

MANAGEMENT DISCUSSION AND ANALYSIS

While 2001 has proved to be a difficult year for most businesses, built on its strong business foundation, the Group has emerged as strong as ever.

Analysis of Results

For the year ended 31 March 2002, the Group achieved an increase of 4.9% in turnover, to HK\$431 million (2001: HK\$411 million). This growth in turnover resulted from an increase in shipments of the Group's products. The increase came principally from sales of knitted-to-shape garments, as turnover increased by 4.9% to HK\$384 million (2001: HK\$366 million). Sales of non knitted-to-shape garments increased by 44.4% to HK\$26 million (2001: HK\$18 million). Sub-contracting income, however, decreased by 25% to HK\$21 million (2001: HK\$28 million). The decrease in sub-contracting income resulted from the Group's efforts to extend its capacity for serving direct clients.

In terms of geographical segments, the United States continues to be the major market for the Group's products. Sales to the United States increased by 12.4% to HK\$391 million (2001: HK\$348 million). Sales to this market contributed to over 90% of the Group's turnover.

As a result of the turnover growth, lower quota expenditures and lower finance costs, the Group's profit attributable to shareholders increased to HK\$44.1 million (2001: HK\$39.1 million), representing a growth of 12.8%.

Earnings per share for the year ended 31 March 2002 amounted to 22 HK cents, representing an increase of 1 HK cent from the year ended 31 March 2001.

Liquidity and capital resources

At 31 March 2002, the Group was in a strong liquidity position, with cash and bank balances of HK\$60 million (2001: HK\$11 million) and net current assets of HK\$121 million (2001: HK\$22 million). Most of the funds were held in Hong Kong and US dollars.

The Group believes that it can continue to finance its operations with its operating cashflow and available banking facilities of HK\$126 million, out of which HK\$15.7 million had been utilised at 31 March 2002. The banking facilities are secured by corporate guarantees given by the Company. The Group's gearing ratio computed as total borrowings over shareholders' fund was 1.5% at 31 March 2002 (2001: 36.8%).

The Group does not have any significant exposure to foreign currency fluctuation and had not found it necessary to make foreign currency hedging arrangements during the year ended 31 March 2002.

Charge on Group Assets

At 31 March 2002, the Group did not have any assets pledged for general facilities.

Contingent Liabilities

At 31 March 2002, the Company had contingent liabilities in relation to corporate guarantees given to banks in connection with facilities granted to subsidiaries of the Company amounting to HK\$126 million.

Capital expenditures and commitments

During the year, the Group completed the construction of factory premises at Pu Ning, Chaozhou City, the People's Republic of China (the "PRC"). The factory houses about 500 pieces of machinery, employing 800 workers. The factory adds a production capacity of about 6,000 dozens per month of knitted-to-shape garments.

The Group has also commenced the development work of a new factory in Thailand. It is estimated that the development will be completed by the fall 2002. The new factory can accommodate a total of about 2,000 workers and the production capacity is about 20,000 dozens knitted-to-shape garments per month. The total construction and development costs will be around HK\$9 million which will be financed by the proceeds from the listing of the shares of the Company on the main board of the Stock Exchange on 6 December 2001 (the "Listing").

Human resources

At 31 March 2002, the Group had approximately 1,300 employees. The size of the workforce is expected to increase in the coming year in light of the increase in demand for the Group's products and the expansion of its production capacity. The Group believes that its employees' remuneration standards are competitive as measured against other companies in the industry, as well as from the point of view of the labor market in Hong Kong and the PRC. There is no plan to grant any shares of the Company under the share option scheme adopted by the Company on 9 November 2001.

Future Prospects

Growth in sales

Within the first few months of the new financial year commencing 1 April 2002, the Group has received over 75% of total sales orders of those of the year ended 31 March 2002. From the state of the Group's order books in this new financial year, there is no question that the Group will enjoy further growth in the year ending 31 March 2003. While in previous years, the Group's high season of production begins around June, in 2002, with the increase in customers' demands, the high season began in May in order to meet the sales orders.

The optimism of the Group's future prospects results directly from the undiminished consumers' demands in the United States and the overall stable environment in the PRC. With the assurance of quality that the Group offers its customers, the Group's sales orders will continue to climb.

Vietnam factory

With the continuing increase in sales and in order to take advantage of the lower production cost and to capture new business opportunities, the Group expanded into Vietnam in June 2002.

The Group has leased a factory near Ho Chi Minh City and about 1,100 pieces of machinery will be installed. The total development expenditure budget for Vietnam is about HK\$4-5 million which will be financed by internal resources of the Group.

In time, it is expected that the Vietnam factory will engage about 1,500 workers and have production capacity of about 15,000 dozens of knitted-to-shape garments per month. The added capacity will bring the production capacity of the Group to 1 million dozens of garments per year.

U.S. Sales Representatives

As a move to increase the Group's profile in the United States and in line with its marketing strategy, the Group, through its associate, has appointed a commission agent in the United States to expand the network of customers in the United States. It is expected that as a strategic move, this agent will enable the Group to establish a presence in the United States.