Management Discussion and Analysis

OPERATING RESULTS

The turnover of the Group increased by HK$206 million or 13% to HK$1.75 billion. Audited net profit for the year and earnings per share increased by 3% to HK$95 million and HK27.1 cents respectively.

The increase in turnover was attributable to 14% increase in sales to North America, 1% decrease in sales in Asia and 43% increase in sales to Europe and other export markets. The pre-tax contribution from North America and Europe and other segments recorded growth rate of 17% and 50% respectively, whereas the pre-tax contribution from Asia recorded a drop of 28%. The segment information of the Group is set out in note 4 to the financial statements.

The consolidated cost of sales as a percentage of sales decreased slightly from 74.0% to 73.5%, attributable to the continuous improvement in productivity and materials sourcing capability, which helped offsetting the negative impact of price pressure in sales. Selling and distribution expenses as a percentage of sales increased from 4.6% to 5.1%, mainly caused by the growth of the wholesale brand label business and the increase in product design, development and marketing costs of the Group. Administrative expenses increased by 14% to HK$250 million, mainly due to the continuous expansion of the Group's operations especially in the US. As a result, administrative expenses as a percentage of sales maintained at 14.3%. The bank borrowings during the year maintained at a very low level. Finance costs reduced by 21% to HK$0.8 million. Other income recorded a drop of 29% to HK$5 million due to the reduction in bank interest income and rental income.

CAPITAL EXPENDITURE

During the year, the Group spent approximately HK$19 million in the recurring additions and replacement of fixed assets, compared to HK$17 million last year. Furthermore, the Group paid a deposit of approximately HK$2.3 million for the full purchase price of a new office premises in Hangzhou acquired in July 2004.

The investment properties of the Group were revalued on March 31, 2004. The resulting surplus arising on revaluation of these properties amounted to HK$1.6 million has been credited to the investment property revaluation reserve.

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

The financial position of the Group remained very solid throughout the year and at the balance sheet date. The Group had a cash balance of HK$330 million. Most of the cash balance was placed in USD and HKD short term deposits with major banks in Hong Kong. Total bank borrowings were HK$17 million, denominated in both USD and HKD and representing 3% of the shareholders' fund of HK$580 million. Based on the solid net cash balance and sufficient banking facilities, the Group has very strong liquidity and financial resources to meet the operation and investment needs.

