

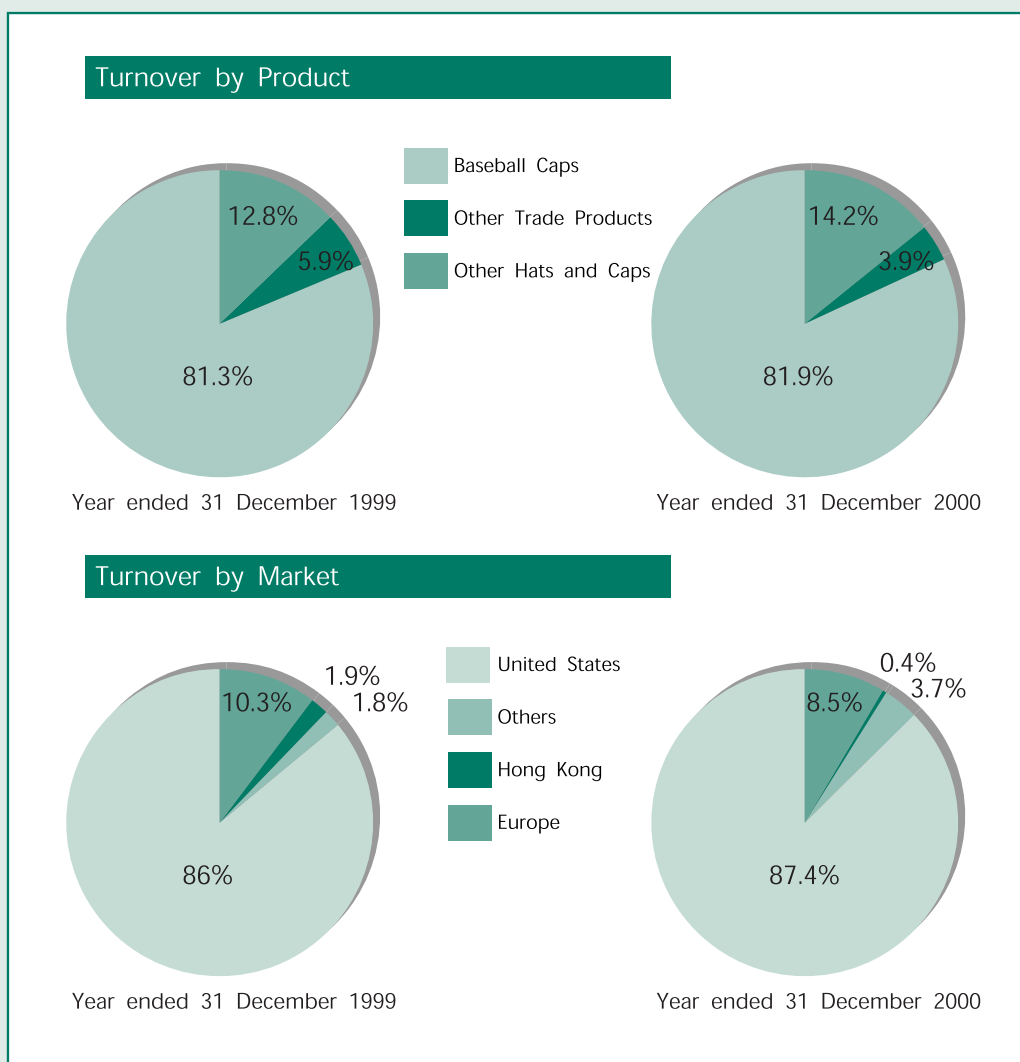
## Management Discussion and Analysis

### REVIEW OF RESULTS

With the increase of the Group's production capability following the completion of new industrial complex in January 2000 and the success of the Group's marketing strategies, the Group has recorded a remarkable growth of 56% in turnover for the financial year 2000 to HK\$242,582,000 (1999: HK\$155,349,000).

Benefited from the economies of scale and the Group's continuous focus on high end and complicated headwear products, the Group has been able to increase its gross profit margin from 28.6% in the financial year 1999 to 31.3% in the financial year 2000. The net profit attributable to shareholders for the financial year 2000 was HK\$43,809,000, representing a 56% growth as compared with that of last year. Having ample orders on hand and anticipated strong demand in U.S. and European market, the directors are confident that the Group can maintain a remarkable growth in turnover in the coming future.

During the year under review, United States and Baseball Caps continued to be the Group's major market and major product. Analysis of turnover by market and turnover by product are as follows:—



## Management Discussion and Analysis

### LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2000, shareholders' fund of the Group increased by HK\$72 million over last year. The increase was mainly derived from the retained profit during the year and the share premium reserve arising from the subscription of newly issued ordinary shares in December 2000.

The Group generally finances its operations with internally generated cash flow. The Group was granted a credit facility of approximately HK\$65 million by banks but no facility was utilized as at 31 December 2000. As at 31 December 2000, the gearing ratio of the Group (based on bank borrowings over equity) was zero and the Group had net current assets of approximately HK\$57.6 million.

### CAPITAL STRUCTURE

As at 31 December 2000, the capital structure was entirely in the form of shareholders' equity of HK\$140 million, and the cash and cash equivalents held by the Group was deposited with the banks of good reputation in the following denomination:–

	Equivalent Amount <i>HK\$'000</i>	Percentage %
RMB	36	0.1
HK\$	46,445	75.3
US\$	15,204	24.6
	61,685	100

### CAPITAL COMMITMENT

The Group did not have any capital commitment as at 31 December 2000.

### EMPLOYEES

As at 31 December 2000, the Group has 48 employees in Hong Kong (not including 1,757 workers worked in the Group's production facilities in the PRC under the processing agreement) and the expenditure for those employees during the year (not including the directors' remuneration) was approximately HK\$14.8 million (1999: HK\$12.8 million).

The remuneration of employees was decided and calculated by the Group on the basis of employees' responsibility and performance, while maintained competitive in the market.

Under the terms of share option scheme (the "Scheme") approved by shareholders of the Company on 16 November 2000, the board of directors may, at their absolute discretion, grant options to full time employees and executive directors of the Company and its subsidiaries to subscribe for shares in the Company. Details of the Scheme are set out in note 21 to the financial statements.