

## MANAGEMENT DISCUSSION AND ANALYSIS

### **Geographical Market**

The Group's 2001 turnover, relating to the trading, manufacturing and sale of household and consumer products only, decreased by 12.05% to HK\$995,177,000 when compared to the corresponding period for 2000 of HK\$1,131,509,000. The dominant market in Europe constituted 50.70% amounting to HK\$504,594,000 (2000 : 53.96% amounting to HK\$610,547,000). North American sales, as a percentage of turnover increased by 3.74% to 38.81% amounting to HK\$386,234,000 (2000 : HK\$396,766,000). South American sales decreased to 0.50% amounting to HK\$4,962,000 (2000 : HK\$6,086,000). Sales in other markets dropped slightly down from 7.05% to 5.94% of the turnover amounting to HK\$59,146,000 (2000 : HK\$79,820,000). Product sales in the Hong Kong market also decreased to 4.04% amounting to HK\$40,239,000 (2000 : HK\$54,291,000).

### **Products Categories**

Sales of the major products out of the Group's turnover in 2001 were 41.12% for paper products (2000 : 34.91%), 30.62% for wooden products (2000 : 31.99%) and 28.06% for household items, home textiles products and tablemats (2000 : 31.71%).

### **Interest Expenses**

Interest expenses decreased by 31.17% to HK\$7,156,000 in 2001 (2000 : HK\$10,397,000) as a result of the declining interest rate on bank borrowings during the year.

### **Provision for bad and doubtful debt**

Provision increased in the year due to an additional provision of HK\$4,513,000 being made against a doubtful account (2000 : HK\$2,266,000).

### **Minority Interests**

Minority interests fell by 97.24% to HK\$241,000 in 2001 (2000 : HK\$8,733,000) as a result of a significant decline in contributions from a majority-owned subsidiary.

### **Charges in assets**

The Group had certain property, plant and equipment with carrying value of approximately HK\$25 million (2000 : HK\$26 million) together with a bank deposit of approximately HK\$2.6 million (2000 : HK\$2.5 million) pledged to banks to secure banking facilities granted to subsidiaries.

### **Exposure to fluctuations in exchange rates and related hedges**

All transactions of the Group are denominated in Hong Kong dollars, United States dollars, Renminbi and Sterling Pounds. Transactions in foreign currency are translated at the rates ruling on the dates of the transactions or at the contracted settlement rate. As the exchange rates of these currencies were stable during the year under review, no hedging or other alternatives had been implemented. The Group does not engage in foreign currency speculation.

### **Liquidity and financial resources**

Net current assets and current ratio were HK\$43,668,875 and 1.23 : 1 as at 31st December, 2000 and HK\$71,206,135 and 1.44 : 1 as at 31st December, 2001. The increase in net current assets is largely due to an increase in bank deposits and lower bank borrowings. Raw material, work-in-progress and finished goods decreased by 15.4% to HK\$93,783,000 (2000 : HK\$110,838,000).

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The Group's gearing ratio declined from 20% as at 31st December, 2000 to 6.6% as at 31st December, 2001, which was calculated based on the net borrowings of HK\$14,806,322 (2000 : HK\$45,961,749) and the shareholders' funds of HK\$223,024,955 (2000 : HK\$230,315,875).

The Group generally finances its business with internally generated cash flows and revolving credit facilities provided by the Group's principal bankers. With net current assets of HK\$71,206,135, the management believes that the Group has sufficient financial resources to discharge its debts and to finance its daily operations and capital expenditure.

### ***Employees and remuneration***

The approximate number of employees of the Group as at 31st December, 2001 and 31st December, 2000 were both around 9,800 with a seasonal high figure of more than 10,000 during the third quarter of 2001. Less than 200 staff are stationed in Hong Kong and the rest are PRC workers.

Employees are remunerated according to the nature of the job and market trends, with a built-in merit component incorporated in the annual increment and a year-end performance bonus to reward and motivate individual performance.