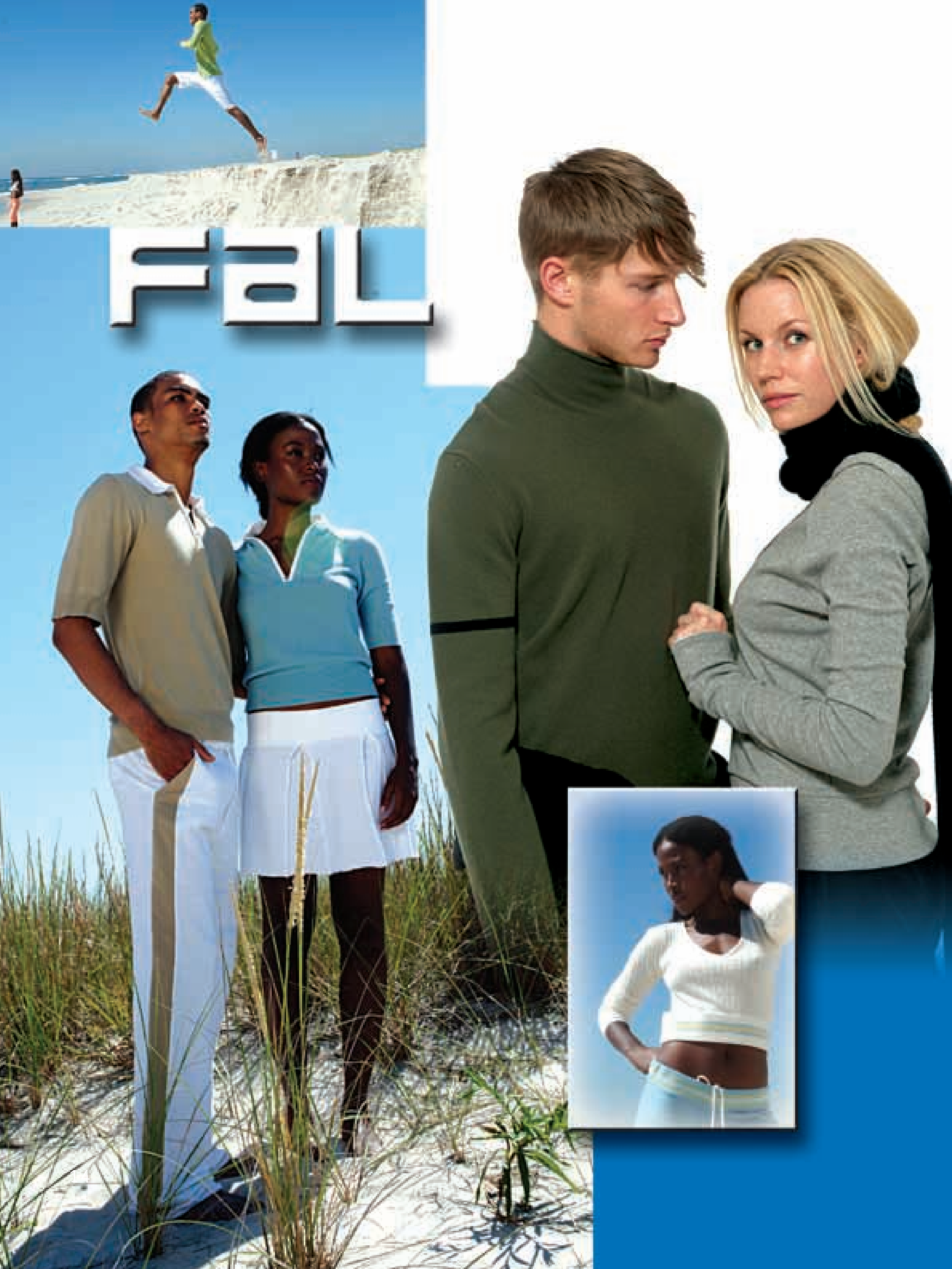
The Group continued to carry out stringent control on inventory, receivable and payable during the year. Inventory turnover period increased to 34 days from 32 days last year. Such increase was caused by higher order book value at the balance sheet date compared last year. Receivable turnover period improved to 53 days from 55 days. Current ratio and quick ratio at the balance sheet date were 2.6 and 2.0 respectively, compared to 2.5 and 2.0 last year.

The Group adopts prudent policy to hedge the fluctuation of exchange rates. Except for the retail sales which are denominated in Renminbi, most of the export sales of the Group are denominated in USD. Purchases and operating expenses are mostly denominated in USD, HKD and Renminbi. During the year, the Group entered into a limited number of forward contracts to hedge its receivables and payables denominated in foreign currency against exchange fluctuation.

At March 31, 2004, certain land and buildings with an aggregate net book value of approximately HK$ 21 million (2003: HK$35 million) and certain investment properties with an aggregate carrying value of approximately HK$6 million (2003: Nil) were pledged to banks to secure general banking facilities granted to the Group. At March 31, 2004, bills discounted with recourse were HK$61 million (2003: HK$87 million).

