

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

During the year ended 30th June 2003, the Group's total turnover decreased by approximately 78.7% to HK\$28,403,000. Profit attributable to shareholders increased by 8.1 times to HK\$67,464,000.

As at year end date, the Group reported an unrealised loss on revaluation of other investments of HK\$2.8 million. Majority of the other investments were debt securities which the Group held for generating interest income and expected to receive all the principal amount upon their maturities.

The Group also reported an exchange gain of HK\$3.8 million mainly due to the gain on revaluation of investments in debt securities denominated in EURO at the year end date.

Basic earnings per share amounted to HK5.5 cents for the year. As at 30th June 2003, net asset value per share amounted to HK67.3 cents.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's principal source of funds for the year ended 30th June 2003 is derived from investment income, total net income so generated amounted to HK\$110.3 million.

As at 30th June 2003, the Group had cash balances of approximately HK\$487.2 million and investments in securities at a value of approximately HK\$327.2 million. Investments in securities are mainly debt securities of HK\$327.0 million. They were denominated in US dollars and EURO and with maturity dates from 2 to 30 years or perpetual callable. With the continuous easing of interest rates, the Directors are optimistic that the investments in debt securities would yield satisfactory returns to the Group.

The Group also has unutilised import-related and other banking facilities of approximately HK\$23.4 million provided by its banker in the People's Republic of China (the "PRC").

USE OF PROCEEDS FROM NEW ISSUE

As reported in the Company's 2001 annual report, the Group had changed the use of part of the proceeds from the new issue in 1995 which amounted to HK\$254 million for the following purposes:

- (a) approximately HK\$15 million for developing the Group's own brand "IXESSE" in Hong Kong and the PRC and to enhance the image and popularity of the brand;

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- (b) approximately HK\$50 million to acquire plant, machinery, office setup and equipment to expand and improve the Group's own manufacturing facilities in Guangzhou, the PRC for the production of clothing, leather goods, accessories or other related products; and
- (c) the remaining balances of approximately HK\$189 million for herbal and health products, skin care and pharmaceutical products and other business ventures.

An analysis of the use of proceeds up to 30th June, 2003 is as follows:

	Up to 30th June, 2002 <i>HK\$'000</i>	Amounts incurred in year under review <i>HK\$'000</i>	Accumulated spending <i>HK\$'000</i>
(a) Promote its own brand "IXESSE" in Hong Kong and the PRC	3,300	1,700	5,000
(b) Acquire plant and machinery in Hong Kong and the PRC	18,500	910	19,410
(c) Develop herbal and health products	94	310	404
Total	21,894	2,920	24,814

CAPITAL STRUCTURE

As at 30th June, 2003, the Company had 1,217,240,400 shares in issue with total shareholders' funds of the Group amounting to HK\$818.7 million.

EMPLOYEES AND REMUNERATION POLICIES

As at 30th June, 2003, the Group employed approximately 207 full time employees in Hong Kong and the PRC. The Group remunerates its employees based on their performance, experience and prevailing industry practice. Employee benefits provided by the Group include a provident fund scheme, medical scheme, discretionary performance-related bonus and a share option scheme.