# Managing Director's Report

William FUNG Kwok Lun

## Results Review

2002 is the first year of the Group's Three-Year Plan 2002 - 2004. Despite a slow start to the plan in the first half of the year, we are pleased to report that Group performance in the second half of 2002 was strong and in line with the Three-Year Plan growth targets.

During the year, business suffered initially from poor sentiment and uncertainty following the terrorist events of 2001 but business recovery was robust in the second half of 2002.

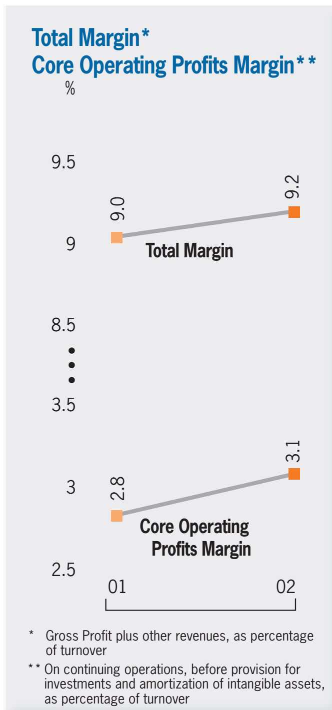
For the year 2002 as a whole, Group turnover increased 13%. The Group's total margin continued to improve, moving up from 9% in 2001 to 9.2% in 2002. This was a result of an increase in contribution from our hard goods business, as well as growth in higher-margin businesses. Through prudent cost control and improved efficiencies, the Group's core operating profits on its continuing operations before provision for investments and amortization of intangible assets showed a healthy increase of 23%, reflecting an increase in margin from 2.8% to 3.1%.

However, non-trading income declined compared to 2001 primarily due to a large decrease in interest income generated from our cash reserves, and increased amortization of goodwill from acquisitions. Taking into account provisions, net interest income, associated companies' performance, taxation, minority interest, and the absence of losses from a discontinued Internet operation in 2001, the Group's net profit increased 38.1% to HK$1,080.5 million, passing the billion dollar mark for the first time. The increase on a continuing operations basis was 13.6%.


## Segmental Analysis

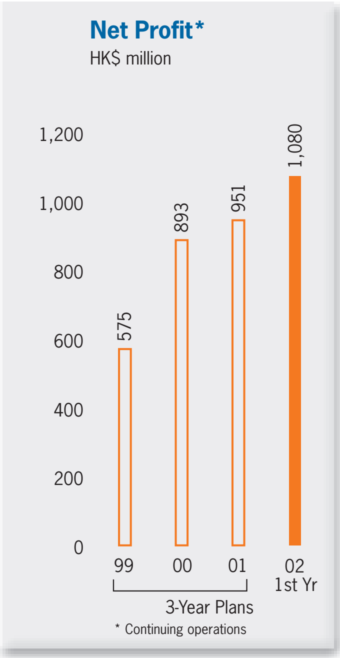
The hard goods business was a key growth area in 2002. It accounted for 32% of Group turnover, up from 28% in 2001. Turnover increased by 29%, with a significant increase of 70% in operating profits as we start to reap the benefits from earlier investments in product development capabilities. Part of the increase was also due to the contribution of the Janco business, which was acquired in July 2002. The soft goods business saw a 7% increase in turnover whilst operating profits grew by 11%, reflecting the growth in higher margin businesses.

North America continues to be the Group's major market, accounting for 76% of the Group's turnover in 2002. Turnover and operating profits on a continuing operations basis increased by 14% and 22% respectively for this market. Although consumer sentiment remained cautious, we continued to increase market share due to our comprehensive office network and strong sourcing capabilities. The structural trend towards big US companies outsourcing its buying function also remains strong, adding to the Group's growth in turnover and customer base. In Europe, turnover saw a steady growth of 5%. With prudent cost control and additional higher margin businesses, led to an increase of 27% in operating profits.




In early 2002, the Group entered into a Business Alliance with Nichimen Corporation to open up the Japanese market. This led to a big jump in turnover for our East Asia region, which exceeded HK$1 billion and accounted for approximately 3% of the Group's total turnover. However, the operation incurred some small start up losses, which led to a decrease in profits for that region.

Turnover for our operations in the Southern Hemisphere registered a slight decline of 1% because of economic turmoil in many markets in Latin America. However, the Group had satisfactory results in Australia as new customers were added. Because of our prudence and focus on good quality customers in the Southern Hemisphere, operating profits there were up 19%.



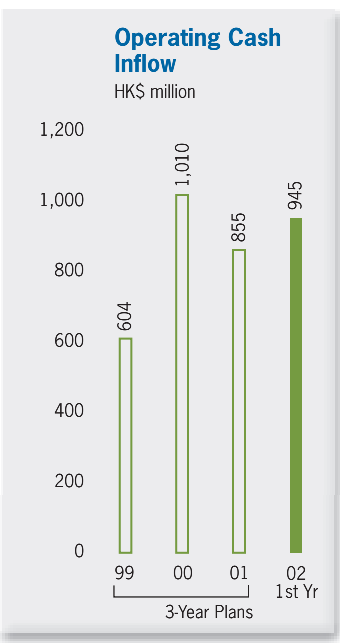

## Acquisitions

In July 2002, the Group announced an agreement to acquire Janco Overseas Limited ("Janco"), a Hong Kong based buying agent, for a total cash consideration of HK$250 million. The acquisition was completed in August 2002 and was funded by internal cash resources.

Janco sources mainly hard goods for customers in the US and Canada, and has particular strengths in supplying the supermarket and hypermarket sector. The acquisition fits into the Group's strategy of accelerating growth in the hard goods area and it expanded the Group's penetration into the supermarket and hypermarket sector, where significant growth opportunities in the private label, non food business exist.

