

MANAGEMENT DISCUSSION AND ANALYSIS

The Group's turnover for the 12 months ended 31st December, 2001 was HK\$589 million (US\$75.5 million), as compared to HK\$671 million (US\$86 million) in 2000. The drop is primarily attributable to the weakening of the Euro against the US Dollar and difficult economic climate prevailing the period. This has resulted in certain translation loss, and has impact on the margin due to our established policy of adhering to the prices charged to our customers once they have been set at the start of the season, which practice enhances customer loyalty for the long-term benefit of our Group. The "Sept-11" issue has affected our US operations performance, which reflected a reduction in profit of HK\$15 million in 2001. The recent economic statistics in the US illustrate that the US recovery is on its way, which will impact positively upon our US business activities. The Group will constantly review and carry out appropriate hedging to offset the financial impact as a result of currency fluctuation. In addition, the Group has undertaken strict cost control measures and will continue to improve sales mix to enhance its competitiveness.

Geographical breakdown of turnover for 2001 was: Europe at 80% (84% in 2000), Asia Pacific at 7% (7% in 2000) and America at 13% (9% in 2000).

With a good credit policy, debtors turnover was improved to 41 days from 51 days in 2000. Inventory turnover was 190 days, which still remains ahead of the industry average of 220 days. The Group has a stable debt-equity position with a leverage ratio (total debts/shareholder fund) of 0.78x (2000: 0.76x), which is ahead of the industry norm of 1.8x. Current ratio was 1.8x. This shows that the Group has a sound financial position.

During the period, the Group's operations were financed by bank loan and internal resources. As at 31st December, 2001, total bank borrowings were approximately HK\$132 million. They were used for financing working capital requirements and approximately HK\$129 million of total bank borrowings were due to be repaid within one year. Loans amounting to approximately HK\$3 million were due more than one year. Except for bank loans of approximately HK\$9.9 million, all bank loans were unsecured. According to the Group's current level of cash balance, working capital resources and bank credit facilities, the management is confident that the Group has sufficient resources to meet its working capital requirement.

Profit from operations was HK\$32.5 million (US\$4.2 million), representing a profit margin of 5.5% and a return on equity of 9.6%. After-tax earnings attributable to shareholders was HK\$14.5 million (US\$1.85 million). Shareholder funds reached HK\$340 million (US\$43.6 million) representing 3.5 times of Pre IPO's in 1998.

The Group had no significant capital expenditure commitment as at 31st December, 2001.