## OPERATING RESULTS

The Group recorded a turnover of HK$1.54 billion, an increase of 9% compared with last year. Audited profit attributable to shareholders and earnings per share were reported at HK$91 million and HK$25.9 cents, 4% higher than last year.

North America market remains the major export market of the Group. Export sales to North America market increased by 9% to HK$1.4 billion. The 23% increase of retail sales in China was offset by the 40% drop in export sales to Japan market, resulting in a slight increase in total sales to Asia market. Export sales to Europe and other markets increased by 49% to HK$46 million. The pre-tax contribution as a percentage of sales for North America segment remained at 7% and the amount of pre-tax contribution for this segment increased by HK$5 million to HK$91 million. The pre-tax contribution of Asia segment decreased by HK$2 million to HK$12 million, mainly due to the start-up loss incurred by "Zariah" label line in China. The pre-tax contribution of Europe and others segment increased by 116% to HK$5 million. The segment information by geographical markets is set out in note 4 to the financial statements.

The consolidated cost of sales as a percentage of sales remained at 74%. The increase in selling and distribution expenses as a percentage of sales from 3.9% to 4.6% was mainly attributable to the continuous expansion of the retail operation in China and gradual increase in product design and development costs. Administrative expenses as a percentage of sales decreased from 14.8% to 14.3%. As a result of the contraction of interest rate, interest income and finance costs decreased by HK$3.9 million and HK$0.7 million respectively.

## CAPITAL EXPENDITURE

During the year, the Group invested HK$17 million in the acquisition of property, plant machinery and equipment, compared to HK$11 million last year. Recurring additions and replacement of production facilities were made in China and Asia, while fixed assets were acquired for new business projects. Furthermore, the Group increased the investment by HK$2.2 million in the associate as mentioned in Chairman Statement and spent HK$0.8 million in acquisition of the trademark "Zelda".

## LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained a solid balance sheet throughout the year. At the year-end date, the Group had total cash balance of HK$341 million, with the majority of which in USD and HKD short-term deposits placed with major banks in Hong Kong. Total bank borrowings amounted to HK$16 million, representing 3% of the shareholders' funds. Those were trust receipt loans and bank overdrafts in nature, denominated in both USD and HKD. Based on the net cash balance of HK$325 million and sufficient banking facilities, the Group has very strong liquidity and financial resources to meet its operation and investment needs.

The Group continued to adopt tight control on receivable collection and inventory level. The current ratio and quick ratio still maintained at a sound level of 2.5 and 2.0 respectively at the year end. The increase in year-end inventory by HK$26 million to HK$133 million was correlated to the higher order book value at the balance sheet date than that at one year ago. Accordingly, inventory turnover period increased from 28 days to 32 days this year. The increase in total receivable balance by HK$43 million could be explained by the increase of sales turnover of approximately HK$60 million in the last quarter of the year over the same period last year. As a result, receivable turnover period increased to 55 days compared with 49 days last year.

The Group adopts prudent policy to hedge the fluctuation of exchange rates. The sales of the Group, except for the retail sales which are denominated in Renminbi, are principally denominated in USD. Purchases and operating expenses are transacted mainly in USD, HKD and Renminbi. During the year, the Group entered into a limited number of forward contracts to hedge the receivables and payables denominated in foreign currency, mainly Euro, against the exchange fluctuation.

At March 31, 2003, certain land and buildings with an aggregate net book value of approximately HK$35 million (2002: HK$36 million) were pledged to bank to secure general banking facilities granted to the Group. At March 31, 2003, bills discounted with recourse were HK$87 million (2002: HK$43 million).

## HUMAN RESOURCES

The Group, excluding the associates, had about 7,400 employees in Hong Kong, the United States, the United Kingdom, China and other Asian countries at the year end as compared with 6,700 last year. The increase was mainly due to hiring more factory workers in Asia and employing more staff for China retail operation. The Group adopts a competitive remuneration package for its employees, by reference to market terms, individual merits and performance evaluation.