MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING RESULTS

The turnover of the Group decreased by HK$289 million or 17% to HK$1.4 billion. Audited profit attributable to shareholders and earnings per share decreased by 27% to HK$88 million and HK25 cents respectively.

The decline in turnover was caused by the combined effect of 20% decrease of export sales to North America, 17% decrease of export sales to Japan, 22% increase of export sales to Europe and other markets, and the 22% increase of retail sales in China. The segment result of each of the geographical markets posted a negative growth. The pre-tax contribution from North America segment decreased by 29% to HK$85 million. The pre-tax contribution from Asia segment and Europe and other market segment decreased by 14% and 10% respectively. As a result, the consolidated pre-tax contribution recorded a decrease of 27% to HK$102 million. The segment information of the Group is set out in note 4 to the financial statements.

With the continuous improvement in productivity, materials sourcing capability and production overheads control, the cost effectiveness of core manufacture and export division was enhanced. Combined with the impact of growth of retail sales with relatively lower cost of sales as a percentage to sales by business nature, the consolidated cost of sales as a percentage of sales decreased from 75.8% to 74.0%. Selling and distribution expenses as a percentage of sales increased from 2.9% to 3.9%, mainly due to the expansion of the retail operation in China. As a result of tightening cost control and enhancing operating efficiency in a year of decline in turnover, administrative expenses decreased by about HK$14 million to HK$209 million. Nevertheless, administrative expenses as a percentage of sales increased from 13.1% to 14.8%. The bank borrowings during the year maintained at a very low level. Coupled with the impact of low interest rate, finance costs reduced by 28% to HK$1.8 million. In the meantime, interest income also decreased slightly to HK$7.2 million.

CAPITAL EXPENDITURE

During the year, besides the total investment in new associates of about HK$4 million, the Group spent approximately HK$11 million in the recurring additions and replacement of fixed assets, compared to HK$14 million last year.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

The financial position of the Group remained very solid throughout the year. We have built and maintained an effective cash-generating business model and have proved our capability to keep a healthy balance sheet. At the year-end date, the Group had a cash balance of HK$335 million compared to HK$333 million last year. Most of the cash balance was placed in USD and HKD short-term deposits with major banks in Hong Kong. Total bank borrowings of HK$17 million were trust receipt loans and bank overdrafts in nature, denominated in both USD and HKD and represented 3% of the shareholders' funds. Based on the solid net cash balance of HK$318 million and sufficient banking facilities, the Group has very strong liquidity and financial resources to meet the operation and investment needs.

We continued to carry out stringent inventory and receivable control during the year. Inventory turnover period increased to 28 days from 21 days last year. Such increase was caused by the increase of year-end inventory value to HK$108 million from HK$97 million and the decrease of sales turnover by 17%. In fact, the increase in year-end inventory value indicated that order book value at the balance sheet date was higher than last year. Receivable turnover period increased slightly to 49 days from 48 days last year. Due to the impact of the change of accounting policy on the recognition of dividends proposed after the balance sheet date, current ratio and quick ratio were 2.7 and 2.2 respectively, compared to restated figures of 2.3 and 1.9 respectively last year.

The Group adopts prudent policy to hedge the fluctuation of exchange rates. Except for the retail sales that are denominated in Renminbi, the export sales of the Group are mostly denominated in USD. Purchases and operating expenses are mostly denominated 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 against the exchange fluctuation.

At March 31, 2002, certain land and buildings with an aggregate net book value of about HK$36 million (2001: HK$40 million) were pledged to bank to secure general banking facilities granted to the Group. At March 31, 2002, bills discounted with recourse were HK$43 million (2001: HK$ 42 million).

HUMAN RESOURCES

The strategy and development in human resources of the Group are contained in the Chairman Statement. The Group, excluding the associates, had approximately 6,700 employees in Hong Kong, the United States, the United Kingdom, China and other Asian countries at the year-end date, compared to 6,800 last year. Remuneration and bonus packages are generally structured by reference to market terms, individual merits and performance evaluation.