

MANAGEMENT DISCUSSION AND ANALYSIS

LEADING THE WORLD'S  
SWIMWEAR & CASUAL WEAR





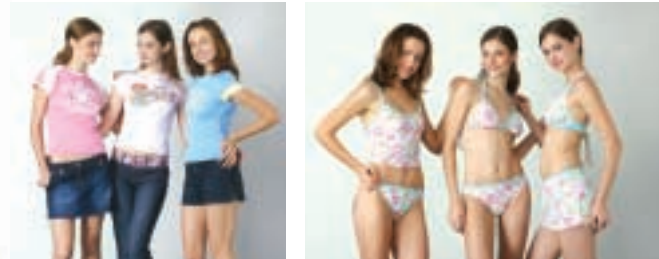




## BUSINESS REVIEW AND PROSPECTS

### INDUSTRY OVERVIEW

Garment manufacturing has always been one of the most important and well developed industries in Asia. Outsourcing remained a popular trend within the industry, where many renowned brand names shift their production process to manufacturers in Asian countries to leverage on the scalable production and low labor costs. As such, intense market



competition leads to market consolidation, where only manufacturers with renowned quality and service standards prevail and win the trust and confidence of the customers.

The Group has established a name for itself as a worldwide leading swimwear and casual wear manufacturer with its premium quality standards that has earned the Group a clientele comprising over 30 renowned ODM/OEM international brands and large scale department stores with stable and long term relationships. Capitalising on its

scalable manufacturing base in Cambodia and the PRC and a highly knowledgeable and experienced management team, the Group has once again recorded satisfactory growth for the year under review.

## OPERATIONS REVIEW

For the year ended 31 March 2004, turnover improved by 11.8% to reach HK\$989 million and net profit also surged by 16.3% to reach HK\$121 million. In addition, the Group's turnover has recorded a CAGR of



17.9% for the past 5 consecutive years, and net profit also witnessed a CAGR of 24.3% during the same period. Such stable growth was attributable to the continuous increase in sales orders and new ODM/OEM clients as a result of market consolidation and global outsourcing trend.

North America remained as the largest market by contributing to 66.4% of total turnover, followed by Europe at 23.7% and others at 9.9%. While the top five largest customers accounted for 42.1% of the total turnover (FY2002/2003: 34.2%), the

sales of each single customer accounted for less than 12% of total turnover so as to avoid over reliance on any individual customer. Casual wear, the core product of the Group's product portfolio, contributed to 60.0% to the total turnover, while swimwear contributed to 36.4% and sports wear contributed to the remaining turnover. The Group's ODM businesses accounted for 56.6% and OEM businesses accounted for the remaining 43.4%.

Sales volume for the year under review totaled to 2,086,000 dozens. The sales volume of core products swimwear and casual wear reached 988,000 dozens and 1,038,000 dozens respectively, which represented respective year-on-year increases of 21.2% and 6.8%, while the sales volume of sports wear remained the same as last year at 60,000 dozens. Together with 2 production bases in Cambodia and the PRC, a gross floor area of approximately 90,000 m<sup>2</sup> and a workforce of over 15,000, the Group was capable of a maximum production capacity of 890,000 dozens of swimwear, 910,000 dozens

of casual wear and 63,000 dozens of sports wear for the year under review. This represented a total utilisation rate of over 97%.

During the period under review, the Group continued generating turnover from design, production and supply of "Blue Cat" apparels to over 2,300 "Blue Cat" retail stores in the PRC. Currently, there are approximately 150 Blue Cat model and franchise retail stores owned by Blue Cat Development Company Limited in which the Group owns a 5% shareholding.

In March 2004, the Group made a drawdown of HK\$350 million under a syndicated loan facility. The Group intends to apply the funds from the syndicated loan facility to refinance short term loans and provide funding for capital expenditures on existing business and general working capital requirements of the Group.

#### **FUTURE PROSPECTS**

Riding on the robust momentum of year 2004, the Group is confident of its business development and progress in the years to come. The Group aims to expand its business through promising strategic acquisitions. As such, the Group has successfully acquired a 5% effective shareholding in Mudd (USA) LLC ("Mudd") in May 2004 at a cash consideration of approximately US\$3.3 million

(approximately HK\$26 million). At the same time, the Group has also entered into a manufacturing agreement with Mudd pursuant to which the Group shall provide exclusive manufacturing services to Mudd through the production facilities of the Group or its subcontractors for a period of five years commencing in May 2004.

