

MANAGEMENT DISCUSSION AND ANALYSIS

Geographical Market

The Group's 2002 turnover, relating to the trading, manufacturing and sale of household and consumer products only, increased by 2.49% to HK\$1,019,928,000 when compared to the corresponding period for 2001 of HK\$995,177,000. The dominant markets in Europe constituted 48.51% amounting to HK\$494,759,000 (2001: 50.70% amounting to HK\$504,594,000). North American sales, as a percentage of turnover increased by 3.02% to 41.83% amounting to HK\$426,656,000 (2001: HK\$386,234,000). South American sales decreased to 0.31% amounting to HK\$3,137,000 (2001: HK\$4,962,000). Sales in other markets dropped slightly down from 5.94% to 5.10% of the turnover amounting to HK\$52,045,000 (2001: HK\$59,146,000). Product sales in the Hong Kong market increased to 4.25% amounting to HK\$43,330,000 (2001: HK\$40,239,000).

Product Categories

Sales of the major products out of the Group's turnover in 2002 were 40.97% for paper products (2001: 41.12%), 33.83% for wooden products (2001: 30.62%) and 25.20% for household items, home textiles products and tablemats (2001: 28.06%).

Interest Expenses

Interest expenses decreased by 43.57% to HK\$4,038,000 in 2002 (2001: HK\$7,156,000) as a result of the low interest rate on bank borrowings during the year.

Provision for bad and doubtful debt

Provisions decreased by 98.34% to HK\$75,000 in 2002 (2001 : HK\$4,513,000).

Charges over assets

The Group had certain property, plant and equipment with a carrying value of approximately HK\$25 million (2001: HK\$25 million) together with a bank deposit of approximately HK\$2.7 million (2001: HK\$2.6 million) pledged to banks to secure banking facilities granted to subsidiaries.

Exposure to fluctuations in exchange rates and related hedges

All transactions of the Group are denominated in Hong Kong dollars, United States dollars, Renminbi and Sterling Pounds. Transactions in foreign currency are translated at the rates ruling on the dates of the transactions or at the contracted settlement rate. As the exchange rates of these currencies were stable during the year under review, no hedging or other alternatives had been implemented. The Group does not engage in foreign currency speculation.

Liquidity and financial resources

Net current assets and current ratio were HK\$71,206,135 and 1.44 : 1 as at 31st December, 2001 and HK\$88,709,905 and 1.42:1 as at 31st December, 2002. The increase in net current assets is largely due to an increase in bank deposits and inventories. Raw material, work-in-progress and finished goods increased by 50.78% to HK\$141,404,000 (2001: HK\$93,783,000).

The Group's gearing ratio declined from 6.6% as at 31st December, 2001 to 6.0% as at 31st December, 2002, which was calculated based on the net borrowings of HK\$13,179,628 (2001: HK\$14,806,322) and shareholders' funds of HK\$219,399,289 (2001: HK\$223,024,955).

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and financial resources (Continued)

The Group generally finances its business with internally generated cash flows and revolving credit facilities provided by the Group's principal bankers. With net current assets of HK\$88,709,905, the management believes that the Group has sufficient financial resources to discharge its debts and to finance its daily operations and capital expenditure.

Employees and remuneration

The approximate number of employees of the Group as at 31st December, 2002 and 31st December, 2001 were both around 9,800 with a seasonal high figure of more than 10,000 during the third quarter of 2002. Less than 180 staff are stationed in Hong Kong and the rest are PRC workers.

Employees are remunerated according to the nature of the job and market trends, with a built-in merit component incorporated in the annual increment and a year-end performance bonus to reward and motivate individual performance. There was no share option granted to any employee during the period.