

管理層討論及分析 Management Discussion and Analysis

BUSINESS OPERATIONS

The Group is engaged in the manufacturing of a wide range of fashion including suits, jackets, coats, outerwear and sportswear under customers' brandnames. The Group is also engaged in the retailing and trading of men's casual sportswear and ladies' fashion under various brandnames in Hong Kong, the People's Republic of China ("PRC") and other Asian countries. Most of the Group's products are manufactured according to the designs, fabrics and accessories provided by the customers.

2002 was an extremely difficult year for the Group. The adverse impact of the 9/11 events and keen competition from other manufacturers had led the Group to encounter intensive pressure from customers to lower prices. Sales turnover for the First Half of 2002 was HK\$823 million, which was HK\$145 million or 15% below the 2001 comparative figure. As a result, the Group had incurred a deficit of HK\$24 million in the First Half of 2002. In view of this, the Sales, Fulfillment and Supply Chain teams had made tremendous efforts to improve the overall performance of the Group. In the Second Half of 2002, the Group had achieved sales turnover of HK\$1,526 million which made up the total sales turnover for 2002 to HK\$2,349 million. Net profit for the Group was HK\$86 million for the Second Half of 2002, thus making up the net profit to HK\$62 million for 2002.

The Group produced about 13.0 million pieces of garments in 2002 (2001: 12.6 million pieces) from 14 factories located in Hong Kong, the PRC, Philippines and Myanmar. The Group has about 18,000 (2001: 17,500) employees who are entitled to a string of benefits in addition to their basic salaries.

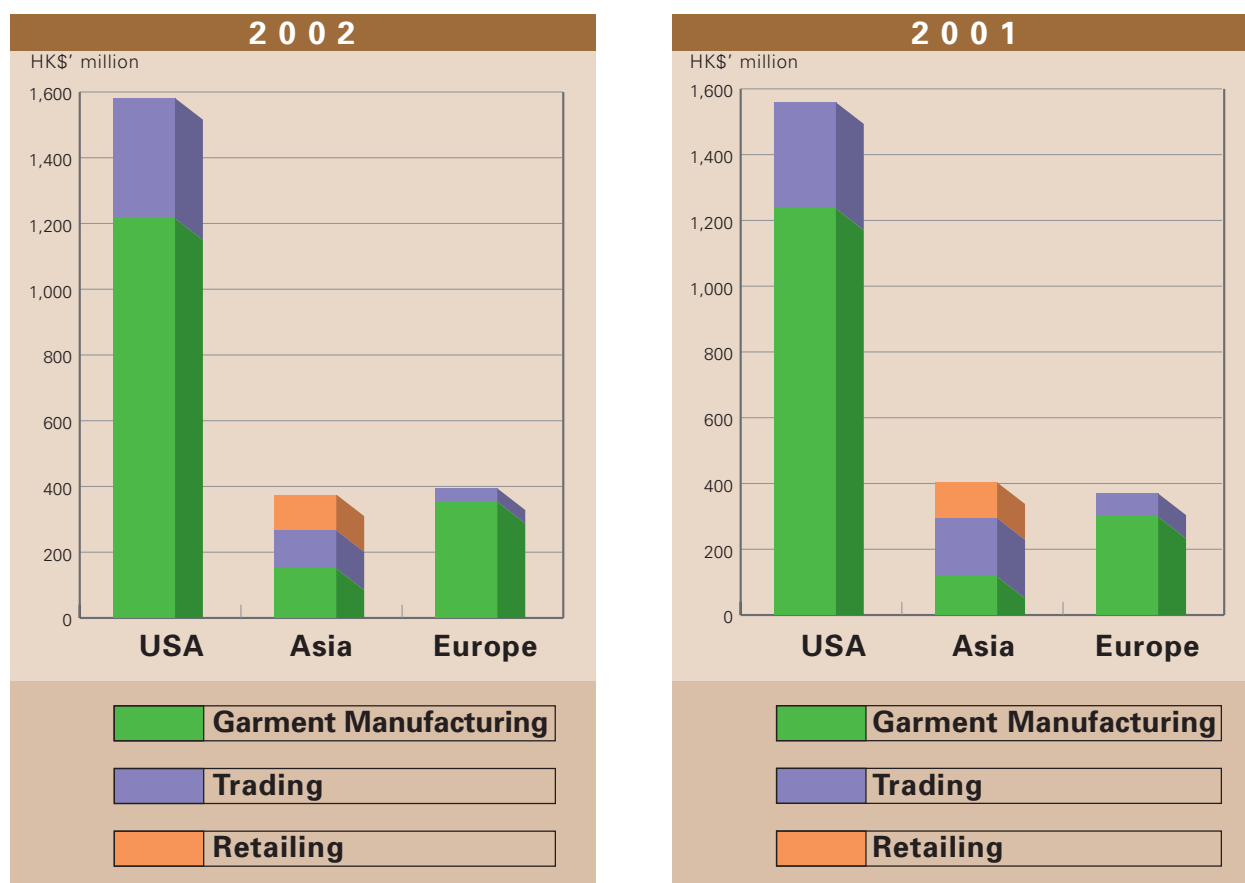
OPERATING RESULTS AND FINANCIAL POSITION

For the year ended 31st December 2002, total turnover was HK\$2,349 million, of which HK\$1,717 million were derived from the manufacturing operations, and the balance from the retailing and trading operations.

