

Management Discussion and Analysis

RESULTS OF OPERATION

The turnover of the Group increased by 30.6% to HK\$919 million and the profit attributable to shareholders was HK\$116 million for the year, which was increased by 45.9% as compared to previous financial year. The earnings per share for the year was HK14.0 cents when compared with HK9.6 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 75.1% of Group turnover compared with 70.1% in 2002. Sales to Europe amounted to 19.2% compared with 24.5% in 2002. Other markets collectively accounted for 5.7% compared with 5.4% in 2002. Due to the increased demand from our customers in both of the U.S. and European markets, the Group continued to achieve a steady growth in turnover.

During the year under review, the gross profit margin of the Group was increased to 35.2% 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 57.5% to HK\$80 million and the administration expenses were increased by 28.0% to HK\$127 million for the current year under review. As a result of the significant increase in the turnover, the Group achieved a substantial growth in profit attributable to shareholders as compared with 2002. Given the current stagnant market conditions, the Group considered this performance is very encouraging.

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 of Hong Kong Limited, 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 21 to the financial statements.

Management Discussion and Analysis

FINANCIAL RESOURCES

The total shareholders' fund of the Group as at 31 March 2003 was approximately HK\$328 million (31 March 2002: HK\$235 million).

The Group maintains a very strong financial position with a very low level of debts and a high liquidity. The Group ended the year with a current ratio of 3.0 (31 March 2002: 2.3) and a zero (31 March 2002: zero) gearing ratio.

The Group had a net cash surplus of approximately HK\$65 million (2002: HK\$16 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\$89 million (2002: HK\$61 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 2003, the Group had capital commitments of approximately HK\$794,000 in respect of the acquisition of property, plant and equipment. The Group had no material contingent liabilities other than trade bills discounted in the ordinary course of business.

PLEDGE OF ASSETS

At 31 March 2003, the Group did not have any assets pledged for general facilities.

HUMAN RESOURCES

At 31 March 2003, the Group had a workforce of more than 6,000 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 2003, no option was granted under the scheme.

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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 two independent non-executive directors, namely Mr. Lee Ming Cheong, Alfred and Mr. Wan Chi Keung, Aaron. 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.