HUMAN RESOURCES

The Group, excluding the associates, had about 8,100 employees world-wide at the year-end date as compared with 7,400 last year. The rise was mainly due to the increase in factory workers in China and Asia, and the increased in retail staff in China. The Group adopts a competitive remuneration package for its employees, by reference to market terms, individual merits and performance evaluation.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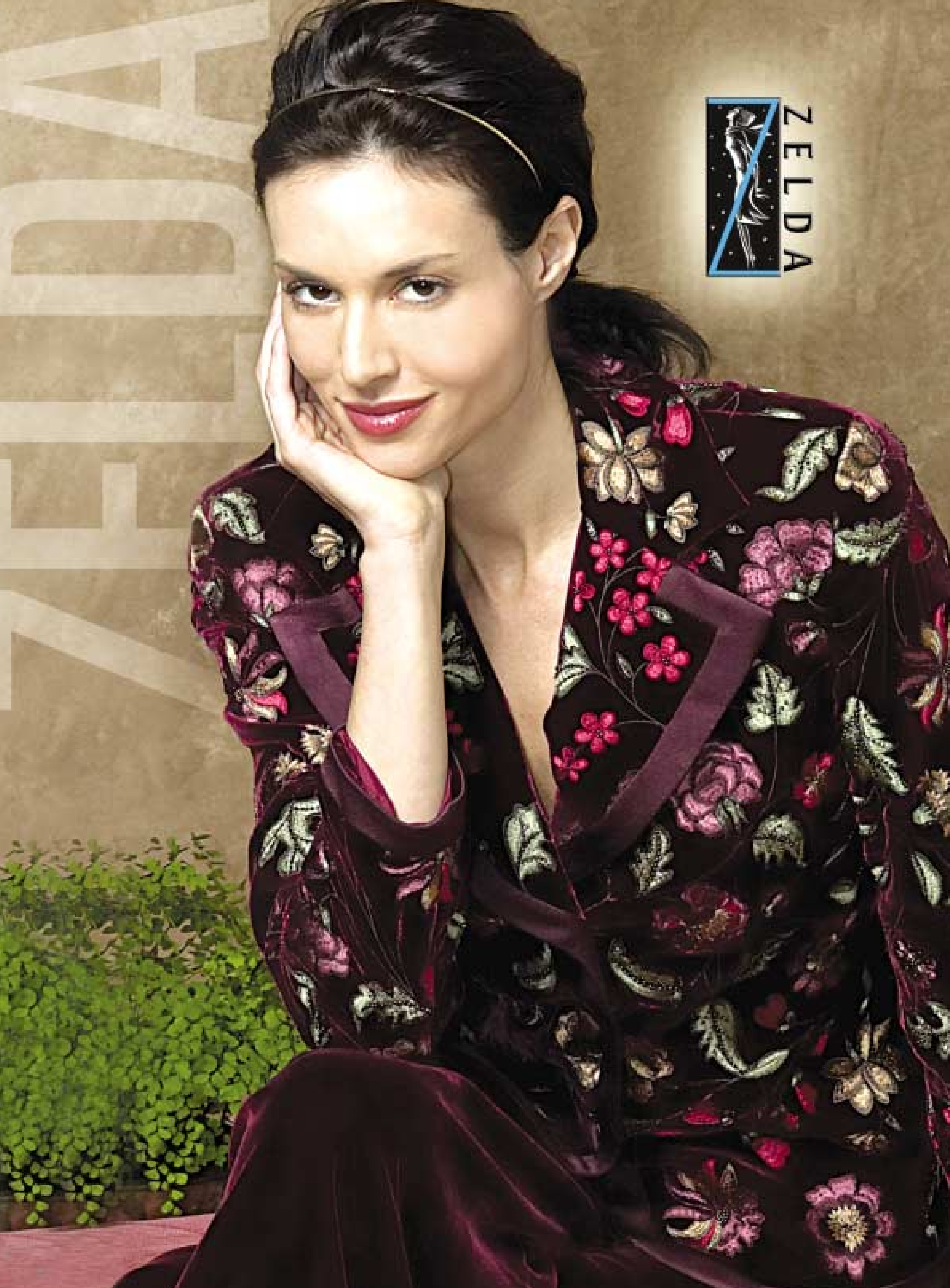
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