

FINANCIAL REVIEW

Liquidity and Financial Resources

The core business of the Group is design, manufacture and distribution of headwear products. The Group continues to enjoy financing for its operations from internally generated cash flows, and through the financial support from Templeton and Paramount.

Out of the bank credit facilities of approximately HK\$110 million granted from various banks, the Group had utilized approximately HK\$8 million at 30 June 2002 and the Group's cash on hand amounted to approximately HK\$121 million. Funding and treasury policies of non-US subsidiaries of the Group are centrally managed and controlled by the top management in Hong Kong. The US subsidiaries enjoy a higher degree of autonomy in resource allocation within their own reach.

The Group's gearing ratio at 30 June 2002, defined as the net borrowings of approximately HK\$8 million divided by total shareholder's equity of approximately HK\$284 million, was approximately 2.8%. The Board advised that this is at a very healthy position.

Capital Structure

During the Period, 20,000,000 shares were issued pursuant to the two placing and subscription agreements for approximately HK\$34 million. Moreover, 13,112,070 shares were issued pursuant to the acquisition of the two US subsidiaries. Furthermore, 2,816,000 shares were issued pursuant to 2,816,000 options exercised at an exercise price of HK\$1.228 per share. Accordingly, the issued share capital of the Company has been increased from 244,488,461 shares to 280,416,531 shares as at 30 June 2002.

At 30 June 2002, the capital structure was in the form of shareholders' equity of HK\$284 million (31 December 2001: HK\$204 million) and the cash held by the Group was deposited with banks as follows:

	Equivalent Amount HK\$ million	Percentage %
RMB	2	2
HK\$	45	37
US\$	74	61
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	121	100
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Increase in Shareholdings in the Associates to become Non-wholly Owned Subsidiaries

On 30 April 2002, the Group acquired further shareholding interests in the two associates, namely, Drew Pearson Marketing, Inc. and Drew Pearson International, Inc. so as to increase its equity shareholdings in DPM and DPI to 85.72% and 66.67% respectively. The consideration was satisfied by the issuance of consideration shares by the Company and a small portion by cash installments. DPM and DPI became non-wholly owned subsidiaries since then.

Capital Commitment

The Group did not have any significant capital commitment at 30 June 2002.

Human Resources

At 30 June 2002, the Group employed a total of 127 employees in US, 50 employees in Hong Kong, and 2,234 workers in the People's Republic of China ("PRC"). The expenditures for the employees during the Period were approximately HK\$20 million and the employees were remunerated based on their position and performance.