MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING RESULTS

The turnover of the Group for the year increased by 16% to HK$1.7 billion. Such increase was attributable to the 17% increase in sales to North America, 48% increase in sales in Asia and 54% decrease in sales to Europe and other export markets. The pre-tax contribution from North America and Asia region recorded considerable growth rates of 47% and 58% respectively, whereas a drop of pre-tax contribution of 37% was recorded for Europe and other region. The segmental analyses by geographical market spread is set out in note 3 of the financial statements.

In the year under review, the pre-tax profit margin increased from 7.3% to 8.8%, attributable to the economy of scale of the operating activities and the improvement in productivity. In terms of cost structure, cost of sales as a percentage of sales decreased from 76.7% to 75.8%. Selling, distribution, administrative and finance costs in aggregate as a percentage of sales decreased from 16.9% to 16.1%. Meanwhile, other income recorded a drop of 13%, due to the reduction in bank interest income and rental income. As a result, other income as a percentage of sales decreased from 0.9% to 0.7%.

CAPITAL EXPENDITURE

During the year, the Group spent HK$14 million in the recurring additions and replacement of fixed assets, contrasting to HK$46 million incurred mainly for setting up the non-silk apparel factories in China and Asia in the last year.

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$333 million, an increase of 67% compared to HK$199 million last year. 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$24 million, denominated in both USD and HKD and representing 5% of the shareholders' funds of HK$464 million. As a result, the Group sustained a strong net cash balance of HK$309 million, up 73% from HK$179 million last year. Such substantial increase was caused by various favourable factors, inter alias, the improved profit before taxation, the continuous emphasis on inventory, receivable and payable management, and the tremendous reduction in capital expenditures for the year. Inventory turnover period further reduced to 21 days from 26 days whereas receivable turnover period improved to 48 days from 57 days. Current ratio and quick ratio at the balance sheet date were 1.9 and 1.6 respectively, slightly higher than 1.8 and 1.5 respectively 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. During the year, the Group entered into a limited number of forward contracts to hedge its receivables and payables denominated in foreign currency against the exchange fluctuation.

At March 31, 2001, certain land and buildings with an aggregate net book value of approximately HK$40 million (2000: HK$41 million) were pledged to banks to secure general banking facilities granted to the Group. At March 31, 2001, bills discounted with recourse was HK$42 million (2000: HK$60 million).

HUMAN RESOURCES

The Group, excluding the associated companies, had approximately 6,800 employees in Hong Kong, the United States, China and other Asian countries compared to 6,400 last year. The increase was mainly due to hiring more factory workers in Asia and employing more staff for China retail operation following its gradual expansion. The Group adopts continuous human resources developing and upgrading programmes to maintain high standard workforce and enhance productivity. Remuneration and bonus packages are generally structured by reference to market terms, individual merits and performance.