RESULTS AND BUSINESS REVIEW

The Group's turnover for the year ended 31st December, 2003 was HK$1,021.1 million (2002: HK$1,060.4 million), while gross profit was recorded at HK$148.9 million (2002: HK$158.8 million). Loss attributable to shareholders was HK$23.5 million (2002: HK$98.9 million).

In terms of product category, knit tops, woven bottoms and sweater tops accounted for 70.2%, 25.8% and 4.0% (2002: 62.1%, 27.4% and 10.5%) of the Group's turnover respectively. The growth in sales of knit tops to HK$716.9 million (2002: HK$658.0 million) was mainly attributable to the further development of the subcontracting business and the establishment of a knit factory in Vietnam. As for woven bottoms, the decline in sales to HK$263.4 million (2002: HK$291.1 million) was mainly due to the closure of a loss-making factory in Lesotho at the end of 2002, which was mitigated to some extent by the additional subcontracting business in Vietnam during the year. The sales of sweater tops of HK$40.8 million (2002: HK$111.3 million) shrunk as a result of the downsizing of a factory in Indonesia.

The Group's gross profit margin was 14.6% (2002: 15.0%). Price slashing by customers continued to be the norm as the rebound in the US economy was proceeding very slowly. The inclusion of one-off expenses in connection with the curtailing of a sweater factory in Indonesia also dragged down the gross profit margin.

During the year, the Group's knit factory in Lesotho and the local subcontracting facilities were unable to absorb the orders placed by the customers and so a substantial number of orders had to be airfreighted to meet the order schedules. Significant freight charges were incurred during the year. As a result of the African Growth and Opportunity Act, apparel industry in Lesotho experienced a boom in 2003. The Group procured orders of substantial value for the knit factory in Lesotho which, under normal circumstances, could have filled the orders by shifting excessive orders to local subcontractors. However, the production capacity of the factory and subcontractors were exceptionally fully occupied and so a substantial number of orders, if delivered by vessels, could not have been filled on time. The additional freight charges led to a significant rise in selling expenses.

Indonesia

During the year, Indonesia remained the Group's major production base. The Indonesian factories contributed 59.6% (2002: 66.6%) to the Group's turnover, of which 39.6%, 17.6% and 2.4% consisted of knit tops, woven bottoms and sweater tops respectively. The Group reallocated its resources and focused on the knit and woven divisions following the downsizing of the sweater factory. Supplementing its streamlined operations, the sweater division also commenced outward processing arrangements during the year.

El Salvador

The output of Charter, S.A. de C.V., the Group's knit factory, accounted for about 11.2% (2002: 15.6%) of the Group's turnover.

Lesotho

Shinning Century Limited, the Group's knit factory, experienced a difficult year. The factory's output accounted for 12.5% (2002: 6.6%) of the Group's turnover and it incurred substantial losses owing to exceptional airfreight charges. The factory underwent an organizational restructuring at the end of the year to ensure that potential risks are properly managed and remedial actions are taken as needed in future.

Vietnam

Despite the slow down in sales growth due to the imposition of US quota requirements, the total output from Vietnam accounted for 11.0% (2002: 2.1%) of the Group's turnover. Of this figure, 6.8% (2002: 2.1%) was attributable to the subcontracting business with the remaining 4.2% (2002: Nil) attributable to a joint venture knit factory in Ho Chi Minh City. The factory commenced operations in April 2003 and made a positive contribution to the Group's results.

China

The sample making facility set up in Dongguan serves as a recruitment and training center for the Group simultaneously. It provides training to staff to meet the needs of the Group's production bases worldwide.

LIQUIDITY AND FINANCIAL RESOURCES

The Group adopted a conservative financial management system, continuing to maintain a healthy liquidity position. At 31st December, 2003, cash and bank balances amounted to HK$84.0 million (2002: HK$87.8 million) while bank loans, in the form of trust receipt loans and overdrafts, amounted to HK$109.1 million (2002: HK$69.1 million). The bank loans were denominated in either HK dollars or US dollars. Working capital represented by net current assets amounted to HK$117.7 million (2002: HK$142.4 million).

