Management Discussion and Analysis

SYMPHONY

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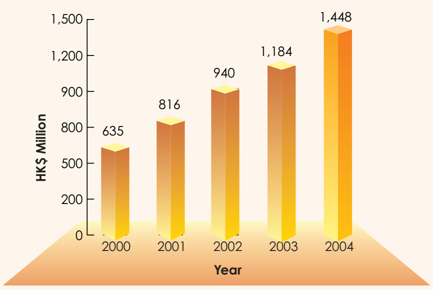
GENERAL OVERVIEW

For the year ended 31st December, 2004, turnover increased 22.3% to HK$1,447.9 million (2003: HK$1,183.6 million) and profits from operations increased 38.1% to HK$190.7 million (2003: HK$138.0 million). Consolidated net profits for 2004 was HK$164.2 million, as compared with HK$256.8 million (which includes gains on disposal of our interests in Converse Inc. of HK$134.6 million) for 2003.

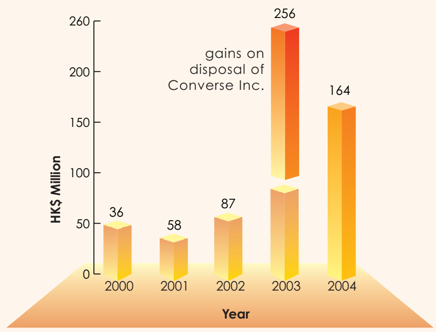
The largest markets for the Group in 2004 were North America and Europe. With the continual strength in the global economy, footwear sales had been strong. Our orders to North America grew 23.0% whilst orders to Europe grew 12.2%. Sales to North America comprised 62.2% and orders to Europe comprised 22.8% of total sales.

The following charts show the consolidated turnover and the consolidated net profit for the 5 years ended 31st December, and the turnover by geographical markets for the year 2004 compared to 2003.

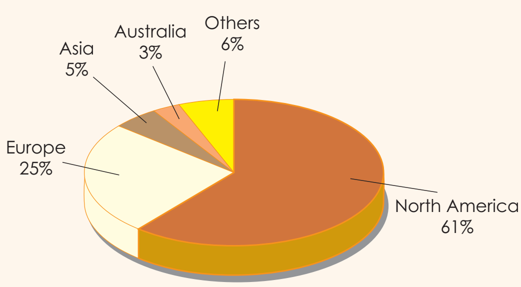
Consolidated Turnover



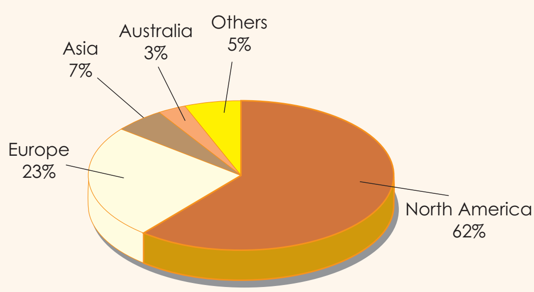
Consolidated Net Profit



Turnover by Geographical Market Year 2003



Turnover by Geographical Market Year 2004



Cost increases continue to be a challenge for all in the manufacturing industry in China. As our key markets have been strong, we were able to maintain our profit margin. Labor cost throughout China is expected to continue to increase with inflation, although we are able to offset its effects through increases in operating efficiency. Our relatively shorter production runs enable us to reflect cost increases in contract prices. To counteract raw material price increases, we hedge our risks through forward purchase of basic raw materials, which is dependent on our ability to forecast our business volume with sufficient accuracy. Therefore, gross profit margin fluctuation in 2004 was minimal.

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PRODUCTION FACILITIES

The Group has a total of 30 production lines, of which 8 are in Panyu, 10 are in Zhongshan, 8 are in Dongguan and a further 4 lines in Fuzhou. In line with the Group's strategy of expansion by acquisition, the Group continues to look for suitable acquisition candidates. The Group will add post-acquisition value to the acquired production facilities by installing our best practices and efficient work processes to increase their productivity and contribution to Group profits.

ACQUISITION

In July 2004, the Group completed the acquisition of 100% interest in the production facilities in Fuzhou comprising 4 further production lines. The cost of acquisition amounted to HK$70,961,000.

CUSTOMER RELATIONSHIP MAINTENANCE AND RESEARCH AND DEVELOPMENT

Our extensive experience and working knowledge of each stage of the manufacturing process and production material use and procurement allows us to work closely with our customers to achieve quality, efficiency and low cost. Our close relationship with customers has helped to build understanding of their needs, so that we can anticipate their problems and help them resolve issues with speed and effectiveness. Our research and development team helps customers to improve their design in order to maximize comfort, endurance and functionality of their products and, where necessary, introduce new technology to enhance their market appeal. Such value-added contribution to our customers' operations makes us their important long-term partner. Our research and development effort complements our aim to excel in this area.

LIQUIDITY AND CAPITAL RESOURCES

As at 31st December, 2004, the Group had cash and bank balances of HK$282.5 million (2003: HK$364.7 million). The Group was offered banking facilities amounting to HK$78.0 million (2003: HK$39.0 million), none of which had been utilized, indicating a nil gearing ratio on the basis of total borrowings over shareholders' fund. The banking facilities were secured by corporate guarantees from the Company and certain subsidiaries.

FOREIGN CURRENCY FLUCTUATION

The Group does not have any significant exposure to foreign currency fluctuation.

CONTINGENT LIABILITIES

The Company has made revolving stand-by letters of credit facilities amounting to HK$30,000,000 to a subsidiary of a jointly controlled entity, of which HK$16,000,000 was utilized as at 31st December, 2004. (2003 : nil)

At 31st December, 2004, this company provided a collateral in the form of cash amounting to HK$16,000,000.

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STAFF, WELFARE AND SAFETY

The total number of employees as at 31st December, 2004 was approximately 20,000. Employee cost (excluding director's emoluments) amounted to approximately HK$277.4 million (2003: HK$222.4 million). In addition to competitive remuneration packages, discretionary bonuses are awarded to eligible staff based on the Group's performance and individual merits.

Notwithstanding the upward trend in direct labour costs due to an overall increase in salary levels in the Pearl River Delta area, the Group has experienced no difficulties in recruiting staff despite a general labour shortage in the Pearl River Delta area due to the good working environment and fringe benefits offered by the Group. The Group will continue to honour our commitment on international environmental and human rights standards and will continue to provide a modern and healthy environment for our labour force.

OUTLOOK

We believe that the global economy will continue to grow, and consumption will remain strong. Therefore, we expect 2005 to be a strong year for the Group.

Although the manufacturing industry as a whole in China will face cost issues in 2005, our Group has been successful in maintaining our gross profit margin. We will continue to do our best to maintain our profit margin in the future, using proven strategies such as forward hedging of basic raw material costs, helping our customers to choose raw material alternatives, improving our operational efficiency and management of our product mix.

As expected, China has become one of the fastest growing markets for athletic shoes and apparel. We believe growth will remain strong for the coming decade. As global brands are stepping up their marketing effort in China, they are looking for more than just suppliers of manufacturing services. The ideal China partner can provide a range of benefits, such as manufacture design, raw material selection, economies arising out of local supplies to local sales outlets, and financing. We started our local-to-local business activities in late 2004 and expect the resulting manufacturing business to be more stable and profitable. We aim to be the preferred local-to-local partner in China. By doing so, we aim to rise above intense price competition.