Janco has delivered satisfactory results so far, generating a turnover of HK$1.4 billion during its first six months of contribution to the Group's results. Work has been underway to combine the back office operations to derive economies of scale. That, together with expanded capabilities of the combined group, will bring about significant sales and margin improvement opportunities in the future.

The acquisition resulted in a goodwill of HK$225 million, which will be amortized over 15 years, leading to a charge of approximately HK$15 million per annum. Reflecting a six month impact on the Group's results, the amortization charges related to this acquisition amounted to HK$7.5 million in 2002.



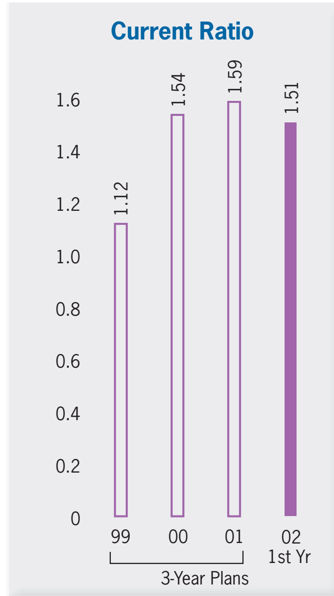

## Financial Position and Liquidity

The Group is in a strong financial position, with cash and cash equivalents of HK$2.4 billion at the end of 2002. Normal trading operations are well supported by over HK$10 billion bank trading facilities. In addition, the Group has available bank loans and overdraft facilities of HK$424 million, out of which only HK$137 million has been utilized.

At the end of 2002, charges on asset amounted to HK$115 million to cover banking facilities in the ordinary course of business.

The Group has adopted defined benefit pension schemes in certain of its overseas operations, mainly because of local statutory requirements. Pursuant to the requirements of the revised SSAP 34 (Employee benefits), the Group has transitional pension liability on initial adoption of the SSAP of approximately HK$16 million. The Group chooses to recognize the transitional pension liability on a straight-line basis over five years from the date of adoption of this SSAP at 1 January 2002. For the year ended 31 December 2002, amortization of the transitional liability of approximately HK$3.2 million was charged to the profit and loss account. As at 31 December 2002, transitional liability of approximately HK$12.8 million remains unrecognized.

The Group has a low gearing ratio of 0.8%, based on long term liabilities of HK$30 million and shareholders' equity of HK$3.8 billion. At the end of 2002, the current ratio was 1.5, based on current assets of HK$6.3 billion and current liabilities of HK$4.2 billion.




## Capital Commitments & Contingent Liabilities

During the year, the Group made commitments to purchase 300 thousand square feet of additional office space near its headquarters in Hong Kong. The total consideration was HK$297 million out of which HK$94.5 million has been paid in 2002. The balance of HK$202.5 million was subsequently settled in January 2003. The Group has expanded rapidly in recent years and now rents substantial outside space. This purchase will reduce the Group's future rental expenses by an estimated HK$13 million on an annualized basis. It will also improve overall operational efficiency.

Save for the above, the Group has no material contingent liabilities and off balance sheet obligations other than those including trade bills discounted in the ordinary course of business as noted in the accounts.

## Foreign Exchange Risk Management

Most of the Group's cash balances are deposited in HK$ or US$ with major banks in Hong Kong. The Group has a HK$35 million short term revolving loan denominated in Yen as a currency hedge against shares held in Nichimen Corporation, a strategic investment made in the Business Alliance to open up the Japanese market.

In the United Kingdom, the Group has a HK$10 million loan that is denominated in GBP and is related to a previous acquisition. The loan is expected to be repaid in full by 2003.

Apart from the above, most of the Group's asset and liabilities, revenues and payments are either in HK$ or US$. Therefore, we consider our exposure to foreign currency fluctuations minimal.

## Post Balance-Sheet Date Development

There are no significant post balance sheet date events.

## Human Resources

At the end of December 2002, the Group had a total of 5,313 staff, of which 1,847 were based at our Hong Kong headquarters, and 3,466 were located overseas throughout our network of offices in 38 countries. As human capital is key to the growth and profitability of the Group, heavy emphasis is placed on staff training and development. The Group offers competitive remuneration schemes to its employees. In addition, share options and discretionary bonuses are also granted to eligible staff based on individual and Group performance. Total staff cost in 2002 was HK$1,375 million, compared to HK$1,268 million in 2001.

## Prospects

Judging from orders on hand and shipments made since the beginning of the year, the momentum experienced in the second half of 2002 seems to be carrying through to 2003. The competitive retail markets in the US and Europe have created great opportunities for the Group. Brand owners and retailers see the increased need for a competitive Supply Chain Management partner who can cater to their needs globally. We shall continue to strengthen our presence in sourcing markets such as China and Vietnam in order to capture the growth opportunities brought about by changing global trade patterns.

However, we remain wary of the economic impact of the war in the Middle East. Its effect on consumer sentiment is yet to be determined, and management shall therefore continue to implement prudent measures in running the business, with a focus on reducing costs and increasing operational efficiency.

## Progress on Three-Year Plan 2002 - 2004

Owing to the slow start in the first half of 2002, the Group is about a half year behind on achieving our Three-Year Plan to double profits by 2004. However, management remains committed to pursue the Group's targets for the remainder of the plan, such as building more higher margin businesses. In addition, the Group is continuing to evaluate and pursue acquisition opportunities to accelerate our growth. In this respect, the Group is still holding an acquisition war chest of US$300 million for use in possible acquisitions.

**William FUNG Kwok Lun**
*Managing Director*

Hong Kong, 24 March 2003