

Management Discussion and Analysis

Acquisitions of Remaining Shareholdings in Subsidiaries

On 31 December 2003, the Group completed its acquisitions of the remaining 14.29% and 20% shareholdings in Drew Pearson Marketing, Inc. ("DPM") and Drew Pearson International, Inc. ("DPI"), the two subsidiaries based in the US engaging in the trading of headwear products respectively. The acquisitions, which effectively increased the Group's shareholdings in DPM and DPI to 100%, would facilitate the Group to restructure the operations of DPM and DPI so as to better utilise their resources to promote the business of the Group.

Liquidity and Financial Resources

The Group continues to enjoy financing for its operations by internally generated cash flows.

As at 31 December 2003, the Group had cash and bank balances of approximately HK\$109 million (2002: HK\$137 million). About 60% and 38% of these liquid funds were denominated in US dollars and HK dollars respectively and the remainder in Renminbi. In addition, the Group has also maintained a portfolio of liquid investments in the form of debt securities which had a total market value of approximately HK\$43 million at the end of the year under review.

As at 31 December 2003, the Group had banking facilities of HK\$84.6 million (2002: HK\$108 million), of which HK\$83.4 million (2002: HK\$106.8 million) was not utilised. Banking facility in the amount of HK\$62.4 million (2002: HK\$62.4 million), of which HK\$1.2 million (2002: HK\$1.2 million) was utilised, is secured by inventories and trade receivables of a subsidiary amounting to HK\$27 million (2002: HK\$22 million) and HK\$39 million (2002: HK\$37 million) respectively as at 31 December 2003.

The Group continued to maintain its gearing ratio (being the Group's net borrowings over its shareholders' equity) at zero. In view of the strong financial and liquidity position, it is evident that the Group will have sufficient financial resources to meet its commitments and working capital requirements.



Winter collection

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Capital Expenditure

During the year, the Group spent approximately HK\$27 million (2002: HK\$29 million) on acquisitions of fixed assets, which mainly represented additions of embroidery equipment and the construction of production plant and a dormitory for senior staff, which is expected to complete by the third quarter of 2004.

For the year 2004, the Group has budgeted approximately HK\$28.6 million for capital expenditure. About 80% of the budget will be for the additions of manufacturing equipment, the completion of the staff dormitory and the construction of business centre. It is expected that the production capacity will be increased by 25% by the end of the second quarter of 2004 as a result. The remaining 20% of the budget is in respect of the development of the infrastructure and shop renovation of the Hat World / Lids retail outlets.

Contingent Liabilities

As at 31 December 2003, the Group had no contingent liabilities (2002: nil).

Exchange Risk

The Group's manufacturing operations are based in the PRC with sales mainly made to the USA. All assets and liabilities of the Group are denominated either in HK dollars, US dollars or Renminbi.

As most of the Group's manufacturing overheads are payable in Renminbi, to minimise the financial effect of a possible revaluation of Renminbi to the Group, the Group has increased its holding of Renminbi deposits to about HK\$20 million in first quarter of 2004.

Employees and Remuneration Policies

At 31 December 2003, the Group employed a total of 99 (2002: 108) employees in the USA, 57 (2002: 60) employees in Hong Kong, and 2,098 (2002: 2,210) workers in the PRC. The expenditures for employees during the year were approximately HK\$63 million (2002: HK\$55 million). The increase is mainly due to the full consolidation of DPM's and DPI's results for the year under review. The Group ensures that the pay levels of its employees are competitive and employees were remunerated based on their position and performance. Key employees of the Group, including Directors, are also granted share options under the share option schemes operated by the Company.