MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the financial year ended 31st March 2003, the Group recorded a turnover of approximately HK$163,112,000 (2002: HK$126,738,000) up 28.7% compared to the previous year. Net profit attributable to shareholders were HK$30,235,000 (2002: HK$22,638,000), up 33.6% compared to the previous year. This was as a result of an increase in contribution from knitwear products, as well as growth in higher margin woven and sweater garment products. By implementing stringent cost control and introduction of efficient operating system and quality-driven management, the operating profits of the Group showed a healthy increase of 36.0%. Earnings per share increased by 16.7% to HK16.1 cents compared to the previous year.

OPERATIONAL REVIEW

Garments

Garment product business will continue to be our most important revenue source for the operations of the Group. For the year ended 31st March 2003, it accounted for 94.5% of the Group's turnover, up 5.0% compared to the previous year. Revenue and operating profits derived from garment product business increased by 35.8% to HK$154,091,000 and by 42.1% to HK$33,614,000. This reflected strong growth of every products of garment business.

Knitwear products, which contributes approximately 36% of the Group's turnover, recorded a 94.0% and 69.8% increase in revenue and operating profits to HK$58,680,000 and HK$10,705,000 respectively. This was attributable to the Group's investment in a wholly owned production base in the Ningbo city of Zhejiang province of the PRC which came into full-scale operations for the period under review. This production base is specialized in the production of various kinds of knitwear products. Woven garment products and sweaters saw a 13.8% and 21.2% increase in turnover, whilst operating profits grew by 31.1% and 39.5%, reflecting continuous growth in higher margin business.

Premium Products

For the year ended 31st March 2003, premium products accounted for 5.5% of the Group's turnover, compared to 10.5% of previous year. The revenue and operating profits of premium products were HK$9,021,000 down 31.9% and HK$490,000, down 65.3% respectively. This was as a result of the sluggish global economy which was exacerbated with the outbreak of conflicts in the Middle East which impaired the demand for premium products. Given the economic turmoil in current years, the Group will adopt conservative strategies including trim down of operating costs to maintain the profitability of the segment.

Geographical

Chile continues to be the Group's major market, accounting for 77.4% of the Group's turnover for the year under review. Revenue and operating profits increased by 17.5% to HK$126,258,000 and 44.2% to HK$30,633,000 respectively. Although the consumer sentiments remained vigilant, we strived to expand market share by diversification of product variety and cost-efficient cum quality-conscious operations. Grounding on our competitive advantage of extensive sourcing network and strong production bases, we offer reasonable price with extensive product variety to our customers.

Development

The Group has a blue print of an ambitious long-term developments. The first phase development of establishment of owned production bases was successfully implemented in the previous year. The production base in Ningbo and Beijing are not the end of the development of our garment kingdom, they are just the beginning. In December 2002, a wholly-owned subsidiary of the Group entered into a Joint Venture Agreement to develop the third production base of the Group in Huzhou of Zhejiang Province of the PRC, namely Huzhou Ronco Sweater Company Limited. The production base will be specialized in the production of sweaters. This new production base is expected to cement the leading role of our one - step manufacturing powerhouse by synergies created through consolidation of the territorial expertise of Chinese garment manufacturing veterans. We believes that our Chinese business partner will not only add strategic values to the Group's operations of productions bases in the PRC, but also strengthen the networks of sourcing of garment manufacturers across the territory. This production base is expected to commence operation at the beginning of 2004.

In 2003, the Group commenced its third phase development. We have appointed an independent third party in the PRC to pursue and arrange for the establishment of the fourth production base. He will be responsible of carrying out feasibility study, negotiation with government departments, arranging business registration, factory construction and recruitment of workers etc.

The Group has the views that with production bases specializing in various garment productions, the Group will have capabilities to expand its market share by market integration and segmentation. The kingdom of production bases also play a crucial role in reaping the business opportunities arising from rocket growth of the PRC economy. With the PRC's accession into the World Trade Organization, it is anticipated that the PRC will be the hub for the global economic growth in the next few decades. We have production bases in the Ningbo City and Huzhou City, which are located in the Chang Jiang Delta, one of the most promising economic region in the PRC In addition, the construction of the Shanghai - Ningbo viaducts will strengthen the infrastructure of the region. While the Group's headquarter is located in the head of Pearl delta, Hong Kong, and we have an associate in Beijing, the Capital of the PRC, we believe our strong background will furnish us with competitive edges in striving new market segments and market expansions worldwide.

PROSPECTS

We anticipate the global economy will continue to be dimmed by uncertainties arising from conflicts in the Middle East and the risks of SARS which have dampening effect across nations. Given the difficulties above, we commit to expand our product varieties and cement our networks in the PRC.

