



The Shares to be issued pursuant to the Scrip Dividend Scheme will rank pari passu in all respects with the Shares in issue on the date of allotment and issue of such Shares save that they will not be entitled to the final dividend for the year ended 31 March 2004.

On condition that the payment of the above final dividend is approved by the shareholders at the annual general meeting of the Company, a circular containing details of the Scrip Dividend Scheme will be despatched to the shareholders of the Company shortly after the annual general meeting of the Company.

## BUSINESS REVIEW

Over the past few years, we have experienced steady business growth, and the financial year under review was no exception. Although facing with various unfavourable conditions including the Iraq War, outbreak of Severe Acute Respiratory Syndrome as well as substantial escalation of cotton price and fuel costs, our results for the past twelve months were still encouraging.

The Group's turnover rose steadily by 37% to HK\$1.71 billion and net profit for the year surged to HK\$153.3 million, signifying an increase of 66% as compared with the previous year. Basic earnings per share increased from 23.6 cents in 2003 to 30.4 cents in 2004.

Production and sales of knitted fabric and dyed yarn remained as the principal operation of the Group. Turnover of this segment reached HK\$1.09 billion, representing a 43% growth as compared with last year. Our enhanced production capability together with the dedicated effort of the marketing teams contributed to the rapid turnover growth. During the year under review, we achieved growing businesses with new customers from Taiwan, South Korea, Bangladesh, Singapore, mainland China as well as the local market. Our products and services were well-accepted by our customers and we are of great confidence to maintain significant growth of our order book in the coming years.

Another factor contributed to the increase in turnover was the commencement of our new yarn dyeing operation since late August 2003. The new facility, with an investment of over HK\$150 million, has a monthly production capacity close to 4 million pounds. Although the operation of a new production plant usually requires a pick-up period before it can deliver its targeted economic benefits, thanks to the hard work of our management and staff, the new yarn dyeing operation contributed to both turnover and profit growth during the second half



## CHAIRMAN'S STATEMENT



of the financial year. Equipped with this new manufacturing facility, the Group's competitiveness was further strengthened by providing comprehensive and quality services to our customers in an efficient manner. It is anticipated that the yarn dyeing business will play a significant role in our corporate development in the coming years.



Apart from turnover growth, we keep focus on enhancement of business fundamentals, operational efficiency and effectiveness, and incessant cost control. Since last September, the prices of cotton and cotton yarn surged abruptly, which brought adverse effects to production costs in the textile industry. Our management decided to increase the inventory level and concluded contracts with the cotton yarn suppliers at the early stage of the price upsurge. This greatly reduced the adverse impact to our gross profit margin. At the same time, the Group has adjusted the selling prices of products in order to pass on the increased material costs to the customers. Together with our stringent operating costs control, achievement of economies of scale through the enhanced production capacity and full utilisation of the coal-fired facility, the gross profit margin for the business segment of production and sales of knitted fabrics and dyed yarn was further improved from 23.5% in 2003 to 24.3% in 2004.

Our forward integration into the garment trading business since 2001 has proved to be a successful diversification. Turnover of this business segment which accounted for 36% of the Group's turnover, achieved a 29% growth to HK\$624 million. More and more buyers in the United States of America ("USA") and Canada enjoyed the value-added comprehensive services provided by the landed-duty-paid programmes. In addition, we received orders from new customers in England, Ireland, Continental Europe, Japan and USA through the diligent effort of the marketing teams. Although facing with keen competition, the garment trading businesses once again contributed to both turnover and profit growth and maintained similar profit margins as compared to the previous year.

Despite the significant obstacles and the difficult economic environment, we managed to strengthen our market position against tough market competition. Our management and staff have met and exceeded the most demanding expectations in a difficult market and the past year had shown how their hard work and commitment to quality services helped us overcome all negative factors and made 2003/2004 an uninterrupted success.

## OUTLOOK

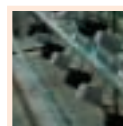
In today's fast-paced environment, the critically important competencies essential to survival include efficient and effective delivery of quality products and services to the customers. The Group is committed to enhance its competitive advantages. Through our years of effort, the Group has become a vertical set-up, from yarn dyeing, knitted fabric manufacturing to sourcing and exporting of garment apparels, providing customers with comprehensive and integrated services.

To cater for the future expansion of the production lines, our second coal-fired facility within the Xinhui factory premises will be completed in July 2004. The new coal-fired facility, with double output comparing the existing one, in one way stabilises the power supply to our production plants and in another way gives further reduction to our fuel costs.

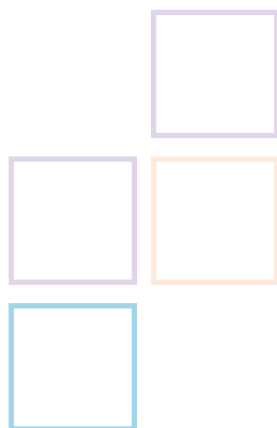
To cope with the expected growth in demand of our quality fabric, we expect our new manufacturing facilities will be put into operation by September 2004. Together with the new set-up, our monthly production capacity of knitted fabric will be increased from 6 million pounds to around 12 million pounds. At the same time, our monthly yarn dyeing capacity will also increase to 5 million pounds. This indicates our determination in reinforcing our production capability and commitment to offer high quality services, thereby we are well-equipped to strengthen our position as one of the leading manufacturers in the textile industry.

Regarding the garment trading business, we expect continuous growth as a result of expanding sales to existing reputable clients as well as to new clientele bases in new markets. Besides, we will diversify our products in order to offer a complete range of services to diverse clientele bases in different markets. Given the fact that the abolishment of garment quotas amongst the World Trade Organisation member countries since January 2005 will undoubtedly bring changes to the garment industry, our garment trading business is well-prepared to face new challenges and to capture new business opportunities ahead.

In line with our corporate expansion, we continue to place priority on staff and organisation development. There will be continual talent recruitment and in-house re-engineering programmes for our staff. Technical and inter-company posting will be arranged to enrich the professional knowledge of our dedicated employees.



CHAIRMAN'S STATEMENT



Going forward, in addition to organic growth, the Group will continuously explore any possible value-enhancing investment opportunities. We believe that with our solid foundation and committed focus of the management team, the Group is well-equipped to enhance its competitiveness and to meet the new challenges within the market place. While the year ahead will be a challenging one, our outstanding growth rate encourages us to aim higher and bring the most satisfactory returns to our shareholders.

### APPRECIATION

Once again, on behalf of the Board, I would like to express my heartfelt thanks to the hard work of our management and all staff during the year. Conveying also our cordial thanks to all our clients, business partners and shareholders for your continual support and confidence in the Group.

**Li Ming Hung**

*Chairman*

Hong Kong  
8 July 2004