



Management Discussion and Analysis

Business Overview

For the year ended 31 December 2004, the Group's turnover decreased by 27% from HK\$322.7 million to approximately HK\$235.7 million and a loss attributable to shareholders of HK\$104.4 million was recorded compared to a profit attributable to shareholders of HK\$11.4 million in previous year. The loss per share was HK52.2 cents in 2004 compared to the earnings per share of HK5.7 cents in 2003.

The decrease in turnover in 2004 by 27% from HK\$322.7 million to HK\$235.7 million was mainly due to decrease in handbags and accessories sales of HK\$62.8 million and decrease in HK\$25.8 million in raw materials trading or possibly unrecorded sales.

The loss attributable to shareholders was due mainly to:

- (1) A gross loss of HK\$29.8 million due principally to increase in production costs, in particularly raw material costs or possibly unrecorded sales.
- (2) Provision of doubtful debts amounted to HK\$49.2 million. This comprises principally of two debtors, and both of which are debtors arising from the trading of raw materials. The Board of directors has already instructed our lawyers to commence legal action against these debtors.

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Liquidity and Financial Resources

Borrowings and banking facilities

At 31 December 2004, the Group had outstanding bank borrowings of approximately HK\$73 million (mainly represented by trust receipt loans and packing loans of approximately HK\$27 million, short-term bank loans of approximately HK\$23 million and short-term portion of long-term bank loans of approximately HK\$23 million). The banking facilities were frozen by the banks shortly after the Incident under an informal standstill agreement which was formalised on 24 February 2005. The bank debts were assigned to the Offeror on 12 April 2005. The Group is now operating without any banking facility.

The bank borrowings are mainly made in Hong Kong dollars and Renminbi. The Group did not enter into any hedging transaction. Foreign exchange exposure does not pose a significant risk to the Group given that the level of foreign currency exposure is small.

As at 31 December 2004, the gearing ratio of the Group, calculated as total debts divided by total assets, was approximately 121%.

Net current assets and working capital

As at 31 December 2004, the Group's total current assets and current liabilities were approximately HK\$58.2 million and HK\$106.6 million respectively resulting in a net current liability of HK\$48.4 million.



Number and Remuneration of Employees, Remuneration Policies, Bonus and Share Option Scheme

Staff costs for the year ended 31 December 2004 were approximately HK\$33.3 million, representing an increase of approximately 7% over the previous year. The Group had a workforce of about 2,803 staff at the end of 2004, with 25 mainly located in Hong Kong, 2,186 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 2004, 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 DAPHNE brand, which has distribution channels in major cities of the PRC.

The Offeror proposes to continue the existing business of the Company but will regularly review its current business activities and assets. The Offeror does not intend to make any changes to the existing business of the Company. It proposes to seek additional manufacturing opportunities and identify suitable new investment opportunities to further develop the Company, although no specific targets have been identified and no negotiations have been entered into.

Purchase, Sale or Redemption of Shares

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.