by 7% to approximately HK\$5.2 million compared to the corresponding period in last year.

The decrease in the turnover is primarily due to the outbreak of the Severe Acute Respiratory Syndrome ("SARS") as well as the increase in competition from those factories in Yangzi – delta region. Increase in profit attributable to shareholders is mainly due to decrease in finance costs by HK\$0.6 million and such decrease is basically due to better cash flow management by the group .

The gross profit margin of the Group is 14%. Compared with the 13% gross profit margin in the corresponding period in last year, such increase is a result of more efforts in taking better margin orders as well as better cost control.

LIQUIDITY AND FINANCIAL RESOURCES

BORROWINGS AND BANKING FACILITIES

As at 30 June 2003, the Group had outstanding short term bank borrowings of approximately HK\$58 million (mainly represented by trust receipt loans and packing loans of approximately HK\$33.4 million and short term bank loans of approximately HK\$24.6 million). The main purpose of the bank loans is to finance the daily operation of the Group.

The aggregate banking facilities of the Group was approximately HK\$250 million. The utilisation rate of banking facilities was about 23%.



Wallmark Enterprise Company Limited has obtained a HK\$46 million 3 years term and revolving loan facilities in June 2003. Citic Ka Wah Bank Limited is the arranger and the lender whereas Dao Heng Bank Limited and HSH Nordbank AG, HK Branch are the other two participating banks for such banking facilities arrangement.

The bank borrowings are denominated in Hong Kong dollars and Renminbi (Rmb). The Group did not enter into any hedging transactions. Foreign exchange exposure does not pose a significant risk to the Group given that the level of foreign currency exposure is small relative to its total asset base.

All bank borrowings are subject to floating interest rates.

As at 30 June 2003, the gearing ratio of the Group, calculated at total debts divided by total assets, was 49%.

NET CURRENT ASSETS AND WORKING CAPITAL

As at 30 June 2003, the Group's total current assets and liabilities were approximately HK\$117.1 million and HK\$79.6 million respectively. After taking into consideration the financial resources available to the Group including cash on hand, operating capital and the available unutilised banking facilities, the directors are of the opinion that the Group has sufficient resources and working capital to meet its foreseeable capital expenditure and debt repayment requirements.

NUMBER AND REMUNERATION OF EMPLOYEES, REMUNERATION POLICIES, BONUS AND SHARE OPTION SCHEME

Staff cost for the six months ended 30 June 2003 was HK\$16.2 million representing an increase of 30% to the corresponding period of last year. The Group had a workforce of about 2,675 staffs; 21 of them were mainly located in Hong Kong, whereas 2,264 and 390 of them were located in The People's Republic of China ("the PRC") and Cambodia respectively. Salaries of employees are maintained at competitive levels while bonuses are granted on a discretionary basis.



The Group has adopted a share option scheme under which executive directors and full-time employees of the Group may be given options which entitle them to subscribe for shares representing up to a maximum of 10% of the issued capital of the Company from time to time. No option has been granted up to the date of this report. Details of the share option scheme were disclosed in the 2002 annual financial statements.

DETAILS OF THE CHARGES ON GROUP ASSETS

No fixed assets or deposits has been pledged to secure bank loans.

CONTINGENT LIABILITIES

There are no material contingent liabilities other than as set out in note 13 to the financial statements.

FUTURE PLANS

The Group plans to further develop the domestic consumer market through closer co-operation with the famous brand name DAPHNE in the PRC. Such development plan is back up by the 3 years term and revolving loan facilities obtained by the Group in June 2003. The management considers the domestic consumer market in the PRC is full of opportunity.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period.



DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURE OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 30 June 2003, the interests and short positions of each director and chief executive in the shares, underlying shares and debenture of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company were as follows:

Name of director	Number of ordinary shares of HK\$0.1 each in the Company		Total
	Family interests	Corporate interests	
Mr. WONG Chor Wo	15,000,000 <i>(note 1)</i>	135,000,000 <i>(note 3)</i>	150,000,000
Ms. Rosita ANDRES	135,000,000 <i>(note 2)</i>	15,000,000 <i>(note 4)</i>	150,000,000

Notes:

- (1) These shares are ultimately beneficially owned by Ms. Rosita ANDRES, the spouse of Mr. WONG Chor Wo.
- (2) These shares are ultimately beneficially owned by Mr. WONG Chor Wo, the spouse of Ms. Rosita ANDRES.
- (3) These shares are registered in the name of Wisechoice Assets Limited, the entire issued share capital of which is held by Mr. WONG Chor Wo.
- (4) These shares are registered in the name of Accuport Developments Limited, the entire issued share capital of which is held by Ms. Rosita ANDRES.

Apart from the above, at no time during the period was the Company, its subsidiaries or its associated company a party to any arrangement to enable the directors and chief executives of the Company to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporation.



SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OF THE COMPANY

As at 30 June 2003, the register of substantial shareholders maintained under Section 336 of the SFO shows that the Company had not been notified of any substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital, other than those of the directors and chief executives as disclosed above.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

None of the directors of the Company is aware of any information which would indicate that the Group is not, or was not, in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules of The Stock Exchange of Hong Kong Limited at any time during the six months ended 30 June 2003.

AUDIT COMMITTEE

The Audit Committee, comprising two independent non-executive directors, has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited condensed financial statements for the six months ended 30 June 2003 with the directors.

On behalf of the Board

WONG Chor Wo

Chairman

Hong Kong, 8 September 2003