

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

During the year ended 30th June, 2004, the Group's total turnover increased by approximately 29.6% to HK\$36,812,000. Profit attributable to shareholders decreased by 95.7% to HK\$2,888,000.

As at year end date, the Group reported an unrealised loss on revaluation of other investments of HK\$9,175,000. Majority of other investments were debt securities which the Group held for generating interest income and expected to receive all the principal amount upon their maturities.

As at year end date, the Group has recorded a surplus of HK\$997,000 from the revaluation of investment properties which has been credited to the investment property revaluation reserve. Also, the Group has disposed one of its investment properties and recognised a gain of HK\$2,854,000.

Basic earnings per share amounted to HK0.2 cents for the year. As at 30th June, 2004, net asset value per share amounted to HK66.1 cents.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's principal source of funds for the year ended 30th June, 2004 is derived from investment income, total net income so generated amounted to HK\$35,466,000.

As at 30th June, 2004, the Group had bank and cash balances of approximately HK\$453,610,000 and investments in securities of approximately HK\$327,346,000, majority of which are debt securities. They were denominated in US dollars and EURO, with maturity period from 2 to 30 years.

In view of the operations of the Group, the exposure to fluctuation in exchange rates was limited and no hedge activity was considered necessary.

USE OF PROCEEDS FROM NEW ISSUE

As reported in the Company's 2001 annual report, the Group had changed the proposed use of part of the proceeds from the new issue in 1995 which amounted to HK\$254,000,000 for the following purposes:

- (a) approximately HK\$15,000,000 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\$50,000,000 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\$189,000,000 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, 2004 is as follows:

	Up to 30th June, 2003 <i>HK\$'000</i>	Amounts incurred in the 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	5,000	752	5,752
b) Acquire plant and machinery in Hong Kong and the PRC	19,410	792	20,202
c) Develop health and herbal products	404	6,744	7,148
Total	24,814	8,288	33,102

CAPITAL STRUCTURE

As at 30th June, 2004, the Company had 1,216,090,400 shares in issue with total shareholders' funds of the Group amounting to HK\$803,990,000.

EMPLOYEES AND REMUNERATION POLICIES

As at 30th June, 2004, the Group employed approximately 192 full time employees in Hong Kong and the PRC. The Group remunerates its employees by reference to their performance, experience and prevailing industry practice. Employee benefits provided by the Group include provident fund scheme, medical scheme, discretionary performance-related bonus and a share option scheme.