Results and Business Review

The Group's turnover for the year ended 31st December, 2002 was HK$1,060.4 million (2001: HK$1,146.4 million), while gross profit was recorded at HK$158.8 million (2001: HK$245.6 million). Loss attributable to shareholders was HK$98.9 million (2001: profit attributable to shareholders of HK$95.0 million). The decrease in profit included a transfer of HK$100 million debit balance from the Group's exchange fluctuation reserve to the profit and loss account. The transfer has no impact on the Group's net assets and cash flow position. Excluding the transfer, the Group would have reported a profit attributable to shareholders of HK$1.1 million.

2002 was a difficult and challenging year for the Group. Faced with the unprecedented global economic slowdown and aggravated by the drop in consumer and business confidence resulting from the political instability, the Group was hammered by continued pricing pressures. The Group attempted to mitigate this mounting price pressure by generating additional sales volumes but the drastic drop in the average selling price and profit margin, especially in the sweater division, outweighed the contribution generated by the increase in sales volumes.

Under these unfavourable trading conditions, the Group restructured its production bases during the year to provide better services for customers and to optimise production facilities for the Group. The expansion of the Group's manufacturing bases in various regions has enabled the Group to offer a wider range of products, and greater economies of scale in addition to leveraging the geographical advantages offered by its production bases around the world.

Indonesia

During the year, Indonesia remained the Group's major production base although the proportion of the output of the Indonesian factories to the Group's total output contracted. The Indonesian factories contributed 66.6% (2001: 72.5%) to the Group's turnover, of which 38.0%, 19.7% and 8.9% related to knit tops, woven bottoms and sweater tops respectively.

El Salvador

The output of Charter, S.A. de C.V., the Group's knit factory, accounted for about 15.6% (2001: 19.9%) of the Group's turnover. As the work of the subcontracting factories in the region did not meet the Group's product quality standards, the subcontracting business there was downsized.

Lesotho

During the year, Shinning Century Limited, the Group's knit factory, began to make a positive contribution to the Group's profit following the expansion in production capacity. The factory's output accounted for 6.6% (2001: 0.6%) of the Group's turnover.

On the other hand, the performance of Supreme Bright Group Limited, the Group's woven bottoms factory, was not up to expectations and continued to sustain an operating loss. As such, the factory was eventually closed at the end of the year to avoid further losses.

Management Discussion and Analysis

Vietnam

As Vietnam has become a popular sourcing base amongst US importers and buyers, the Company opened a representative office in Ho Chi Minh City, Vietnam in August 2002 aiming to source sub-contracting factories. Though the total business subcontracted accounted for only 2.1% of the Group's turnover, the Group anticipates that this region has strong potential for growth in the years ahead.

China

Subsequent to the relocation of the sample making facility from Hong Kong to Dongguan in Guangdong Province in 2001, the Group further set up a wholly-owned foreign enterprise, namely東莞國興製衣有限公司(Dongguan Guoxing Garment Limited), there in August 2002 which serves as a foothold for the Group in exploring the vast market potentials of China.

Apart from these reengineering exercises at the production bases, a special training team was formed, consisting of experienced factory managers and merchandising managers from the Group in 2002, to provide constant training and support to all the Group's factories around the world. The team's focus is to enhance production capacities and efficiencies while minimizing production cost.

During the year, the Group also strengthened its marketing force by setting up a business development unit. The enlargement and diversification of the customer portfolio will pave the way for future profit growth.

Liquidity and financial resources

The Group adopted a conservative financial management system and continued to maintain a healthy liquidity position. At 31st December, 2002, bank balances and cash amounted to HK$87.8 million (2001: HK$79.8 million) while bank loans, in the form of trust receipt loans and overdrafts, amounted to HK$69.1 million (2001: HK$64.7 million). The bank loans were denominated in either HK dollars or US dollars. Working capital represented by net current assets amounted to HK$142.4 million (2001: HK$147.7 million).

The Group's current ratio was 1.7 (2001: 1.8) and the gearing ratio of bank loans and overdrafts to shareholders' fund was 22.4% (2001: 19.6%). The bank loans are well covered by bank balances and cash. The Group considers its current resources adequate for its ongoing operating requirements.

Capital expenditure

During the year, the Group incurred a total capital expenditure of HK$10.1 million (2001: HK$68.5 million) from its own financial resources mainly for the normal upgrading of plant and machinery.

Foreign exchange exposure

The Group's sales were principally denominated in US dollars. Operating expenses for the Group's factories and offices were either denominated in US dollars or their respective local currencies.

As at 31st December, 2002, the exchange rates for Indonesian Rupiah and South African Rand to one US dollar were Rp8,940 (1st January, 2002: Rp10,400) and South African Rand 8.6 (1st January, 2002: South African Rand 12) respectively. The Group closely monitors currency fluctuations and reduces its exchange risk by hedging with forward exchange contracts from time to time.

Salvadoran Colones, the local currency for El Salvador, has been pegged to US dollars since 1st January, 2001 at 8.75 Colones to US$1. The Group does not foresee any currency exposure in El Salvador.

Credit policy

The Group's credit policy remains unchanged in accepting orders from customers under letters of credit. Over 90.9% of the Group's business was transacted under letters of credit, with the balance being on an open account basis.

The open account term is granted only to existing customers for small orders. Credit limits for open account customers are set on an individual basis. The credit ratings of customers are constantly reviewed and their respective credit limits adjusted, if necessary.

Charges on fixed assets

The Group's properties in Hong Kong with a carrying value of HK$19.9 million (2001: HK$20.5 million) have been pledged with a bank to secure trade facilities to the extent of US$18.0 million (2001: US$18.0 million). At 31st December, 2002, the respective secured bank loans amounted to HK$22.9 million (2001: HK$10.1 million).

Contingent liabilities

As at 31st December, 2002, the Group had no contingent liabilities except bills discounted to banks with recourse amounting to HK$23.3 million (2001: HK$19.2 million).

HUMAN RESOURCES AND REMUNERATION POLICIES

The Group considers its employees as its most important asset and believes that their commitment is crucial to its success. The Group aims to align its employees with its strategic goals through active corporate communication.

As at 31st December, 2002, the Group employed a total of 7,319 (2001: 8,532) full-time employees:

Hong Kong and PRC	304
Indonesia	4,863
El Salvador	1,011
Lesotho	1,131
Vietnam	10
Total	7,319

To attract and retain high-caliber employees, the Group grants employees discretionary bonuses based on performance and also maintains share option schemes.

OUTLOOK

The global economic climate is still gloomy. Consumer confidence and spending in the United States have yet to turn around. As such, the future business environment looks shaky and is further threatened by the war between the United States and Iraq.

Hemmed in by these uncertainties and adversity, the Group will continue its conservative approach in eliminating loss-sustaining factories, reducing both direct and indirect operational costs through various cost control measures. To minimize operating costs of the sweater factory in Indonesia and to enhance the competitiveness of the sweater division, the Group has been curtailing activities at the factory in preparation for the adoption of outward processing arrangements.

As a result of the lowering tariffs on products from Vietnam to the United States, Vietnam has become a hot destination for apparel manufacturing and the Group expects business growth in Vietnam to move forward significantly. Bearing in mind that the United States may impose quota restrictions on the imports from Vietnam, the Group will be expanding its presence there cautiously.

Enlarging and diversifying the Group's customer portfolio, the newly set up business development unit will be further strengthened in the years ahead. The Group is aiming to stretch its sales and marketing arm in the United States to provide quality and value-added services to customers.

Capitalizing on its industry experience and backed by its global production bases, the Group is in an ideal position to turnaround as consumer sentiment improves.