

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

The Group is principally engaged in the design and manufacture of sportswear for men, women and children on an OEM (an acronym for “original equipment manufacturer”, which produces or customises products according to the design supplied by others) basis. The sportswear manufactured and sold by the Group can broadly be divided into tracksuits, sports pants, jackets, sweaters and t-shirts. The remaining products comprise casual wear, kids wear and fashion wear. The Group manufactures products under international brandnames such as **Nike**.

For the year ended 31st March, 2004, the Group’s products were mainly sold to Japan, the PRC and South Korea.

The performance of the Group for the year ended 31st March, 2004 was strong compared to the previous corresponding year in 2003 as the turnover and net profit from ordinary activities attributable to the shareholders of the Group increased by approximately 34.3% and approximately 4.2% respectively despite difficult global economic conditions as a result of the outbreak of SARS and the weak global economic conditions.

The growth in turnover came principally from the increasing orders placed by the Group’s existing customers such as **Nike** and other international brandname customers. Meanwhile, the Group’s marketing team continued to approach new customers and trial orders are constantly taking place by new or potential customers.

On the production side, the Group continued to expand its production capacity during the year ended 31st March, 2004 compared to the previous corresponding year in 2003 by acquiring further plant and machinery, employing more labour and leasing more factory premises.

### FINANCIAL REVIEW

#### Results

For the year ended 31st March, 2004, turnover of the Group increased to approximately HK\$325.4 million compared to approximately HK\$242.3 million for the previous corresponding year, an increase of approximately 34.3%. The increase was mainly attributed to an increase in the orders placed by customers as a result of the hard work of the Group’s marketing team supported by an expansion in the Group’s production capacity. In terms of geographical segments, sales to the Group’s major markets, i.e. Japan, the PRC and South Korea increased by approximately 61.6%, 58.0% and 60.9% respectively.

## *Management Discussion and Analysis*

### **FINANCIAL REVIEW** *(continued)*

#### **Results** *(continued)*

Gross profit of the Group for the year ended 31st March, 2004 increased to approximately HK\$60.8 million compared to approximately HK\$55.6 million for the previous corresponding year due to an increase in the level of turnover. The gross profit margin of the Group decreased from approximately 22.9% for the previous corresponding year to approximately 18.7% for the current year. The decrease in gross profit margin was mainly attributed to higher percentage increase in costs of sales due to increase in cost of materials and higher fixed overheads such as salaries, rental and depreciation to support the Group's expansion.

Other income for the year ended 31st March, 2004 increased by approximately 33.3% to approximately HK\$3.6 million compared to approximately HK\$2.7 million for the previous corresponding year. The increase was mainly attributed to an increase in the amount of sale of samples and interest income.

Selling and distribution expenses of the Group for the year ended 31st March, 2004 increased to approximately HK\$4.4 million compared to approximately HK\$1.7 million for the previous corresponding year, an increase of approximately 158.8%. The increase was mainly attributed to an increase in the transportation costs to customers due to shorter delivery time required and commission paid for the introduction of new customers.

Administrative expenses for the year ended 31st March, 2004 increased by approximately 5.7% to approximately HK\$22.1 million compared to approximately HK\$20.9 million for the previous corresponding year. The increase was mainly due to an increase in the level of salaries and general overheads to cope with the expansion of the business.

Finance costs for the year ended 31st March, 2004 increased by approximately 53.3% to approximately HK\$2.3 million compared to approximately HK\$1.5 million for the previous corresponding year. The increase was mainly attributed to an increase in the bank borrowings to finance acquisition of fixed assets and for working capital.

The Group's profit attributable to shareholders for the year ended 31st March, 2004 increased by approximately 4.2% to approximately HK\$32.1 million compared to approximately HK\$30.8 million for the previous corresponding year. The increase was the result of an increase in the level of turnover.

*Management Discussion and Analysis***LIQUIDITY AND FINANCIAL RESOURCES**

As at 31st March, 2004, the Group had net current assets of approximately HK\$41.0 million (31st March, 2003: approximately HK\$0.5 million).

The Group generally finances its operations with internally generated resources and banking facilities provided by its bankers. Net proceeds from the initial public offering of the Company's shares were primarily used for acquisition of new machinery and fixtures and fittings to support the expansion in capacity and vertical integration, to acquire additional factory building in the PRC and to expand the Group's marketing team and sales network. As at 31st March, 2004, the Group had cash and bank deposits amounted to approximately HK\$36.9 million (31st March, 2003: approximately HK\$7.4 million).

As at 31st March, 2004, the Group had outstanding borrowings of approximately HK\$38.9 million (31st March, 2003: approximately HK\$26.6 million), comprising secured bank overdrafts of approximately HK\$7.4 million (31st March, 2003: approximately HK\$3.9 million), secured trust receipt loans of approximately HK\$18.9 million (31st March, 2003: approximately HK\$8.7 million), secured mortgage loans of approximately HK\$5.7 million (31st March, 2003: approximately HK\$7.9 million), other secured bank loans of approximately HK\$5.0 million (31st March, 2003: approximately HK\$6.1 million) and obligations under finance leases of approximately HK\$1.9 million (31st March, 2003: nil). Approximately HK\$33.3 million of the total outstanding borrowings are repayable within one year and the remaining balance of approximately HK\$5.6 million is repayable beyond one year but within five years.