On 26 July 2004, the Group entered into a conditional sale and purchase agreement under which the Group has proposed to acquire an additional 31% effective interest in Mudd at a cash consideration of US\$53 million (approximately HK\$413 million). Such acquisition which constitutes a very substantial acquisition under the Main Board Listing Rules of the SEHK is subject to, amongst other conditions, approval of shareholders of the Company in an extraordinary general meeting to be convened in due course. Upon completion of the proposed acquisition, the Group will hold 36% effective interest in Mudd which will become an associated company of the Group. Further information about the proposed acquisition will be set out in a circular to be delivered to the Company's shareholders. In addition, on the same date, the Company also entered into a heads of agreement with SinoPac Securities (Asia) Limited for the placing of 1% convertible notes due 2009 in the aggregate principle amount of

US\$30 million (approximately HK\$234 million).

Mudd, one of the famous brand names in North America, offers a total of 16 categories of products through licensing, including swimwear, accessories, sunglasses, shoes and outerwear. The primary customers of Mudd include department stores and specialty retailers across US and Canada.

The alliance with Mudd will be beneficial to the Group in propelling our business growth and expanding our business scope. The acquisition and manufacturing agreement with Mudd together is expected to complement the Group's existing ODM/OEM business, as Mudd is expected to become one of the major ODM/OEM customers of the Group. The acquisition of such an international and reputable brand, especially one that demonstrates future growth prospects in both US and Asia, is poised to cement the Group's leading position as a leading worldwide swimwear and casual wear manufacturer, bring forth steady business opportunities as well as offer multiple revenue sources such as manufacturing income, commission from subcontracting and retail sales of "Mudd" products, and enhance long-term profitability of the Group.

In addition, the Group also intends to

propel its business through organic growth to further consolidate its leading position in the industry. The Group will further enhance its production capacities in Cambodia and the PRC. At the same time, the Group also aims to improve its operation efficiency, to control its costs as well as to leverage on its economies of scale.

The Group will continue to work to surpass its accomplishments in FY 03/04. With the dedication and hard work of the Group's employees, the coming years look every bit as promising as the growth potentials of the Group and the garment manufacturing industry in the PRC.

## Financial Review

As a leading OEM/ODM manufacturer of over 30 renowned international brand names and large scale department stores, the Group recorded a total turnover of HK\$989,413,000 for the year 2003/04, or approximately 11.8% increase from HK\$885,031,000 for the year 2002/03.

Together with its stringent cost control measures and economies of scale, the Group's gross profit margin and net profit margin were 32.7% and 12.2% respectively, remained steady from the same period last year. Basic earnings per share were HK8.77 cents (2002/03: HK8.00 cents).

The Board of Directors has resolved to declare a final dividend of HK2 cents per share. Together with an interim dividend of HK0.9 cents per share, the total dividend for the year 2003/04 was HK2.9 cents per share (2002/03: HK2.8 cents).

### LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group's financial position remains strong. As at 31 March, 2004, the Group's total assets were HK\$1,218,146,000 and its total current assets were HK\$870,673,000. As at that date, the non-current and current liabilities of the Group totalled HK\$449,091,000 and HK\$226,058,000 respectively.

As a result of the draw-down of the HK\$350 million syndicated loan facility in March 2004, the gearing ratio, calculated by dividing the Group's total liabilities by its total assets, increased to 55.4% (2002/03: 41.6%). The Group's total bank borrowings amounted to HK\$511,067,000. Most of the bank borrowings are denominated in Hong Kong dollars and US dollars with floating interest rate.

### CASH FLOW

Net cash inflow in the amount of HK\$51,904,000 was generated from operating activities in 2004, reflecting

growth in core business of the Group. The net increase in cash and cash equivalents amounted to HK\$297,143,000, mainly as the net result of the draw-down of the HK\$350 million syndicated loan facility, cash inflow from operating activities and cash outflow from investing activities.

### EMPLOYEES

As at 31 March 2004, the Group employed approximately 15,000 full time employees 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 2004, none of the owned fixed assets of the Group were utilised as security for the Group's borrowings.

### EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

Most of the Group's monetary assets and liabilities are denominated in 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 2004, the Group had contingent liabilities of HK\$15,049,000 in respect of the bills discounted with recourse.