

Management Discussion and Analysis

(A) REVIEW OF RESULTS

The Group achieved a net profit attributable to shareholders for the year ended 31 December 2001 of HK\$62,527,000, as compared with HK\$43,809,000 last year. This result was achieved principally due to the success of the Group's marketing strategies and benefited from the economies of scale in operations.

During the year under review, total turnover for the Group was HK\$288,565,000 (2000: HK\$242,582,000), representing a growth of 19.0% (2000: 56.15%). The gross profit margin increased to 37.0%. Despite the 911 incident, USA remains the most remarkable growth market and it contributed to 93.9% of total turnover of the Group.

An analysis of the turnover by products and turnover by markets are as follows:



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(B) LIQUIDITY AND FINANCIAL RESOURCES

The Group is financing its operations from internally generated cashflow. At 31 December 2001, the Group maintained a cash and bank deposit of HK\$80 million (2000: HK\$61 million). Out of the bank credit facilities of approximately HK\$48 million granted from various banks, the Group did not utilize any of such facilities at 31 December 2001. Funding and treasury policies of existing subsidiaries in the Group are centrally managed and controlled by the top management in Hong Kong. The Group's current and quick ratio were 2.72:1 (2000: 2.24:1) and 2.29:1 (2000: 1.84:1) respectively, reflecting a healthy liquidity level.

The Group's gearing ratio at 31 December 2001, defined as the net borrowings (zero in this case) divided by total shareholder's equity of approximately HK\$204 million, was zero.

(C) CAPITAL STRUCTURE

At 31 December 2001, the capital structure was solely in the form of shareholders' equity of HK\$204 million (31 December 2000: HK\$151 million as restated) and the cash held by the Group was deposited with the banks as follows:

	Equivalent Amount	Percentage
	<i>HK\$ million</i>	<i>%</i>
RMB	0.70	0.9
HK\$	16.13	20.0
US\$	63.63	79.1
	80.46	100.0

The Group conducted sales and purchases mainly in US dollar.

(D) CAPITAL COMMITMENT AND CONTINGENT LIABILITIES

Except for HK\$31,000,000 cross corporate guarantee issued by the Company to secure banking facilities granted by various banks, the Group did not have any significant capital commitment or contingent liabilities at 31 December 2001.

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(E) INCREASE IN SHAREHOLDINGS IN THE ASSOCIATES

On 31 May 2001, both associates of the Group, Drew Pearson Marketing, Inc. ("DPM") and Drew Pearson International, Inc. ("DPI") re-purchased the entire shareholding from another common shareholder such that the shareholding of the Group in DPM and DPI were deemed to be increased from 25% and 21.42% to 28.57% and 25% respectively.

Moreover, on 27 December 2001, the Group has made further investments in DPM and DPI by acquiring further shareholdings from another common shareholder in consideration for the issuance of shares in the Company. Accordingly, the shareholding of the Group in DPM and DPI was increased to 42.86% and 33.33% respectively.

As the top management in these two companies remained substantially the same throughout the year 2001, these transactions had no significant impact on the operations and financial positions of both associates. DPM and DPI are principally engaged in the trading of licensed headwear in USA and internationally respectively.

(F) POST BALANCE SHEET EVENT

Subsequent to 31 December 2001, on 12 March 2002, the Group has entered into several agreements detailed as follows:

- (1) the agreement ("Templeton Placing and Subscription Agreement") for the placing and subscription of shares in the Company entered into between the Company, Successful Years International Company Limited ("Successful Years") and Templeton Strategic Emerging Funds LDC ("Templeton") wherein Templeton agreed to purchase 18,000,000 existing shares owned by Successful Years at a price of HK\$1.75 per share and Successful Years agreed to subscribe for 18,000,000 shares at a price of HK\$1.75 per share from the Company;
- (2) the agreement ("Paramount Placing and Subscription Agreement") for the placing and subscription of shares in the Company entered into between the Company, Successful Years, and Paramount Apparel International, Inc. ("Paramount") wherein Paramount agreed to purchase 2,000,000 existing shares owned by Successful Years at a price of HK\$1.75 per share and Successful Years agreed to subscribe for 2,000,000 shares at a price of HK\$1.75 per share from the Company; and

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(F) POST BALANCE SHEET EVENT (continued)

- (3) the agreement for the sale and purchase of shares in DPM and DPI wherein the Group agreed to purchase and the vendors agreed to sell in total 42.86% and 33.34% of the shareholding of DPM and DPI respectively for a total consideration amounting to HK\$24,896,123. The consideration will be satisfied by the issuance of an aggregate of 13,112,070 new shares of the Company at HK\$1.75 per share and a cash amount of US\$250,000. Upon completion of the transaction, the Group will own approximately 85.72% and 66.67% of DPM and DPI respectively and accordingly, DPM and DPI will become non-wholly owned subsidiaries of the Company.

As of today, both the Templeton Placing and Subscription Agreement and Paramount Placing and Subscription Agreement were completed and approximately HK\$34 million net proceeds have been deposited into the Company's bank account and will be served as general working capital for the Group.

Details of the above transactions were disclosed in the two announcements made by the Company on 13 March 2002.

(G) HUMAN RESOURCES

At 31 December 2001, the Group employed a total of 55 and 1,900 staff in Hong Kong and in the PRC production facilities respectively. The costs for the employees during the year were approximately HK\$24 million and the employees are remunerated based on their responsibilities and performance. Remuneration is reviewed annually and a discretionary bonus is offered based on the performance of the individual employee. In addition to the basic salary payments, other employee benefits include medical insurance scheme, provident fund scheme, as well as a share option scheme. In June 2001, a total of 10,649,000 options to subscribe for ordinary shares in the Company were granted to a director of the Company and other eligible employees.

Moreover, comprehensive on-the-job training for workers and clerical staff as well as consultancy assisted management competency training courses have been organized to upgrade the Group's desirable individual capabilities of eligible employees.