Management Discussion and Analysis

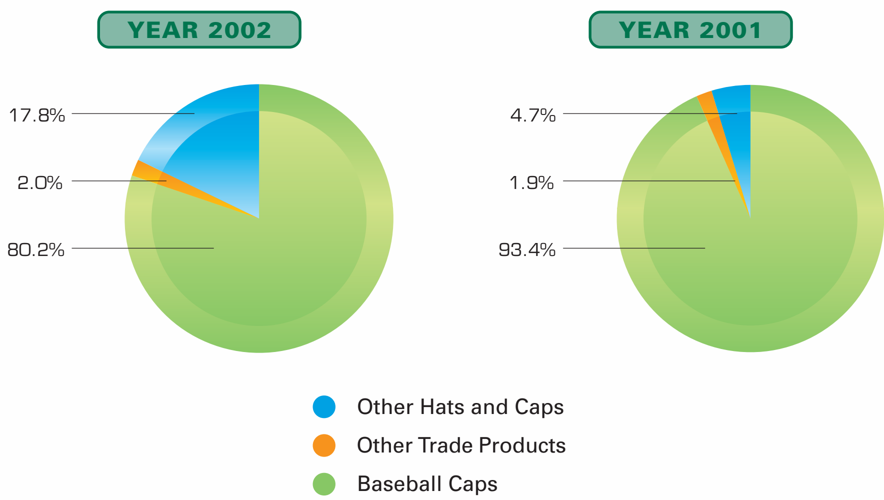
(A) REVIEW OF RESULTS

The Group achieved a net profit attributable to shareholders for the year ended 31 December 2002 of approximately HK$64,032,000, as compared with HK$62,527,000 for the same period last year. This result was achieved principally due to the success of the Group's vertical integration strategies and benefited from the economy of scale in expanded operations.

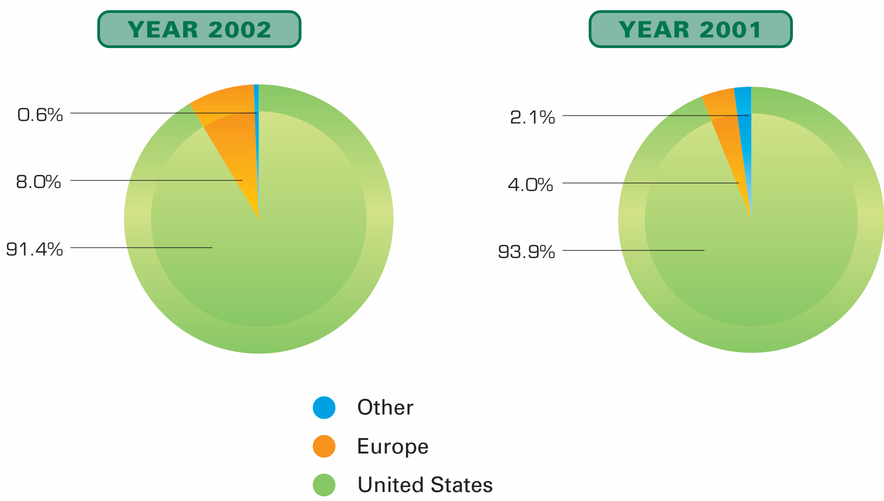
During the year under review, total turnover for the Group was HK$394,122,000 (*2001: HK$288,565,000*) representing a growth of 36.6% (*2001: 19.0%*). The gross profit margin stabilized to 38%. The United States ("US") remains the most remarkable growth market and representing 91.4% of total turnover.

An analysis of the turnover by products and turnover by markets are as follows:

TURNOVER BY PRODUCT



TURNOVER BY MARKET



(B) LIQUIDITY AND FINANCIAL RESOURCES

The Group continues to enjoy financing its operations from internally generated cash flows, and through the fund from placing of shares to Templeton and Paramount.

At 31 December 2002, the Group maintained a cash and bank deposit of HK$137 million (2001: HK$80 million). The Group was granted bank credit facilities of approximately HK$108 million from various banks, of which none was utilised at 31 December 2002. 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.

The Group's gearing ratio at 31 December 2002, defined as the net borrowings of approximately HK$0.6 million divided by total shareholders' equity of approximately HK$311 million, was close to zero. The Board of Directors advised that this is at a very healthy position.

(C) CAPITAL STRUCTURE

During the year under review, 20,000,000 shares were issued pursuant to the placing and subscription agreements for approximately HK$34 million. Moreover, 13,112,070 shares were issued pursuant to the acquisition of the additional equity shareholdings in DPM and DPI. Furthermore, 3,698,000 shares were issued pursuant to 3,698,000 share options previously granted by the Company exercised at an exercise price of HK$1.228 per share. Accordingly, the number of issued share capital of the Company has been increased from 244,488,461 shares to 281,298,531 shares as at 31 December 2002.

At 31 December 2002, the capital structure was in the form of shareholders' equity of HK$311 million (31 December 2001: HK$204 million) and the cash held by the Group was deposited with banks as follows:

	Equivalent Amount	**Percentage**
	HK$ million	*%*
RMB	0.6	0.4
HK$	39.7	28.9
US$	97.1	70.7
	137.4	100.0

The Group conducted sales and purchases mainly in US dollar. Accordingly, the directors of the Company do not consider that the Group was significantly exposed to foreign exchange risk.

(D) INCREASE IN SHAREHOLDINGS IN THE ASSOCIATES TO BECOME NON-WHOLLY OWNED SUBSIDIARIES

On 30 April 2002, the Group acquired additional shares in the two associates, namely, DPM and DPI so as to increase its equity shareholdings in DPM and DPI from approximately 42.86% and 33.33% to approximately 85.72% and 66.67% respectively. The consideration of the acquisition was satisfied by the issuance of 13,112,070 new shares by the Company and by cash. Upon completion of the acquisition, DPM and DPI became non-wholly owned subsidiaries of the Company.

Effective on July 2002, one of the non-wholly owned subsidiaries of the Company, DPI, repurchased and cancelled 200,000 shares in DPI from one of its shareholders being his entire shareholding in DPI, at a consideration of US$10,000 such that the shareholding of the Group in DPI was deemed to be increased from 66.67% to 80%.

As the top management in DPM and DPI remained substantially the same throughout the year under review, these transactions had no significant impact on the operations and financial positions of DPM and DPI. DPM and DPI are principally engaged in the trading of licensed headwears in the US and internationally respectively.

(E) CAPITAL COMMITMENT AND CONTINGENT LIABILITIES

Except for cross corporate guarantee issued by the Company to secure banking facilities granted by various banks, the Group did not have any significant capital commitment or contingent liabilities at 31 December 2002.

(F) HUMAN RESOURCES

At 31 December 2002, the Group employed a total of approximately 108 employees in the US, 60 employees in Hong Kong, and 2,210 workers in the People's Republic of China production facilities. The expenditures for the employees during the year under review were approximately HK$55 million and the employees were remunerated based on their responsibilities and performance. In addition to basic salary payments, other employee benefits include medical insurance scheme, provident fund scheme, as well as a share option scheme. At 31 December 2002, eligible employees are invited to participate into the share option scheme.

(G) SIGNIFICANT INVESTMENT

Save as disclosed herewith, the Group did not have any significant investment during the year under review.

(H) CHARGES ON GROUP ASSETS

The Group did not have any charges on its assets during the year under review.

(I) FUTURE PLANS FOR MATERIAL INVESTMENT

At present, save as disclosed herewith, the Group has no plans for material investments or capital assets.