The Group's current ratio was 1.4 (2002: 1.7) and the gearing ratio of bank loans and overdrafts to shareholders' funds was 40.7% (2002: 22.4%). The Group considers its current resources adequate for its ongoing operating requirements.

CAPITAL EXPENDITURE

During the year, the Group incurred total capital expenditure of HK$17.3 million (2002: HK$10.1 million) funded by its own financial resources 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, 2003, the exchange rates for Indonesian Rupiah, South African Rand and Vietnamese Dong to one US dollar were 8,465 (1st January, 2003: 8,940), 6.7 (1st January, 2003: 8.6) and 15,647 (1st January, 2003: 15,401) respectively. The Group closely monitors currency fluctuations and reduces its exchange risk by hedging with forward exchange contracts from time to time.

The Salvadoran Colones, the local currency of El Salvador, has been pegged to the 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. It accepts orders from customers under letters of credit. Over 82.1% 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 property in Hong Kong with a carrying value of HK$19.2 million (2002: HK$19.9 million) has been pledged with a bank to secure trade facilities to the extent of US$18.0 million (2002: US$18.0 million). At 31st December, 2003, the respective secured bank loans amounted to HK$32.7 million (2002: HK$22.9 million).

CONTINGENT LIABILITIES

As at 31st December, 2003, the Group had no contingent liabilities except for bills discounted to banks with recourse, amounting to HK$12.8 million (2002: HK$23.3 million).

HUMAN RESOURCES AND REMUNERATION POLICIES

The Group believes that employees' commitments and a harmonious working atmosphere between management and staff are important to the Group's success. Employees are rewarded on the basis of prevailing market practices, experience and performance. Benefits include medical and accidental insurance coverage as well as a provident fund scheme. In order to attract and retain high caliber employees, the Group also awards its employees discretionary bonuses based on performance evaluation and also maintains share option schemes.

As at 31st December, 2003, the Group employed a total of 7,509 (2002: 7,319) full-time employees in the following regions:

Indonesia	3,706
Lesotho	1,364
El Salvador	1,352
Vietnam	755
China (Mainland and Hong Kong)	330
US	2
Total	7,509

OUTLOOK

Under the Agreement on Textiles and Clothing, all quotas on textile products will be abolished against World Trade Organisation members by the end of 2004. Undoubtedly, global competition will be keen and intensive. Market consolidation is expected. 2004 is a critical year for the industry to equip itself in meeting the challenges ahead.

Adopting a conservative approach, the Group will continue to streamline operations, where appropriate, and boost efficiencies at existing production facilities. It will also continue to impose stringent cost control measures to minimize operational costs.

Given the unsatisfactory performance of the knit factory in Lesotho in 2003, an early alert system has been implemented across the board to ensure that potential risks are properly attended to and the necessary remedial actions are taken accordingly. In the meantime, the duty-free entitlement for apparel made of third-country fabric by Lesotho under the African Growth and Opportunity Act is due to expire in September 2004. The Group is closely monitoring the extension of the said trade benefit by the US which is undergoing legislation processes.

On a positive note, the US economy is recovering and consumer confidence is slowly resuming. Capitalizing on its strong merchandising and marketing experience, the Group will proactively seek further business growth while also widening its customer base.

In December 2003, the Group entered into an agreement with Shandong Weiqiao Chuangye Group Company Limited to set up a new joint venture company in Shandong province in China, called ShanDong WeiQiao HengFu Textile Limited, to engage in the knitting, dyeing, printing and finishing of knitted fabrics. The Group's subsidiary and Shandong Weiqiao Chuangye Group Company Limited own the joint venture company as to 60% and 40% respectively. Trial production is due to commence in the second quarter of 2004. Through the partnership, the Group expects to gain access to the China market with competitively priced products that will also generate synergies to its existing apparel manufacturing business in the long term.