

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Review of Operation**

During the period under review, the turnover of the Group was approximately HK\$412 million, an increase of approximately 34% compared to the corresponding period in 2000. At the same time, the Group's net profit from ordinary activities attributable to shareholders was approximately HK\$33 million, an increase of approximately 8% compared to the corresponding period last year after making provisions for diminution in the value of the Group's investment to reflect the current market conditions.

### **Segmental Information**

Notwithstanding the persistent weakness of the US economy, the Group was able to sustain its steady growth. Sales to North American market have increased by 46% and constituted approximately 77% of its total turnover; Europe accounted for 12% of sales, while the remaining 11% sales were shared between Asia, Africa, Australia, Latin America and the Middle East. To expand its business, the Group will continue to broaden its client base by seeking for new markets and establishing contacts with new potential client. Currently, the Group has a healthy order book for the remaining half of the year.

### **Manufacturing**

To cope with our factory's current production needs as well as to meet the customers' requirements, Phase II of the Group's industrial complex at Zhangjiabian, Zhongshan has been reconfigured to house 4 assembly lines. The entire Phase II will be completed by the end of September 2001 and trial production is expected to commence shortly thereafter to ensure smooth production and timely delivery to customers.

Reflecting our Group's commitment to efficient production and quality management practices, we are in the process of implementing new systems, procedures and processes, which are expected to meet the internationally acclaimed ISO certification requirements. We are working toward having the Zhangjiabian production facilities certified by year end.

## **Reduction and Return of Capital**

Recognizing the prevailing low interest rates and thus availability of low cost financing alternatives for its operations, the Directors proposes to return a portion of its capital to the shareholders (“Reduction of Capital”). Should the Reduction of Capital proposal be approved by the shareholders in a Special General Meeting, the capital of the Company will be reduced by approximately HK\$308 million (HK\$0.06 per share).

A summary of the terms and conditions of the Reduction of Capital is contained in an announcement published on 12 September 2001.

## **Material Acquisitions and Disposal**

In April 2001, Union Overseas Holdings Limited (“Union Overseas”), a wholly owned subsidiary of the Company, subscribed for approximately 17.15% in the common stock and 23.65% in the preferred stock of Converse Inc. (“Converse” which was formerly known as Footwear Acquisition Inc.), one of the Group’s major clients. By investing in the equity of Converse, the Group expects to strengthen its relationship with the client as well as improve the prospects of its future earnings.

In August 2001, the Group disposed of half of its interest in Union Overseas to an independent third party.

## **Liquidity and Capital Resources**

As at 30 June 2001, the Group had cash and bank balances of HK\$258.6 million. The Group was offered banking facilities amounting to HK\$90.7 million, of which approximately HK\$0.7 million had been utilized as overdrafts, indicating a low gearing ratio of 0.1% on the basis of total borrowings over shareholders’ fund. The banking facilities were collateralized by the Group’s leasehold land and building and investment properties with an aggregated net book value of approximately HK\$112 million as at 30 June 2001.

The Group does not have any significant exposure to foreign currency fluctuation, as disclosed in the latest annual report of the Company.

**Staff**

The total number of employees as of 30 June 2001 remained at the same level as that of the last financial year. Employees' cost (excluding directors' emoluments) amounted to approximately HK\$82 million. No share option has been granted to eligible employees nor has any share option been exercised by any employee during the period under review. However, during this period, 3,000,000 share options lapsed due to resignation of an option holder. As at 30 June 2001, the total number of outstanding options was 247,816,207.

**Appointment of Deputy Chairman**

Recently, the Group appointed Mr. Chu Hon Pong as Deputy Chairman and Managing Director.

**Prospects**

Following the reduction and return of capital, the Group is expected to have adequate resources to continue its normal operations. The Group will also continue to adhere to its commitment for quality, efficiency and customer relationship in all its operations.

Meanwhile, the Group shall continue to explore new opportunity to diversify its business. However, given the current uncertain global economic outlook, the Group shall exercise due caution as well as prudence in evaluating these opportunities.

Barring unforeseen circumstances, the Directors are optimistic about the future performance of the Group and believes that it will maintain profitability for its shareholders for the year.