

## MANAGEMENT DISCUSSION AND ANALYSIS

### ANALYSIS OF RESULTS

#### Turnover

For the year ended 31 March 2003, the Group's sales of knitted-to-shape garments increased by 4% to HK\$399 million (2002: HK\$384 million). This growth attributed to the hard work of the marketing team of the Group in soliciting orders from existing as well as new customers, in particular customers from Europe, the expanding market of the Group. Nevertheless, sales of non knitted-to-shape garments decreased by 64% to HK\$9 million (2002: HK\$26 million). Sub-contracting income also substantially decreased by 73% to HK\$6 million (2002: HK\$21 million). The decreases in sales of non knitted-to-shape garments and sub-contracting income were mainly due to the receipt of more knitted-to-shape garment orders by the Group involving complex craftsmanship. As the Group diverted its resources to meet the requirements of these orders, it accepted less non knitted-to-shape garment orders and sub-contracting orders. The decrease in sub-contracting income is also consistent with the Group's continuous effort to reserve more of its capacity for serving direct clients.

In terms of geographical segments, sales to United States decreased by 6% to HK\$367 million (2002: HK\$391 million). Yet, United States was still the major market of the Group with total sales to this market represented approximately 89% of the total turnover of the Group for the year ended 31 March 2003 (2002: 91%). Sales to Europe, the expanding market of the Group, increased by 39%

to HK\$23 million (2002: HK\$17 million). Sales to Europe represented approximately 6% of the total turnover of the Group for the year ended 31 March 2003 (2002: 4%).

#### Profitability

For the year ended 31 March 2003, the Group recorded a net loss of HK\$39 million as compared to net profit of HK\$44 million in 2002.

The loss was resulted from the increase in costs of production. For the year ended 31 March 2003, sub-contractor wages increased by 56% from HK\$63 million to HK\$98 million; freight charges increased by 175% from HK\$6 million to HK\$15 million. Both increases were resulted directly from the pressure on the Group's production capacity due to factors such as deferral of orders and shortening of order lead-time by customers. The production facilities of the Group were all operated in full capacity during the peak season. However, as customers took a more conservative attitude in light of the approach of war, many orders which had once been confirmed, were withdrawn and then reinstated later when it turned out that customer demands were not abated. As a result of which, during certain months of the period under review, demands for shipments exceeded capacity. In order to ensure the commitment to customers, the Group resorted to outsource its production to different sub-contractors at higher costs and where necessary, to ship products by air-freight. To minimise the delay in the production by outside sub-contractors, the yarn provided by the Group

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to them would usually be more than sufficient for their production. This led to the pile up of spare yarn. As each customer has their own unique requirement for the colour of yarn, any unused dyed spare yarn can seldom be re-used in next production. As a result, the Group had to make provision of HK\$4.1 million for slow moving or obsolete stock.

With the completion of the establishment of production facility near Ho Chi Minh City in Vietnam and the full operation of the factory premises at Pu Ning, Chaozhou City, the People's Republic of China ("PRC") during the period under review, the Group had to employ extra workers and install new production facilities at the respective production site. Wages and allowances were therefore increased by 13% to HK\$69 million (2002: HK\$61 million). Depreciation also increased by 26% to HK\$8 million (2002: HK\$6 million).

As the Company received more knitted-to-shape garment orders involving embroidery and beads putting, supplementary expenses also increased by 10% to HK\$16 million (2002: HK\$14 million) as a result of purchase of accessories.

Administrative expenses for the year ended 31 March 2003 increased by 6% from HK\$31 million to HK\$33 million. The increase in administrative expenses was mainly due to the payment of HK\$2 million for the share of compensation to a customer

resulting from defective products which arose from the problem of yarn and product design of a particular shipment.

For the year ended 31 March 2003, loss per share was HK17 cents (2002: earnings per share HK22 cents).

### LIQUIDITY AND CAPITAL RESOURCES

At 31 March 2003, the Group was in a healthy liquidity position, with cash and bank balances of HK\$17 million and net current assets of HK\$52 million. The comparative figures at 31 March 2002 were HK\$60 million and HK\$121 million respectively. Most of the funds were held in Hong Kong dollars and US dollars.

The Group believes that it can continue to finance its operations with its operating cashflow and available banking facilities of over HK\$143 million, out of which HK\$8 million had been utilized at 31 March 2003. The banking facilities were secured by corporate guarantees given by the Company. The Group's gearing ratio computed as total borrowings over shareholders' fund was 5.6% at 31 March 2003 (2002: 1.5%).

The Group's borrowings were of short-term nature, carrying interests at floating rates. As interest rates remained at low level during the period, the Group's net finance cost for the period under review amounted to HK\$1 million (2002: HK\$1 million).

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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 2003.

### **CHARGE ON GROUP ASSETS**

At 31 March 2003, the Group did not have any assets pledged for general facilities.

### **CONTINGENT LIABILITIES**

At 31 March 2003, the Company had contingent liabilities in relation to corporate guarantees given to banks in connection with facilities granted to subsidiaries of the Group amounting to HK\$116 million.

### **CAPITAL EXPENDITURES AND COMMITMENTS**

During the year, the Group substantially completed the construction of factory premises at Chaiyaphum province in Thailand. The new factory can accommodate a total of about 2,000 workers and the production capacity can reach about 20,000 dozens knitted-to-shape garments per month. The additions of property, plant and equipment by the Group in Thailand and Vietnam amounted to HK\$12 million and HK\$3 million respectively. As at 31 March 2003, the Group has capital expenditure commitment in respect of the acquisition of property, plant and equipment amounting to HK\$3 million.

### **HUMAN RESOURCES**

At 31 March 2003, the Group had approximately 1,750 employees. The size of the workforce is expected to remain more or less the same in the coming year in light of the difficult operating environment. Remuneration of employees is based on their performance, experience and prevailing industry practice, with remuneration policies and packages being reviewed on a regular basis. Bonuses are linked both to the performance of the Group as well as to that of the individual as recognition of their contribution to the Group. At the date of this Annual Report, 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**

Weathering the storm, the aim of the Group is to anticipate and be responsive to market changes. To maintain our competitive edge, we will seek stringent control on costs and inventory management. At the same time, the management will continue to improve risk management and remain highly alert to any market changes.

Shortening the production lead-time without sacrificing quality is essential in the current highly competitive market. To do so, the Group has installed new yarn testing equipment. The Group believes that armed with such new testing equipment, the Group will be able to meet the

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high quality requirements of its customers so that claim from customers can be minimized. In addition, any problematic yarn can be detected at the very early stage of production so that the Group will have sufficient time to seek for replacement and the whole production process will be smoothened to prevent the lengthening of order lead-time.

The Group continually adopts the latest information technology for enhancing efficiency and effectiveness in its internal management and external communication with customers. Internally, the Group has installed a new resources management computer system to centralize all production data of its PRC, Thailand and Vietnam factories, optimize the allocation of production resources and logistics and provide management with the most up-to-date status of customers orders.

Externally, the Group has become more customer-focused by the implementation of a new computerized logistic system which enables instantaneous transmission of information such as product quantity, product type and colour to its customers once the products are packed for shipment. This will bring tremendous convenience to customers as they can have the most up-to-date information of their orders so as to assist them in arranging logistics. The introduction of the system is consistent with the Group's policy to bring value-added services to its customers. The Group believes that its dedications will be rewarded with customer loyalty.

The short term growth of the Group may be affected by the market conditions, but the management is optimistic of the Group's future prospects as the Group has a solid foundation and focused planning in place.