

LEADING



Swimwear Sports Wear

the world's



Casual
Wear

Management Discussion and Analysis

BUSINESS REVIEW AND PROSPECTS

Industry Overview

As one of the necessities in life, the garment manufacturing industry in Asia continued to record astounding growth. Due to the increasingly popular trend of outsourcing in the garment industry, many renowned brand names shift their production process to manufacturers in Asian countries, including the PRC, Vietnam and Cambodia where production and labour costs are lower, in order to eliminate the need for production facilities and factory management.

Following the tragic 911 Incident that affected both the consumer world and the global markets, many orders from US and Europe transferred their production from Middle East and Muslim countries to the more politically stable Asian countries. As such, the increasingly prominent PRC market and rapidly developing Southeast Asian countries benefit immensely, as they are renowned for reliability, speedy delivery and most important of all, low labour costs. Combining all of the abovementioned qualities, the Group has earned a name for itself amongst the garment industry as a worldwide leading casual wear manufacturer with extensive production capacity, consistent product quality and timely delivery.

Operations Review

ODM/OEM business remained strong and encouraging growth. Thanks to its dedication to production capability and product quality, the Group is one of the largest swimwear manufacturers and one of the leading casual wear suppliers, in term of sales units and production capacity. Currently, the Group has over 30 renowned international brand customers and large scale department stores, consisting of Speedo USA, Calvin Klein, Walmart, Reebok, Sears, Union Bay, JC Penny, Target, Jantzen, Gap, Wrangler, Arena, Mexx, Quelle and Karstadt to name a few. Annual sales volume totalled to 815,000 dozens of swimwear, 972,000 dozens of casual wear (including "Blue Cat" apparels) and 60,000 dozens of sportswear, representing respective increases of 28.1%, 35.9% and 3.4% from the year 2001/02.



Operations Review *(Continued)*

During the year under review, the Group enlarged the capacity of its 90,000 m² production facilities in Cambodia and the PRC. With over 14,000 skilled workforce, the Group achieves a production utilization rate of 97% and an annual production capacity of 710,000 dozens of swimwear, 845,000 dozens of casual wear and 62,000 dozens of sportswear, or respective increases of 29.1%, 12.7% and 3.3% from the previous year.

North America remained as the largest customer and contributed to 65.3% of the overall turnover. Europe was the second largest at 24.7%, while the PRC contributed to 6.9% and other markets contributed 3.1% to the turnover.

The Group has obtained an exclusive agreement with the popular "Blue Cat" to design, produce and supply "Blue Cat" apparels for over 2,300 "Blue Cat" retail stores in the PRC.

During the year under review, the Group entered into an agreement to issue convertible bonds with an aggregate principal amount of up to US\$12,000,000 (approximately HK\$93,600,000) to Credit Suisse First Boston ("CSFB"), of which US\$4,000,000 (approximately HK\$31,200,000) has been issued during the year. With a 2.5 percent interest rate per annum and due in December 2005, the convertible bonds aim to introduce more institutional investors to the Group, as well as to further establish its presence in the international investment community and capital markets.

On April 2003, the Group also entered into a Letter of Intent with Yue Yuen Industrial (Holdings) Limited, the world's largest branded athletic and casual/outdoor footwear manufacturer, for an option agreement to subscribe for up to 20% of the issued share capital of the Group.



Management Discussion and Analysis

Financial Review

As the OEM/ODM manufacturer of over 30 renowned international brand names and large scale department stores, the Group's total turnover increased to HK\$885,031,000 for the year ended 31 March 2003, or approximately 24.6% increase from HK\$710,489,000 in the year 2001/02.

Together with its stringent cost control measures and economies of scale, the Group's net profit margin was 11.8%, up slightly from last year. Basic earnings per share were HK8.00 cents (2002: HK8.04 cents).

Despite the challenging economic environment and shaken consumer confidence, the Group takes pride of its impressive results for the year-ended review and the Board of Directors proposed final dividend of HK2.0 cents per share. Together with an interim dividend of HK0.8 cents per share, the total dividend for the year 2002/03 is HK2.8 cents per share.

Liquidity, Financial Resources and Capital Structure

The Group's financial position remains strong. As at 31 March 2003, the Group's total assets were HK\$717,356,000 and its total current assets were HK\$438,318,000. As at that date, the non-current and current liabilities of the Group totalled HK\$78,846,000 and HK\$216,024,000 respectively. The Group's bank borrowings amounted to HK\$148,102,000. Most of these bank borrowings were denominated in Hong Kong dollars and US dollars with bearing floating interest rates. During the year, the Group issued convertible bonds of approximately HK\$31,200,000 to CSFB, of which US\$500,000 (approximately HK\$3,900,000) was converted into 7,568,000 ordinary shares of the Company and convertible bonds of HK\$27,300,000 remained outstanding as at 31 March 2003. As at 31 March 2003, the gearing ratio of the Group was 41.1% (2002: 64.9%), calculated on the basis of total liabilities over total assets at that date.



Cash Flow

Net cash inflow in the amount of HK\$114,748,000 was generated from operating activities in 2003, reflecting growth in core business of the Group. The net increase in cash and cash equivalents amounted to HK\$94,440,000.

Employees

As at 31 March 2003, the Group employed approximately 14,000 full time staff in Hong Kong, Cambodia and the PRC. The Group remunerates its employees based on their performance and experience.

Charges on Group Assets

As at 31 March 2003, certain fixed assets of the Group with a total net book value of HK\$13,831,000 were pledged to banks to secure banking facilities granted to the Group.

Exposure to Fluctuations in Exchange Rates

Most of the Group's assets and liabilities are denominated into Hong Kong dollars, US dollars and Renminbi which were relatively stable during the year. The Group is not exposed to material exchange risk.

Contingent Liabilities

As at 31 March 2003, the Group had contingent liabilities of HK\$55,545,000 in respect of the bills discounted with recourse.

