

Management Discussion and Analysis

RESULTS OF OPERATION

Pursuant to a group reorganisation and the basis of preparation for accounts as set out in note 1 to the financial statements, the turnover of the Group increased moderately by 1.4% to HK\$703.8 million and the profit attributable to shareholders was HK\$79.1 million for the full year, which was at approximately the same level in 2001. The earnings per share for the year was HK\$ 9.6 cents when compared with HK\$9.5 cents in last year.

The United States market continued to be the largest market for the Group's products. Sales to the United States constituted 70.1% of Group turnover compared with 72.5% in 2001. Sales to Europe amounted to 24.5% compared with 20.8% in 2001. Other markets collectively accounted for 5.4% compared with 6.7% in 2001. The growth in the European market was mainly due to the increased in sales volume of the Group's products. As the U.S. economy is experiencing a broad-based downturn which was exacerbated by the events of September 11, sales to the United States was marginally affected.

During the year under review, the gross profit margin of the Group was increased to 32% due to the increased sales of originally designed products. This increased in gross profit margin was mainly the result of our strategic expenditure in the area of design and marketing. Accordingly, the distribution expenses were increased by 44.3% to HK\$50.8 million and the administration expenses were increased by 13.0% to HK\$99.2 million for the current full year under review. As a result, the Group achieved a similar level of profit attributable to shareholders as compared with 2001. Given the current stagnant market conditions, the Group considered this performance is satisfactory.

BUSINESS AND OPERATION REVIEW

A detailed review of the Group's business operations and prospects is included in the Chairman's Statement.

CAPITAL STRUCTURE

The Company was incorporated in the Cayman Islands on 27 July 2001 with an authorised share capital of HK\$100,000 divided into 1,000,000 shares of HK\$0.1 each, one share of which was issued nil paid on 22 August 2001.

In preparation for the listing of the shares of the Company on the Stock Exchange, the following changes in authorised and issued share capital of the Company took place on 14 December 2001:

- (a) the authorised share capital of the Company was increased from HK\$100,000 to HK\$500,000,000 by the creation of an additional 4,999,000,000 shares of HK\$0.1 each; and
- (b) the Company issued an aggregate of 824,999,999 shares of HK\$0.1 each, credited as fully paid and to credit as fully paid at par the one share issued nil paid on 22 August 2001.

Details of the changes in share capital of the Company during the year are set out in note 18 to the financial statements.

Management Discussion and Analysis

FINANCIAL RESOURCES

The total shareholders' fund of the Group as at 31 March 2002 was approximately HK\$231 million.

The Group maintains a very healthy financial position with a low level of debts and a high liquidity. The Group ended the year with a current ratio of 2.3 and a zero gearing ratio (long term liabilities to equity).

The Group had a net cash surplus of approximately HK\$19 million and was deposited in the leading banks in Hong Kong in either Hong Kong dollars or United States dollars.

Net cash inflow provided by operating activities totaled approximately HK\$68 million. The consistent strong cash flow from operating activities reflects the Group's strength in the working capital management to support the business operations. The Group's future cash flow and its available banking facilities will provide sufficient funds to the Group to meet its operation requirements.

FUNDING POLICY

The Group's transactions and the monetary assets are principally denominated in Hong Kong dollars or United States dollars. As a result, the Group has a minimal exposure to foreign exchange risk.

COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 March 2002, the Group had no capital commitments and no material contingent liabilities other than trade bills discounted in the ordinary course of business.

PLEDGE OF ASSETS

At 31 March 2002, the Group did not have any assets pledged for general facilities.

HUMAN RESOURCES

At 31 March 2002, the Group had a workforce of more than 5,000 people. Remuneration packages comprised salary and bonuses based on individual merits. The Group believes that its remuneration packages are competitive as compared with other companies in the industry.

The Company has a share option scheme under which the executive directors and employees of the Company and its subsidiaries may be granted options to subscribe for ordinary shares in the Company. Up to 31 March 2002, no option was granted under the scheme.

Management Discussion and Analysis

AUDIT COMMITTEE

Pursuant to the requirements of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited, an Audit Committee of the Company was established.

The Audit Committee consists of three independent non-executive directors, namely Mr. Heng Kwo Seng, Mr. Wong Kai Tung, Tony and Mr. Lee Ming Cheong, Alfred. The principal activities of the Audit Committee include the review of the Group's internal control system and financial reporting matters including the review of connected transactions and unaudited financial statements. They have met with the executive directors and the external auditors to consider the nature and scope of the audit.