As at 31st March, 2004, the Group had aggregate banking and credit facilities of approximately HK\$99.2 million (31st March, 2003: approximately HK\$79.4 million), of which approximately HK\$38.9 million (31st March, 2003: approximately HK\$26.6 million) had been utilised and were secured by: (i) a property owned by the Group; (ii) fixed deposits owned by the Group; (iii) unlisted investment funds owned by the Group; (iv) corporate guarantees executed by the Company; and (v) unlimited corporate guarantee executed by two subsidiaries of the Company.

As at 31st March, 2004, the Group's gearing ratios represented by total liabilities as a percentage of the Group's total assets amounted to approximately 48.2% (31st March, 2003: approximately 59.2%).

As at 31st March, 2004, the Group had no bills discounted with recourse (31st March, 2003: approximately HK\$0.9 million).

For the year ended 31st March, 2004, the Group was not subject to any significant exposures in foreign exchange rates risk. Hence, no financial instrument for hedging was employed.

## *Management Discussion and Analysis*

### **LIQUIDITY AND FINANCIAL RESOURCES** *(continued)*

The management believes that the existing financial resources will be sufficient to meet future expansion plans and, if necessary, the Group will be able to obtain additional financing with favourable terms.

### **CAPITAL STRUCTURE**

The shares of the Company were listed on the Main Board of the Stock Exchange on 22nd August, 2003. There has been no change in the capital structure of the Company since that date to 31st March, 2004.

On 3rd March, 2004, the Company, Time Easy Investment Holdings Limited and Mr. Chung Yuk Sing entered into the conditional subscription agreement with the Subscriber and Yue Yuen in relation to the subscription by the Subscriber of the Subscription Shares, making a total subscription price of HK\$111.3 million, and of the Convertible Note at a subscription price of HK\$207.06 million. The total consideration payable by the Subscriber for the Subscription is HK\$318.36 million, which is payable in cash upon completion of the Subscription Agreement.

On the same day, the Group entered into the Placing Agreement with Barits, pursuant to which Barits agrees to procure placees, on a fully underwritten basis, and our Company agrees to issue, an aggregate of 35,000,000 Placing Shares. The total subscription price for the Placing Shares is approximately HK\$37.1 million, which is payable in cash upon completion of the Placing Agreement.

The completion of the Subscription Agreement and the Placing Agreement took place on 16th April, 2004.

## Management Discussion and Analysis

### COMMENTS ON SEGMENTAL INFORMATION

Segment information is presented by way of the Group's primary reporting basis, by geographical segment. No further business segment is presented as the Group is solely engaged in the manufacture and sale of sportswear and garments.

The Group's turnover by geographical segments, based on location of customers, are summarised as follows :

	2004		2003		Year-on-year
	HK\$'000	%	HK\$'000	%	% change
Hong Kong	13,591	4.2	39,830	16.4	(65.9)
PRC	85,561	26.3	54,144	22.3	58.0
Japan	135,734	41.7	83,972	34.7	61.6
South Korea	54,150	16.6	33,650	13.9	60.9
Australia	3,722	1.2	9,827	4.1	(62.1)
Others	32,653	10.0	20,907	8.6	56.2
	<b>325,411</b>	<b>100.0</b>	<b>242,330</b>	<b>100.0</b>	<b>34.3</b>

### SIGNIFICANT INVESTMENTS

As at 31st March, 2004, there was no significant investment held by the Group (31st March, 2003 : nil).

### MATERIAL ACQUISITIONS OR DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

Other than in connection with the reorganisation in preparation for the listing of the Company's shares on the Stock Exchange on 22nd August, 2003, there were no material acquisition or disposal of subsidiaries and associated companies during the year ended 31st March, 2004.

## *Management Discussion and Analysis*

### **EMPLOYEES AND REMUNERATION POLICIES**

As at 31st March, 2004, the Group employed a total of 4,563 (31st March, 2003: 3,783) employees including directors. Total staff costs including directors emoluments were approximately HK\$66.9 million in the year under review (31st March, 2003: approximately HK\$52.4 million).

The employees are remunerated based on their work performance, professional experiences and the prevailing industry practice. The Group also makes contributions to the statutory mandatory provident fund scheme for the employees of the Group in Hong Kong and to the central pension scheme for the employees of the Group in the PRC. A share option scheme is operated by the Company from 6th August, 2003. In the year under review, no share options have been granted to any employees.

### **FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS AND THEIR EXPECTED SOURCE OF FUNDING**

As part of our expansion plans, subsequent to the year end and on 19th June, 2004, a wholly-owned subsidiary of the Company entered into an agreement with C.D. Real Estate, an independent corporation established in the PRC, whereby C.D. Real Estate will construct and sell, and the Group will purchase, a New Production Plant for a consideration of RMB102,175,000 (approximately HK\$96,391,509). The New Production Plant will be erected on a land with a site area of approximately 23,334 sq.m.. When completed, the New Production Plant will comprise a 7-storey industrial building with a planned gross floor area of approximately 67,000 sq.m. together with ancillary facilities including a basketball court and a car port. The New Production Plant is expected to have a production capacity of approximately 750,000 dozens of sportswear per annum and will increase the Group's existing production capacity of approximately 245,000 dozens of sportswear per annum by approximately 200 per cent.. C.D. Real Estate will complete and deliver the New Production Plant to the Group on or before 15th April, 2005. The Agreement is conditional upon certain conditions as disclosed in our circular to shareholders dated 14th July, 2004.

For further details of the acquisition, please refer to our circular to shareholders dated 14th July, 2004.

The source of funding for the acquisition will come partly from the proceeds of the share offer, the Subscription and the Placing.