

BUSINESS OVERVIEW

For the year ended 31 December 2003, the Group's turnover and profit attributable to shareholders increased by 5% to approximately HK\$322.7 million, and decreased by 13% to approximately HK\$11.4 million respectively over the previous year. The earnings per share was approximately HK5.7 cents. This represents a 14% decrease over 2002.

The increase in turnover in 2003 by 5% from HK\$306.1 million to HK\$322.7 million was mainly due to more efforts in getting overseas sales orders and the starting of garment sales.

The decrease in gross margin in 2003 by 2% from 14% to 12% was mainly due to the increasing competition from those factories in Yangzi-delta region and the HK\$2.1 million losses incurred from the garment operation.

The decrease of profit before taxation is basically due to the decrease in the gross margin.

The decrease in profit attributable to shareholders was mainly due to decrease of profit before taxation.

LIQUIDITY AND FINANCIAL RESOURCES

Borrowings and banking facilities

At 31 December 2003, the Group had outstanding bank borrowings of approximately HK\$72.8 million (mainly represented by trust receipt loans and packing loans of approximately HK\$22.0 million, short-term bank loans of approximately HK\$22.0 million, short-term portion of long-term bank loans of approximately HK\$11.4 million and long-term portion of long-term bank loans of approximately HK\$17.4 million). The main purpose of the bank loans was to finance the daily operation of the Group.

The aggregate banking facilities of the Group were approximately HK\$246.0 million. The utilisation rate of banking facilities was about 30%. These banking facilities were secured by corporate guarantees given by the Company.

Wallmark Enterprise Company Limited has obtained a HK\$46.0 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 mainly made in Hong Kong dollars and Renminbi. 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.

Management Discussion and Analysis (continued)



LIQUIDITY AND FINANCIAL RESOURCES (continued)

Borrowings and banking facilities (continued)

At 31 December 2003, the gearing ratio of the Group, calculated at total debts divided by total assets, was approximately 55%.

Net current assets and working capital

At 31 December 2003, the Group's total current assets and current liabilities were approximately HK\$160.3 million and HK\$89.9 million respectively. After taking into consideration of the financial resources available to the Group including cash on hand, operation 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 costs for the year ended 31 December 2003 were approximately HK\$31.1 million, representing an increase of approximately 6% on the previous year. The Group had a workforce of about 2,670 staff at the end of 2003, with 25 mainly located in Hong Kong, 2,153 located in Hui Zhou, the PRC and the remaining staff located in Cambodia. Salaries of employees are maintained at competitive levels while bonuses are granted on a discretionary basis.

In 2003, there were no discretionary bonuses payable to Directors.

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 share capital of the Company from time to time. No options have been granted up to the date of this report.

FUTURE PLANS

The Group will further strengthen the cooperation with the famous brand name DAPHNE to carry out the consignment sales in the major cities of the PRC.

In the mean time, the Group will make the best efforts to improve the operating profit of garment operation in 2004.