

## MANAGEMENT DISCUSSION AND ANALYSIS

### ***Geographical market***

The Group's turnover in the year ended 31st December, 2003 decreased by 2.94% to HK\$989,942,000 compared to the corresponding period in 2002 of HK\$1,019,928,000. The dominant markets in Europe constituted 51.22% of the turnover, amounting to HK\$507,055,000 (2002: 48.51% amounting to HK\$494,759,000). North American sales, as a percentage of turnover decreased by 2.04% to 39.79% amounting to HK\$393,903,000 (2002: HK\$426,656,000). South American sales slightly increased to 0.34% amounting to HK\$3,372,000 (2002: HK\$3,137,000). Sales in other markets slightly decreased from 5.10% to 4.07% of the turnover amounting to HK\$40,306,000 (2002: HK\$52,045,000). Product sales in the Hong Kong market increased to 4.58% amounting to HK\$45,304,000 (2002: HK\$43,330,000).

### ***Gross profit***

The Group's gross profit margin was 13.59% (2002: 15.43%), a decrease of 184 basis points from 2002. Management will continue to work on margin improvement, mainly by offering meaningfully differentiated and high value-added products and reducing cost of goods through better sources.

### ***Product categories***

Sales of the major products out of the Group's turnover in 2003 were 38.44% for paper products (2002: 40.97%), 31.96% for wooden products (2002: 33.83%) and 29.60% for household items, home textiles products and tablemats (2002: 25.20%).

### ***Interest expenses***

Interest expenses increased by 27.30% to HK\$5,140,000 in 2003 (2002: HK\$4,038,000) as a result of an increase in bank borrowings during the year.

### ***Charges over assets***

The Group had certain property, plant and equipment with a carrying value of approximately HK\$24 million (2002: HK\$25 million) together with a bank deposit of approximately HK\$2.7 million (2002: HK\$2.7 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 and Renminbi. 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.

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### *Liquidity and financial resources*

Net current assets and current ratio were HK\$88,709,000 and 1.42: 1 as at 31st December, 2002 and HK\$121,074,000 and 1.75:1 as at 31st December, 2003. The increase in net current assets is largely due to an increase in bank deposits. Raw material, work-in-progress and finished goods decreased by 39.24% to HK\$85,911,000 (2002: HK\$141,404,000).

As at 31st December, 2003, the Group's bank balance and cash amounted to HK\$90,044,000 (2002: HK\$50,484,000) and bank borrowings and obligation under finance leases amounted to HK\$63,625,000 (2002: HK\$63,663,000). Therefore, the calculation of net debt to equity ratio was not applicable because the Group had surplus cash of about HK\$26,419,000 over bank borrowings and obligation under finance leases.

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\$121,074,000, 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, 2003 and 31st December, 2002 were 6,500 and 9,800 respectively with a seasonal high figure of more than 7,000 during the third quarter of 2003. Less than 100 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 year.