



## MANAGEMENT DISCUSSION AND ANALYSIS

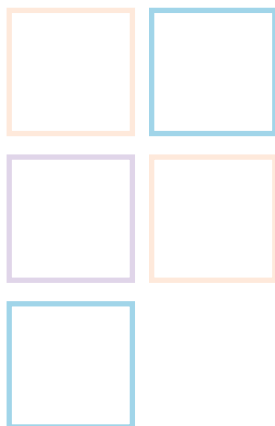
### Financial Review

The Group's turnover for the year ended 31 March 2004 increased by 37% from HK\$1.25 billion to HK\$1.71 billion. Turnover of production and sale of knitted fabric and dyed yarn increased by 43% to HK\$1.09 billion, representing 64% of the Group's turnover whereas turnover of garment trading business surged to HK\$624 million, signifying a 29% growth as compared with last year.

Gross profit margin for production and sale of knitted fabric and dyed yarn slightly increased from 23.5% in 2003 to 24.3% in 2004. During the year under review, the upsurge of cotton price brought adverse effects to the textile industry. The Group managed to maintain its gross profit margin by increasing the inventory level at the early stage of the price upsurge and also passing on part of the increased costs to customers through selling pricing adjustments. On the other hand, the full utilization of the coal-fired facility and enhancement of production capability achieved economies of scale which compensated the increase in fuel costs during the year. As a result of all these, the Group can still maintain the uprising trend of its gross profit margin.

For the garment business, the increase in cotton price during the year together with severe price competition resulted in the decrease of the gross profit margin from 13.7% in 2003 to 12.3% in 2004. With the keen effort of the management to control the operating costs together with the achievement of economies of scale, the net profit margin was sustained at 6.1%, same as last year.

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During the year, the prevailing interest rates remained low and the Group obtained favourable banking facilities with its bankers. In addition, a HK\$288 million syndication loan bearing a competitive interest margin of HIBOR + 0.70% per annum was raised in June 2003. By these, the finance costs of the Group was further reduced.

### Liquidity and Financial Resources

As at 31 March 2004, the Group had total assets of HK\$1,968,941,000 (2003: HK\$1,043,570,000) which were financed by current liabilities of HK\$783,679,000 (2003: HK\$413,083,000), long term liabilities of HK\$264,215,000 (2003: HK\$44,831,000) and shareholders' equity of HK\$896,669,000 (2003: HK\$570,132,000). The current ratio was approximately 1.7 (2003: 1.6) and the gearing ratio, being the ratio of total borrowings (net of bank balances and cash) to shareholders funds was 51% (2003: 21%). All of the Group's borrowings were at floating rate basis.

The Group services its debts primarily through cash earned from its operations. The Directors believe that the Group has maintained sufficient working capital for its operation and future expansion. Should other opportunities arise requiring additional funding, the Directors believe that the Group is in a good position to obtain financing on favourable terms.

### Exposure to Fluctuation in Foreign Exchange

The Group's monetary assets and liabilities were principally denominated in Hong Kong dollars, Chinese Renminbi and US dollars. Inasmuch as the Hong Kong dollars is pegged to the US dollars, and that there has been minimal fluctuation in exchange rate between Hong Kong dollars and Chinese Renminbi, the Group's exposure to currency exchange risk was minimal.

### Capital Expenditure

During the year, the Group invested approximately HK\$328 million in fixed assets, of which 60% was used for purchase of plant and machinery, 14% for construction of the second coal-fired facility for producing steam and electricity and 23% for acquisition of property and construction of new factory plants.

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At 31 March 2004, the Group had capital commitments of approximately HK\$124 million in respect of acquisition of new machinery and construction of new factory plants, which are financed by long-term bank borrowings.

**Placement of Shares**

Pursuant to a placing agreement dated 25 February 2004, an aggregate of 50,000,000 ordinary shares of HK\$0.01 each in the Company were placed by Pearl Garden Pacific Limited and Madian Star Limited to independent investors at the price of HK\$3.72 per share. On completion of placing, Pearl Garden Pacific Limited and Madian Star Limited together subscribed for an aggregate of 50,000,000 new shares in the Company at the price of HK\$3.72 per share so as to raise further working capital for the Company and broaden its shareholder and capital base. These shares ranked pari passu with the then existing shares in all respects. The net proceeds from the subscription of approximately HK\$181 million were used by the Group for the expansion of its production capacity and as general working capital.

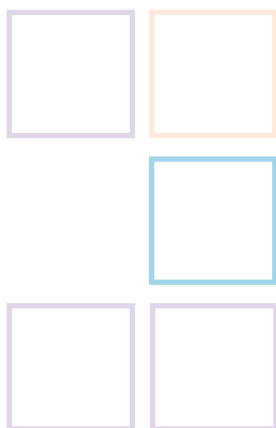
**Charges on Assets**

At 31 March 2004, investment properties and certain property, equipment, plant and machinery of the Group with net book value of approximately HK\$34 million were pledged to banks to secure banking facilities granted.

**Contingent Liabilities**

At 31 March 2004, the Company had contingent liabilities in relation to guarantees given to banks and other financial institutions to secure credit facilities granted to certain subsidiaries amounting to approximately HK\$1.2 billion. The Company also gave guarantee to a financial institution to secure factoring financing facilities granted to a subsidiary amounting to approximately HK\$15.5 million.





### Employee Information

As at 31 March 2004, total number of employees of the Group were approximately 180 in Hong Kong (2003: 120), approximately 10 (2003: 10) in the United States of America and Canada and approximately 3,200 in the People's Republic of China (2003: 2,000). Remuneration packages are generally structured by reference to market terms and individual qualifications. Salaries and wages are normally reviewed on an annual basis based on performance appraisals and other relevant factors. Bonuses are normally paid to management staff based on individuals' merits as well as the results of the Group. Other benefits to the staff include a provident fund scheme as well as medical insurance.

The Company maintains a share option scheme, pursuant to which share options are granted to selected eligible executives, with a view to provide senior management an appropriate incentive interest for the growth of the Group.

### Major Customers and Suppliers

In the year under review, sales to the five largest customers accounted for 35.1% of the total sales for the year and sales to the largest customer included therein accounted for 13.7%.

Purchase from the five largest suppliers accounted for 23.3% of the total purchases for the year and purchase from the largest supplier included therein accounted for 6.9%.

None of the Directors, their respective associates (as defined in The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) or shareholders of the Company who own more than five percent of the issued share capital of the Company has any interest in the Group's five largest customers during the year under review.