

Management Discussion and Analysis

Business Overview

For the year ended 31 December 2002, the Group's turnover and profit attributable to shareholders decreased by 12% to approximately HK\$306.1 million, and decreased by 6% to approximately HK\$12.9 million respectively over the previous year. The earnings per share was approximately HK6.4 cents. This represents a 7% decrease over 2001.

The decrease in turnover in 2002 was mainly due to the decrease of sales of manufactured goods by approximately 8% to approximately HK\$234.2 million. The decrease was the result of a decrease in sales of manufactured goods to the US and European markets by 12% and 4% to HK\$135.8 million and HK\$93.9 million respectively. The decrease is primarily due to the fact that the Group was more selective in taking orders from overseas buyers.

The gross profit margin of the Group was approximately 14%. Compared with last year's figure of approximately 12%, there has been an increase in the gross profit margins of the Group. The reason was because the Group has made huge efforts to take more good margin orders from overseas buyers.

There was no significant changes in operating profit of the Group, operating profit in 2002 was approximately HK\$19.9 million (2001: HK\$20.9 million).

The improvement of profit before taxation in 2002 (from approximately HK\$15.3 million in 2001 to approximately HK\$16.6 million in 2002) was basically due to the decrease in finance costs by approximately HK\$2.2 million.

The decrease in profit attributable to shareholders was mainly due to an increase in effective tax rate, from 11% in 2001 to 22% in 2002. Such increase was due to less depreciation allowances claimed in 2002.

Liquidity and Financial Resources

Borrowings and banking facilities

As at 31 December 2002, the Group had outstanding short-term bank borrowings of approximately HK\$39.2 million (mainly represented by trust receipt loans and packing loans of approximately HK\$35.0 million and short-term bank loan of approximately HK\$4.2 million). The main purpose of the bank loans was to finance the daily operation of the Group.

The aggregate banking facilities of the Group were approximately HK\$206.4 million. The utilisation rate of banking facilities was about 19%. These banking facilities were secured by corporate guarantees given by the Company.

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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 31 December 2002, the gearing ratio of the Group, calculated at total debts divided by total assets, was approximately 48%.

Net current assets and working capital

As at 31 December 2002, the Group's total current assets and current liabilities were approximately HK\$108.6 million and HK\$74.0 million respectively. After taking into consideration of the financial resources available to the Group including cash on hand, operation capital 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.

Number and Remuneration of Employees, Remuneration Policies, Bonus and Share Option Scheme

Staff costs for the year ended 31 December 2002 were approximately HK\$29.3 million, representing an increase of approximately 19% on the previous year. The Group had a workforce of about 2,525 staff at the end of 2002, with 25 mainly located in Hong Kong, 2,180 located in Hui Zhou, the PRC and the remaining staff located in Cambodia. Salaries of employees are maintained at competitive levels while bonuses are granted on a discretionary basis.

In 2002, there were no discretionary bonuses payable to Directors.

The Group has adopted a share option scheme under which Executive Directors and full-time employees of the Group may be given 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. No options have been granted up to the date of this report.

Future Plans

The Group will strengthen the cooperation with FX Creations International (Holdings) Limited (the "FX") through the associated company formed with the FX to further explore both domestic and overseas markets.

On the other hand, the Group plans to further develop the domestic consumer market in the PRC through the consignment sales of lady handbags with the famous brand name DAPHNE in major cities of the PRC. The total number of shops available for selling the DAPHNE branded lady handbags should reach approximately 350 in the major cities of the PRC in 2003.