Management Discussion and Analysis

BUSINESS OVERVIEW

For the year ended 31st December 2001, the Group's turnover and profit attributable to shareholders decreased by 13% to approximately HK$348.4 million, and by 58% to approximately HK$13.7 million respectively over the previous year. The earnings per share was approximately HK6.9 cents. This represents a 66% decrease over 2000.

The decrease in turnover in 2001 was mainly due to the decrease of sales of manufactured goods by approximately 11% to approximately HK$255.7 million. The decrease was the result by a decrease in sales of manufactured goods to the USA and European markets by 4% and 17% to HK$153.8 million and HK$97.4 million respectively.

The decrease in profit attributable to shareholders was also mainly due to the decrease of operating profit from sales of manufactured goods by approximately 39% to approximately HK$37.5 million in 2001.

The net profit margin of the Group was approximately 4%. Compared with last year figure of approximately 8%, there has been a decrease in the net profit margins of the Group. The reason was because the profit before tax for the year ended 31st December 2001 has been deteriorated due to the fierce competition in the industry and the global economic slowdown.

ASSET VALUATION

Chesterten Petty Limited and Kimvin Appraisal (Cambodia) Limited, both being independent property valuers, have revaluated the current value of the property interests of the Group at 31st December 2001 on newly constructed premises in the PRC and Cambodia respectively.

LIQUIDITY AND FINANCIAL RESOURCES

Borrowings and banking facilities

As at 31st December 2001, the Group had outstanding short-term bank borrowings of approximately HK$46.5 million (mainly represented by trust receipt loans and packing loans of approximately HK$34.4 million, bills payable of approximately HK$0.3 million and short term bank loans of approximately HK$11.8 million). The main purpose of the bank loans was to finance the daily operation of the Group.

The aggregate banking facilities of the Group was approximately HK$199.8 million. The utilisation rate of banking facilities was about 23%. These banking facilities were secured by certain land and buildings of the Group, corporate guarantee given by the Company and fixed deposits of the Group.

The bank borrowings are mainly made in Hong Kong Dollars, Renminbi 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 2001, the gearing ratio of the Group, calculated at total debts divided by total assets, was approximately 55%.

Net current assets and working capital

As at 31st December 2001 the Group's total current assets and current liabilities were approximately HK$93.3 million and HK$78.6 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 and the available unutilised banking facilities, 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 1st December 2001, the Group entered into a contract to acquire 100% equity interest in Kimberly Industrial Co., Ltd. ("Kimberly"), a limited company incorporated in the Cambodia. The sole asset of Kimberly comprises of a piece of land and a factory building with a total gross areas of approximately 16,000 sq.m ("Cambodian Factory") and Kimberly also holds the relevant business license for the manufacturing of handbags and related products in Cambodia. The Cambodian Factory has been in production since its incorporation.

The Board of Directors (the "Board") believes that the acquisition of Kimberly would enhance the Group's production capacity in a more effective manner and the acquisition is in line with the Group's future development strategies for the following reasons:

- the labour and manufacturing cost in Cambodia is relatively lower than that of the PRC and the Board expects that the labour and manufacturing cost in the PRC will further increase after the admission of the PRC to the World Trade Organization;
- the import tax of handbags and related products manufactured in Cambodia and imported to the USA and European countries is relatively lower than the import tax levied on products manufactured in the PRC; and
- there is no import tax for handbags and related products manufactured in Cambodia and imported to Japan.

STAFF COST, DIRECTOR BONUS AND SHARE OPTION SCHEME

Staff cost for the year ended 31st December 2001 was approximately $24.6 million representing an increase of approximately 10% on the previous year. The Group had a workforce of about 2,362 staff at the end of 2001, 28 of them were mainly located in Hong Kong, 1,784 of them located in Hui Zhou, the PRC and the remaining staff were located in Cambodia. Salaries of employees are maintained at competitive levels while bonuses are granted on a discretionary basis.

In 2001, there was no discretionary bonus payable to Directors.

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.

CHANGE OF APPLICATION OF NET PROCEEDS DERIVED FROM THE INITIAL PUBLIC OFFERING ("IPO")

Pursuant to an announcement made on 7th November 2001, the Board considered that the acquisition of the Cambodian Factory would enhance the Group's production capacity in a more effective manner as the cost of production in Cambodia is relatively lower than that of the PRC. In view of this, agreement relating to the acquisition of land and construction of new factory in Hui Zhou, the PRC was suspended. The Group has no legal liability in respect of the suspension of such agreement.

The Board considers that it is in the interest of the Company and its shareholders taken as a whole to allocate approximately HK$7 million out of the net proceeds from the IPO for the acquisition of the Cambodian Factory. The Board is of the view that this change of strategy will expand the Group's production facilities and better align the Group's interests.

FUTURE PROSPECTS

The Group plans to further develop the domestic consumer market in the PRC. The management considers the consumer market in mainland is full of opportunity.

The management expects a slight recovery in global economy in 2002 and an improvement in the overall business environment. The Group is expected to be benefit from the improvement in economic and business environment.