

Management Discussion and Analysis

BUSINESS OVERVIEW

For the year ended 31st December 2000, the Group's turnover and profit attributable to shareholders increased by 32% to approximately HK\$401.8 million, and by 24% to approximately HK\$32.8 million respectively over the previous year. The earnings per share were 20.5 HK cents. This represented a 23% increase over 1999.

The increase in turnover in 2000 was mainly due to the increase of sales of manufactured goods by 59% to approximately HK\$287.9 million. This increase was attributable to the strong emphasis placed by the Group on the sales of manufactured goods (especially on the sales of compact disc storage bags, camera bags and computer bags) during the year. The sales of manufactured goods to United States and Europe markets enhanced by 37% and 152% to HK\$159.8 million and HK\$117.3 million respectively.

The increase in profit attributable to shareholders was also mainly due to the increase of profit before tax generated from sales of manufactured goods by 26.4% to HK\$30.1 million in 2000.

The net profit margins (calculated by profit before tax/sales) of the Group is 10%. Compared with last year figure of 11%; there has been a slight decrease in net profit margins. The reason was because the profit before tax for the year ended 31st December 2000 included a HK\$5.9 million deficit arising on revaluation of the Group's property and a charitable donation of HK\$1.0 million. There was no such deficit on revaluation and donation in 1999.

ASSETS VALUATION

The properties owned by the Group in Hong Kong and the PRC were revalued by Chesterson Petty Limited, an independent firm of professional valuers. The deficit (net of surplus) arising on revaluation of the Group's properties was HK\$ 5.4 million.

LIQUIDITY AND FINANCIAL RESOURCES

Borrowings and banking facilities

As at 31st December 2000, the Group had outstanding short-term bank borrowings of approximately HK\$61.3 million (mainly represented by trust receipt loans and packing loans of approximately HK\$60.7 million and current portion of long-term mortgage loan of approximately HK\$0.6 million). The main purpose of the bank loan is to finance the daily operation of the Group. The construction of a new factory and purchase of new machinery would be financed by the net proceeds from the new issues of the Company's shares to the public in January 2001 (the "New Issue").

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The aggregate banking facilities of the Group was approximately HK\$116.1 million. The utilisation rate of banking facilities was about 55%. These banking facilities were secured by certain land and buildings of the Group, personal property, and personal guarantee given by certain directors of the Company and fixed deposits of the Group. The bankers of the Group agreed in principle that personal guarantee given by certain directors would be released upon listing of the shares of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The bank borrowings are made in Hong Kong Dollars and United States Dollars. The Group did not enter into any hedging transactions. Foreign exchange exposure does not pose a significant risk to the Group given that the level of foreign currency exposure is small relative to its total asset base.

As at 31st December 2000, the gearing ratio of the Group, calculated at total debts divided by total assets, was 80%.

Net current assets and working capital

As at 31st December 2000 the Group's total current assets and current liabilities were approximately HK\$104.9 million and HK\$103.2 million respectively. The Group services its debts primarily through cash generated from its operations. After considering the financial resources available to the Group including internally generated funds, the available unutilized banking facilities and the net proceeds of the New Issue to be received in 2001, the Directors are of the opinion that the Group has sufficient resources and working capital to meet its foreseeable capital expenditure and debt repayment requirements.

INVESTMENT

On 23rd October 2000, the Group entered into a contract to acquire the remaining 10% equity interest in Hui Zhou Wallmark. Hui Zhou Wallmark then became a wholly owned subsidiary of the Group. Goodwill arising from acquisition amounted HK\$2.0 million and has been eliminated against reserves.

STAFF COST, DIRECTOR BONUSES AND SHARE OPTION SCHEME

Staff cost for the year ended 31st December 2000 was \$22.3 million representing an increase of 31%. The Group had a workforce of about 1,750 staff at the end of 2000, 20 of them stationed in Hong Kong and the remaining staff stationed in Hui Zhou. Salaries of employees are maintained at competitive levels while bonuses are granted on a discretionary basis.

In 2000, discretionary director bonus payable to a Director amounted to HK\$ 1.0 million.

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The Group has adopted a share option scheme under which the Directors of the Company may, at their discretion, invite Executive Directors and full-time employees of the Group to take up options which entitle them to subscribe for shares representing up to a maximum of 10% of the issued share capital of the Company from time to time.

FUTURE PLAN

The Directors intended to apply the net proceeds from the New Issue as follows:

- Approximately HK\$18 million for the construction of a new factory in Hui Zhou
- Approximately HK\$7 million for acquisition of new machinery and equipment

The new factory and machinery will be used for production of genuine leather products and to increase the present production capacity.