The Group's turnover increased slightly from HK\$2,329 million in 2001 to HK\$2,349 million in 2002, representing an increase of 1%. Export sales to US and Europe recorded a 1% and 7% growth respectively. Sales to Asia were down by 7%, mainly due to the tough economic condition across the region. US continued to be the dominant market for the Group, accounting for 67% (2001: 67%) of the total turnover.

管理層討論及分析 Management Discussion and Analysis

The analysis of the Group's 2002 and 2001 turnover by principal activities and markets is as follows:



Gross profit amounted to HK\$485 million in 2002 (2001: HK\$525 million), representing a decrease of 8%. Gross profit margin was also reduced from 22.5% in 2001 to 20.6% in 2002. This was mainly attributable to the strong pressure for price reduction and keen competition.

While the economic environment during the year was tough, the Group had launched a number of business improvement initiatives to improve the factory productivity and material purchase prices in order to counter the unfavorable impact. Profit from operations was HK\$72 million in 2002 (2001: HK\$101 million), representing a decrease of 28%. Out of the HK\$72 million operating profit, HK\$56 million was derived from the manufacturing operation (2001: HK\$73 million). Profit of the trading business decreased from HK\$29 million in 2001 to HK\$20 million in 2002 mainly as a result of the decrease in trading turnover. As for the retailing business, it had incurred a loss of HK\$4 million in 2002 (2001: HK\$2 million) due to the poor retail market condition in Hong Kong.

Profit attributable to shareholders decreased by 32% from HK\$91 million in 2001 to HK\$62 million in 2002, mainly due to unrelenting pressure on prices by customers.

There were no material acquisitions and disposals of subsidiaries and associates during the year.

管理層討論及分析 Management Discussion and Analysis

WORKING CAPITAL AND LIQUIDITY

In 2002, the Group continued to have good working capital and a healthy liquidity position. Receivable turnover improved slightly to 39 days (2001: 41 days) which was a result of continuous effort on collection of receivables. Inventory turnover increased to 58 days (2001: 33 days). This was due to the piling up of inventory for the production in the First Quarter of 2003 as sales orders in the said period were much higher when comparing with 2002.

Current ratio improved slightly from last year's 1.85 to 1.87 while quick ratio reduced from last year's 1.34 to 1.09. The Group had sustained a very healthy liquidity position.

CAPITAL AND DEBT STRUCTURE

As at 31st December 2002, there was no requirement or plan to raise fund through the issuance of equity or debt securities. The Group was able to finance its peak season activity by internally-generated fund and short-term bank financing.

Total short-term bank loans and overdrafts of the Group increased from HK\$6 million as at 31st December 2001 to HK\$9 million as at 31st December 2002, representing an increase of 46%. Such bank borrowings were short-term in nature and were mainly used to facilitate the settlement of fabric purchases for production. As at 31st December 2002, cash and bank balances amounted to HK\$65 million, representing a decrease of HK\$18 million when comparing with 2001.

Gearing ratio remained the same at 1% as at 31st December 2002 (2001: 1%). The ratio had been calculated based on the total bank borrowings to the total shareholders' equity of the Group.

During the year, the Group entered into a number of forward contracts to hedge its foreign currency denominated receivables against the fluctuation of exchange rates.

The Group had unutilized banking facilities of approximately HK\$931 million as at 31st December 2002 (2001: HK\$918 million). Save as disclosed in the financial statements, the Group did not create any charges on its assets to secure the banking facilities during the year.

RESULT OF SIGNIFICANT INVESTMENTS

The Group's interests in associated companies, Hua Thai Manufacturing Public Company Limited and its subsidiaries (the "Hua Thai Group"), amounted to approximately HK\$87 million as at 31st December 2002 (2001: HK\$99 million). The principal activity of the Hua Thai Group is also garment manufacturing and its principal place of operation is Thailand. The Group's share of operating result after taxation of the Hua Thai Group decreased from a profit of HK\$7 million in 2001 to a loss of HK\$6 million in 2002. Such decrease was mainly due to additional operating costs as a result of severe seasonality issue during the year and the initial training and investment costs to expand the capacity in one of its factories so as to cope with the anticipated sales demand in the coming years.

管理層討論及分析

Management Discussion and Analysis

As at 31st December 2002, the Group had other long-term investments of approximately HK\$1 million (2001: HK\$5 million). It also held investment properties of HK\$6 million (2001: HK\$7 million). These investments were not considered as significant investments to the Group as the return on these investments did not have any significant impact to the Group's operating results.

CONTINGENT LIABILITIES

In settlement of most of its accounts receivable, the Group received bills of exchange from customers. Some of the bills of exchange might be discounted to banks in order to finance for the operations. As at 31st December 2002, the Group did not have any outstanding discounted bills with recourse to the banks (2001: Nil).

In the normal course of business, the Group may be subject to certain claims/counter claims from suppliers, customers or other third parties. Management has estimated that these contingent liabilities, even if they materialize, will not have a material adverse effect on the ongoing operations of the Group.

There were no material capital commitments as at 31st December 2002 which would require a substantial use of the Group's present cash resources or external funding.

HUMAN RESOURCES

Human resources is always an important asset of the Group. Fair remuneration packages and fringe benefits are offered to competent staff. Discretionary bonus will be granted to eligible employees with outstanding performance. In addition, share options have been granted to certain employees allowing them to subscribe for shares of the Company since 1998.

FUTURE PROSPECTS

As one of the major garment manufacturers in Asia, the Group will continue to concentrate on its core business. The implementation of various high-impact business initiatives in 2002 had built in a number of unique competitive advantages to the Group. Through the execution of these well-planned initiatives, the Group will be able to meet the new challenges ahead.