LIQUIDITY AND FINANCIAL RESOURCES

As at 31st December 2002, the Group had a cash and bank balance of approximately HK$561 million (30th June 2002: HK$274 million) and the total shareholders' equity of the Group was HK$664 million (30th June 2002: HK$581 million).

CAPITAL STRUCTURE

The Group's total borrowing from banks and financial institutions was HK$1,046 million (30th June 2002: HK$492 million). Most of the borrowings were in USD and RMB while others were denominated in HKD and New Taiwan Dollar ("NTD"). The majority of the borrowings were trade finance related and short term in nature. Interest was mainly based on LIBOR, RMB dollar prime or HK dollar prime with a competitive margin.

During the period under review, the Group has fully redeemed its US$20 million convertible bonds.

The financial gearing of the Group, based on the total borrowings from banks, financial institutions and convertible bonds net of pledged bank deposits, and cash and cash equivalents, divided by total shareholders' funds, was 73.02% (30th June 2002: 63.29%).

The Group believes that its future cash flow can be met by the funds generated from its operation and facilities provided by banks and financial institutions.

FOREIGN CURRENCY EXPOSURE

The Group's sales and purchases are mainly denominated in US dollars, with some in RMB, Sterling pound, Brazilian Real, HKD, Euro and NTD. Since RMB and HKD remain pegged to US dollars, the Group does not foresee a substantial exposure in this regard.

For the sale in Sterling pound and Euro, the Group hedges such exchange exposure through the use of invoice financing and short term foreign contracts from time to time.

The Group has incurred an exchange loss of HK$21,036,000 and an unrealized exchange reserve of HK$9,970,000 for the period under review, the majority of which were attributable to our Brazil subsidiary.

Because of the political turmoil, Brazilian Real has fluctuated significantly last year. However, in view of the market size of the South America, the management still holds the belief that it is still worthwhile to maintain the existing factory in the Free Trade Zone of Brazil, to complement the marketing strategy of the Group. The Group recognizes its exchange exposure in Real and has utilised various measures to minimize the foreign exchange risk. Among these are changing the shipment term from FOB to CIF, using invoice discount facility from Brazilian bank to pay in advance, sales in USD and exporting goods from Brazil to other South America countries. The Group has also increased the capital in the Brazil subsidiary by US$4,664,773.85 in December 2002, and US$2,588,301 in February 2003. The Group endeavours to limit its exposure in Real not exceeding US$10 million. All the aforesaid measures have been in place in February 2003. Recently, the Real has stabilized due to the appointment of new president and the help of IMF.

DISPOSAL OF SUBSIDIARIES

The Group entered into a sale and purchase agreement with an independent third party to dispose of its indirectly wholly-owned subsidiary, Proview Enterprise Limited, on 19th September 2002. The transaction was completed on 18th October 2002 and the Group has recorded a loss of HK$3,246,000 for such disposal.

CHARGES ON GROUP ASSETS

As at 31st December 2002, the Group's banking facilities and other loans were supported by the following:

1.) pledges of bank deposits aggregating HK$31,092,000 (30th June 2002: HK$70,740,000);

2.) a pledge of accounts receivable of NT$32,282,544 (equivalent to approximately HK$7,457,268) (30th June 2002: NT$42,611,000 (equivalent to approximately HK$10,163,000)); and

3.) first legal charges over certain land and buildings of the Group.