Nevertheless, the sustaining growth of the PRC market has created a number of opportunities for the Group. Global traders will frequent to the PRC and the demand for business partners in Asia who can cater retailer's global need will increase. We will continue to strengthen our presence in garment and fashion market to reap the emerging opportunities induced by the latest trend of global trade.

Meanwhile, we will pay extra attention to the impact of SARS across nations and the military uncertainties in the Middle East. The management will continue implementing stringent measures and contingencies in operations of the business, with a focus on quality-driven and cost efficient operations.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st March 2003, the Group had net current assets of HK$17,329,000 (31st March 2002: HK$1,069,000). The Group's current ratio, as a ratio of current assets to current liabilities, was maintained at a healthy level of approximately 195% (31st March 2002: 112%) and the Group's gearing ratio, as a ratio of total interest-bearing borrowings to total assets, was maintained at a lowest level of 3.3% (31st March 2002: 0.4%).

The Group generally finances its operations with internally generated cash flow, facilities provided by its principal bankers in Hong Kong and the PRC and net proceeds from initial public offer. During the year under review, the Group recorded a net cash inflow of HK$16,762,000, which raised the total cash and cash equivalents to HK$17,388,000 as at the balance sheet date.

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES AND RELATED HEDGES

The bank borrowing of the Group as at 31st March 2003 were HK$2,876,000 (31st March 2002: HK$209,000), which were denominated in Hong Kong dollar, Renminbi and United States dollars. All of the Renminbi bank borrowings are at fixed interest rate of 5.46% per annum whilst the Hong Kong dollars borrowing are at variable interest rate ranging from 0.5% to 0.75% above the best lending rates. As the Group's transactions are mostly settled by Hong Kong dollars, Renminbi and United States dollars and the existing currency peg of Hong Kong dollars with United States dollar will remain unchanged in the foreseeable future; the exposure to foreign exchange fluctuation is minimal, therefore the use of financial instruments for hedging purpose is considered not necessary.

CONTINGENT LIABILITIES

As at 31st March 2003, the Group had contingent liabilities arising from bills of exchange discounted with recourse and long service payment of approximately HK$2,842,000 and HK$46,000 respectively.

CAPITAL COMMITMENT

As at 31st March 2003, the Group had capital commitment of approximately HK$4,893,000 in respect of capital contribution to a subsidiary in the PRC.

EMPLOYEES AND REMUNERATION POLICIES

As at 31st March 2003, the Group had 11 staffs working in Hong Kong. In addition, 213 workers were employed by the Group in the PRC at a factory located in Ningbo.

The Group remunerates its employees largely based on industry practice. Remuneration packages comprised salary, commissions and bonuses based on individual performance.

PLEDGE OF ASSETS

The Group's banking facilities were secured against the Group's land and buildings located in Hong Kong and the PRC and motor vehicles in the PRC of approximately HK$22,873,000 and HK$774,000 respectively.

CORPORATE GOVERNANCE

The Group weights good corporate governance as one of the key elements to sustain its competitiveness and growth. We are committed to maintain high standards of corporate governance practices and achieve financial prudence and has complied throughout the year with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("the Listing Rules"). We have implemented effective financial and management policies to strengthen the Group structure and operation systems. All Directors are responsible for overseeing the daily operations. Directors and senior management meet regularly to formulate overall strategies and discuss corporate governance, risk management, statutory compliance and financial performance of the Group.

The Group established the Audit Committee which comprises of two independent non-executive directors of our Group. All of them are members of professional bodies and possess unique industry experience and financial knowledge to advise on the matters of the Group. To achieve financial prudence and independence, our Audit Committee reviews the accounting policies, interim and final results of the Group.

USE OF PROCEEDS

The Group raised approximately HK$28 million net of related expenses from the issue of 36 million new shares in connection with the listing of the Company's shares on the Stock Exchange on 8th November 2002. Subsequent to the balance sheet date and upon the listing of the Company's shares on the Stock Exchange, the net proceeds have been applied as follow:

- approximately HK$15 million to expand the productions bases located in the PRC;

- approximately HK$7.2 million to acquire additional machinery and equipment for the expansion for the manufacturing capacity of the productions bases located in the PRC; and

- approximately HK$5.8 million as additional working capital of the Group.

AUDIT COMMITTEE

The Audit Committee comprises the two independent non-executive directors, Messrs Chow Chi Kit and To Yan Ming, Edmond. The Audit Committee has reviewed with management the accounting principles and practice adopted by the Group, and discussed auditing, internal control and financial reporting matters including the review of the financial statements for the year ended 31st March 2003.