MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the year ended 31st December 2000, the Group's turnover increased by 18.1% to HK$1,166.8 million (1999: HK$987.6 million). Profit attributable to shareholders was HK$120.1 million, representing an increase of 19.3% over that of last year.

Gross profit increased by 13.1% to HK$269.1 million (1999: HK$237.9 million). The gross margin was 23.1% (1999: 24.1%). There has been a general trend of downward adjustment in the selling price of garments. However, the Group was able to control its costs effectively and therefore the profit margin dropped only slightly. As a result of tighter cost controls, the selling expenses to turnover ratio also decreased to 1.7% as compared with 2% in 1999.

In line with the expansion of the Group, investments in both human resources and fixed assets increased during the year under review. The Group increased its headcount and offered competitive remuneration packages including bonus payments to attract and retain quality personnel. Administrative expenses increased by 41.7% to HK$102.7 million (1999: HK$72.5 million) largely due to additional bonuses in rewarding employees for their hard work and contributions to the Group. Other factors contributing to the rise in administrative expenses included increases in depreciation and other expenses following the listing of the Company's shares on the Stock Exchange.

Application of new issue proceeds

The Company's shares have been listed on the Stock Exchange since March 2000 with a new issue of 90,000,000 shares. The net proceeds from the new issue amounted to HK$78 million. As at 31st December 2000, a substantial part of the said net proceeds had been utilized in line with the terms stipulated in the Company's prospectus dated 29th February 2000, as follows:

– HK$28 million to enhance the production facilities;

– HK$3 million to upgrade the management information system; and

– HK$20 million to repay bank import and export loan.

Liquidity and financial resources

The continued earnings from operations and the net proceeds received from the Company's new issue during the year have enabled the Group to remain in a healthy liquidity position. As at 31st December 2000, cash and bank balances amounted to HK$64.6 million (1999: HK$35.4 million) while bank loans and overdrafts amounted to HK$49.0 million (1999: HK$101.9 million). Working capital represented by net current assets amounted to HK$135.5 million (1999: HK$32.3 million).

The Group's current ratio was 1.6 (1999: 1.1) and the gearing ratio of bank loans and overdrafts to shareholders' fund was 17.7% (1999: 61.4%). The sound financial position provides adequate resources for the Group's ongoing operating requirements.

Exposure to fluctuations in exchange rates

The Indonesian rupiah depreciated to US$1 to Rp9,595 at 31st December 2000 (1st January 2000 : US$1 to Rp7,100). As the Group's sales were principally denominated in US dollars, the depreciation in the Indonesian currency did not have an unfavorable impact on the results of the Group for the year under review.

Contingent liabilities

As at 31st December 2000, the Group did not have contingent liabilities except bills discounted to banks with recourse amounting to approximately HK$19.3 million (1999: HK$26.9 million).

BUSINESS REVIEW

The Group's business is mainly derived from customers in the United States. The Group has been one of the top suppliers of its major customers and maintains good relationships with them. Although recently there has been a slowdown in the economy of the United States, the total value of current orders on hand is comparable with that in the previous year.

In view of the fast process of globalization, the Group continues to strengthen its competitiveness on an international basis.

The Group is diversifying its production base. We have been seeking economically effective and low-cost production bases in developing countries. In January 2001, taking advantage of the Trade and Development Act of 2000 of the United States, the Group expanded its production bases in El Salvador, Central America and Lesotho, South Africa, by taking over two knit factories there. The Group and its customers will enjoy mutual benefits owing to the quota and duty free trade preferences.

In terms of global marketing, the Group now has more than 100 well-trained staff with expertise in marketing and merchandising. They not only have a clear sight on the trends of fashion and fabrics, but also are well-versed in production technology. The Group's marketing and merchandising team has been expanding to include those of a high calibre with global marketing experience. We will continue the exploration of new markets and procurement of new customers to strengthen our customer base.

EMPLOYEES AND REMUNERATION POLICIES

Employees are the core assets of the Group. The management believes that a strong team contributes to effective operation. The Group strives to ensure every employee is working in a satisfying, safe and harmonious environment. It is the policy of the Group to encourage maximum communication among employees through active participation in management decision-making processes so as to align an individual's target and aspirations with the Group's strategic goals.

As at 31st December 2000, the Group employed a total of 5,977 (1999: 5,681) full-time employees in Hong Kong and Indonesia.

The Group ensures that the pay levels of its employees are competitive and remunerates its employees based on their performance, experience and the prevailing industry practice. In addition, discretionary bonuses may be granted to eligible employees based on the Group's results and individual performance.

Under the Company's share option scheme, options to subscribe for shares can be granted to full-time employees (including executive directors) of the Company and its subsidiaries. At the date of this report, no share option has been granted.