Chairman's Statement

RESULTS

The Group sustained a steady growth for the year ended March 31, 2004, despite the dampening impacts of the Severe Acute Respiratory Syndrome ("SARS") epidemic and the war in Iraq.

Under such challenging and adverse trading condition, the Group achieved to grow the turnover, yet opted for a prudent pace with measured risk and return. Meanwhile, as always, the Group managed to maintain a strong balance sheet and an effective cash flow statement.

During the year, the Group's turnover increased by 13% to HK$1.75 billion. Audited profit attributable to shareholders and earnings per share increased by 3% to HK$95 million or HK27.1 cents respectively, compared to the restated profit figure for last year due to the adoption of new Statement of Standard Accounting Practice No.12 (Revised) on "Income Taxes". Shareholders' funds increased by 4% to HK$580 million or HK$1.65 per share. Return on average equity remained at 17%.

FINAL DIVIDEND

The Board of Directors has resolved with delight to recommend at the forthcoming Annual General Meeting a final dividend of 13.5 HK cents per share (2003: final dividend of 12.0 HK cents per share and special dividend of 3.0 HK cents), payable on September 15, 2004 to shareholders whose name appear on the Register of Members on September 6, 2004. Together with an interim dividend of 6.0 HK cents (2003: interim dividend of 5.5 HK cents per share and special dividend of 1.0 HK cents per share), the total dividends for the year will be 19.5 HK cents per share (2003: 21.5 HK cents per share), representing a payout ratio of 72% compared to 66% (excluding special dividend) last year.

BUSINESS REVIEW

Manufacture and export business

The global export markets clouded with uncertainty and difficulty during the year under review, attributable to the negative impact of SARS epidemic and the prolonged weak recovery pace of the US and global economy in the aftermath of the Iraq War. Thanks to the strategic focus on sharpening our product development and selling services, and customers' strong demand on our quality production capacities with geographic flexibility, the Group achieved an increase of over 12% in manufacture and export business throughout the year.

Analyzed by geographical market segments, sales to North America increased by 14% to HK$1,543 million, representing 88% of Group turnover. Export sales to Europe and other markets continued to record a substantial 43% to HK$65 million, benefiting from a stronger Euro and the strenuous direct marketing effort in Europe.

Chairman's Statement

US wholesale label business

The operating scale of the two US wholesale label lines of the Group was still insignificant and accounted for about 3% of Group turnover. As stated in the last interim report, the newly acquired "Zelda" label line received an encouraging market response for the first collection offer. Both labels hit the sales target for Fall season in 2003, but the results for the latest Spring season in 2004 were behind expectation. Nevertheless, the operating loss of "Zelda" reduced tremendously compared to last year and became not material for the year.

China retail business

The effect of SARS and its aftermath on our China retail business was devastating, especially in the first half of the year under review. The belated weather change and the industry-wide clearance sales at the start of the second half further dampened the gross margin performance. The Group put through a series of spontaneous control measures which included rationalizing the retail outlet composition and closing underperforming stores. In the second half of the year, the operating results stabilized and improved gradually. "Betu" label stores recovered to being profitable, while the relatively new "Zariah" and "T+T" label stores were still recording losses. At the year end, the Group was operating 83 "Betu" label stores, 7 "Zariah" label stores and 6 "T+T" label stores. Total China retail sales for the year increased by 3% and accounted for about 7% of Group turnover.

Re-alignment of investment in associates

Forming part of the strategic re-alignment of production capacity program, the Group disposed its insignificant investments in two associates. The Group disposed its entire equity holding in Shenzhen Zhesi Fashion Co. Ltd. in two phases, August 2003 and early July 2004 subsequently. Furthermore, the Group disposed its entire investment in Hangzhou Jinbiao Fashion Co. Ltd. in October 2003. Gain or loss on disposal of such investments was insignificant.

PROSPECTS

Manufacture and export business

The US economy is now considered to be surging, with moderate rise in interest rate confirmed recently to call for a hopefully prolonged healthy economic growth. Bearing in mind that global uncertainty and volatility still prevail, the Group is prudently optimistic of the medium term global economic outlook and is full of confidence to embrace the opportunities and challenges in future.

Though market competition in manufacturing industry is definite to be accelerated and more severe following the elimination of apparel quota system in 2005, the Group is well positioned to benefit from concentration of orders and is increasing the production capacities to meet demand growth. In June 2004, the Group entered into agreement to purchase apparel manufacturing plant in Zhejiang Province in China. Total investment including addition of machineries and facilities will be approximately HK$40 million, which will gradually increase the production capacity of the Group in a significant manner upon full utilization.

Retailers are upgrading their brands for product differentiation and better price premium. Accordingly, demand on manufacturer for higher quality standards and complexity of fashion apparels will affect productivity and production cost. With our sharpened focus on quality and enhanced fundamental value, the Group is capable to resonate with our customers' demand and is confident to widen our quality customer base and gain a better market share.

Strategically, the Group will strengthen the capability and flexibility of all the production bases in China and Asia to tackle with the challenge of shortening production lead-time. The Group will continue to invest in powering our sales and marketing effectiveness and overall operational efficiency. Meanwhile, the Group will tighten the control on unprofitable operations.

Looking forward, the Group foresees a double-digit growth in export sales for the 6 months ending September 30, 2004 compared to same period last year.

US wholesale label business

The Group will continue to invest in product design and development. We will strengthen the management team with focus on branding, publicity improvement and marketing. In parallel, we will tighten cost control and will perform best endeavor to further reduce the operating losses of the 2 label lines in the coming year.

China retail business

In China, the government's macro-economic readjustment and control efforts will continue in short term, targeting to ward off threatening inflation and ensure a stable and healthy economy. Urbanization will continue to accelerate, with rapidly growing middle-class and their increasing penchant for quality branded apparel products.

Retail climate in China is intensively competitive and the Group will continue to grow the operation with caution. The Group will base on its competitive advantage of strong production and sourcing capability to achieve cost effectiveness and speedy replenishment of merchandises. At the report date, the Group is operating 82 "Betu" label stores, 9 "Zariah" label stores and 12 "T+T" label stores. The Group targets a satisfactory growth in China retail sales in the 6 months ending September 30, 2004.

HUMAN RESOURCES

The Group's long-term growth and prosperity depends on attracting, retaining and developing the best people. We offer opportunities for motivated and talented people who have great enthusiasm to keep up with our growth. We create a mindset of achievement, recognize and reward high performance. We are determined to upgrade the value of our people and further strengthen our team spirit to ensure our ability to embrace every challenge in future.

ACKNOWLEDGEMENT

I would like to express my gratitude to our valued customers, business associates and shareholders for their continuous trust and support. I would like to thank all the management and staff of our Group for their dedication and commitment for our ongoing success. Last but not least, I wish to give my appreciation to the members of the Board for their diligent guidance and support.

Benson Tung Wah Wing
Chairman

Hong Kong, July 12, 2004


Betu


ZARIAH