

## REVIEW OF OPERATIONS

### Business review

The knitwear industry is seasonal in nature. The high season for the Group's products begins around May each year and lasts until September and even October. In view of this, historical trend of the financial performance of the Group for the first six months of each financial year usually contributes more than 70% to the profitability of the Group for the entire year.

Over 80% of the Group's products are sold in the United States. Although the US economy began to slow down in the second quarter of 2001, especially after the September 11 terrorist attack, the Group's sales orders have not been adversely affected. Quite the reverse, the Group's shipment volume for the six months ended 30 September 2001 had actually increased compared with the corresponding period in the previous year. With the Group's strong reputation in production quality, its brand name customers appear to give it high ranking in factory preferences.

### Turnover

The Group's turnover for the six months ended 30 September 2001 was HK\$259 million. This represented a slight decrease of 2% as compared to the corresponding period in the previous year. The decrease can be attributed principally to the 50% decrease in subcontracting income from HK\$13.7 million to HK\$6.8 million. Turnover of knitted garments for the six months ended 30 September 2001 was HK\$233 million, representing a decrease of approximately 1% from the previous year. This decrease was resulted from the Group receiving more orders for machine-knitted garments that are generally of lower price, simpler to make, with little high value beading, crocheting, or other hand knitting of pattern. Turnover of non-knitted garments for the six months ended 30 September 2001 was approximately HK\$20 million, representing an increase of 29% over that of the previous year.

During the period under review, the Group's sales to United States customers increased by 9% to HK\$240 million. These sales now represent 93% of the Group's total sales. Following the weak markets and currencies in Europe and Asia, sales to customers in these areas experienced a decrease for the six months ended 30 September 2001.

### **Profitability**

For the six months ended 30 September 2001, the Group was able to maintain its gross profit margin. It should be noted that, as a result of the management's aggressive cost control measures, the profit attributable to shareholders for the six months ended 30 September 2001 was HK\$31 million, representing an increase of 6% as compared to the corresponding period in the previous year. Of particular note, the profit for knitted garments increased by 10%. Despite a drop of subcontracting income by 63%, the sales from this area only accounted for 3% of the Group's total turnover.

The profit from sales to United States customers, which accounted for 93% of the Group's sales, was HK\$32 million, representing a remarkable increase of 27%. Driven principally by a decline in orders, profit from sales to European and Asian customers, which represented 5% of the Group's sales, decreased by 68%.

### **Liquidity and financial resources**

At 30 September 2001, the Group had over \$13 million in cash.

The total borrowings and shareholders' fund of the Group at 30 September 2001 amounted to HK\$61 million (at 31 March 2001: HK\$44 million), and HK\$158 million (at 31 March 2001: HK\$126 million), respectively. Accordingly, the gearing ratio, being the ratio of total borrowings to shareholders' fund, was 39% (at 31 March 2001: 35%).

Included in the total borrowings was an amount due to a director of HK\$47 million (at 31 March 2001: HK\$42 million) which was settled subsequent to 30 September 2001 by way of cash and the issue of shares in a subsidiary company.

The management closely monitors the level of short term borrowings which mainly carry interests at floating rates. In line with the significant drop in interest rates during the period, the Group's net finance cost for the period amounted to HK\$0.6 million, representing a reduction of 74% as compared with the last corresponding period.

The Group's borrowings and cash balances were principally denominated in Hong Kong dollars. Hence, there is no significant exposure to foreign exchange fluctuation.

In connection with the listing of the Company's shares on The Stock Exchange of Hong Kong Limited ("The Stock Exchange") on 6 December 2001, the Group received proceeds, net of expenses, of about HK\$24 million, of which approximately HK\$2 million will be used as working capital.

The financial resources of the Group continue to be self-generating, as the Group operates with high liquidity ratios and without long term liabilities.

### **INTERIM DIVIDEND**

The directors do not declare any interim dividend for the six months ended 30 September 2001 (six months ended 30 September 2000: Nil).

### **EMPLOYEES AND REMUNERATION POLICIES**

At 30 September 2001, the Group had 899 employees (at 31 March 2001: 552), of which 836 (at 31 March 2001: 489) were located in Thailand and 63 (at 31 March 2001: 63) were located in Hong Kong. Competitive remuneration packages are structured to commensurate with individual responsibilities, qualification, experience and performance.

### **FUTURE PROSPECTS**

Despite unpleasant economic news coming from the United States and many other economies, especially after the terrorist attack on the United States in September 2001, sales orders for the Group for the rest of the financial year have gone up as compared to the corresponding period in the previous year. This attests to the quality performance of the Group and to the view that the production environment in China is stable and reliable.

In connection with the listing of the Company's shares on The Stock Exchange on 6 December 2001, the Group received proceeds, net of expenses, of HK\$24 million. A significant portion of the fund will be used to embark on the expansion of the Group's production facilities in China and Thailand. The completion of these facilities will enable the Group to meet increasing demands for its products and to reduce the use of subcontractors, thereby controlling the cost of production.

Another positive aspect from the listing is the improved profile of the Group with its customers. The exposure and the funding should help the Group's new marketing team to actively develop contacts with fashion houses and brand name customers directly. This new marketing approach should enable the Group to increase its sales in the near future.

### **DIRECTORS' AND CHIEF EXECUTIVES' INTEREST IN SHARES, WARRANTS AND OPTIONS**

The interests of the directors and chief executive officer in the shares of the Company subsequent to the listing of the shares of the Company on 6 December 2001, are set out in Page 188 of the Prospectus. There has been no change to those interests at the date of this interim report.

A share option scheme in respect of the shares of the Company was introduced on 9 November 2001. At the date of this interim report, no share option has been granted by the Group.

### **SUBSTANTIAL SHAREHOLDERS**

The Company has not been notified of any other interests representing 10% or more of the Company's issued share capital subsequent to the listing of the shares of the Company on 6 December 2001.

### **PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

The Company's shares were listed on The Stock Exchange on 6 December 2001. Neither the Company nor any of its subsidiaries has purchased, sold, or redeemed any of the Company's listed securities since that date.

### **AUDIT COMMITTEE**

The Audit Committee, consisting of the two independent non-executive directors, was formed on 9 November 2001. The Audit Committee has reviewed with the management and the auditors the accounting principles and practices adopted by the Group and discussed the unaudited financial statements for the six months ended 30 September 2001.

## **CODE OF BEST PRACTICE**

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not, since the listing of the Company's shares on The Stock Exchange on 6 December 2001, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

On behalf of the Board

**Cheng Chi Tai**

*Chairman*

Hong Kong, 20 December 2001