



# CHAIRMAN'S STATEMENT

On behalf of the board of directors of Rontex International Holdings Limited (the "Company"), together with its subsidiaries (the "Group"), I am pleased to announce our annual results for the year ended 31st March 2004.

## RESULTS AND DIVIDENDS

This is a challenging year for the Group, during the year under review, the Group recorded a turnover of HK\$144,561,000 (2003: HK\$163,112,000), and net profit attributable to shareholders of HK\$14,253,000 (2003: HK\$30,235,000), each down 11.4% and down 52.8% respectively compared to the previous year.

No dividend was recommend for the year ended 31st March 2004 for the reasons of retaining cash for future growth and contingency. Nevertheless, further to the bonus issue of shares ("Shares") of the Company on the basis of 1 bonus share for every 1 existing Shares then held approved at the 2003 annual general meeting on 18th September 2003, another bonus issue of the Shares on the basis of 3 bonus Shares for every 1 existing Share then held was proposed for conformity with the long term objectives of enhancing the return of investment of shareholders of the Company. Corresponding resolution for the subsequent bonus issue was passed in the extraordinary general meeting held in February 2004.

## LOOKING BACK

The financial performance of the Group fell short of expectation for the year ended 31st March 2004. This was the result of the outbreak of Severe Acute Respiratory Syndrome ("SARS") in the first quarter of the financial year under review, the soaring of cost of good sold which was caused by significant inflation of cost of raw materials for garment manufacturing industry and tax penalties imposed by Peru.

As a result of the outbreak of SARS, our customers were threatened from visiting our office for screening garment product samples and negotiation of sales orders. Our South American sales agent is used to accompany merchandisers of South American country department stores to visit us around March to May in previous years. Most of our sales contracts are negotiated and compromised during their visit. Due to the hazards of SARS, they cancelled their trip to our office and switched their sales orders to other places where no cases of SARS were reported.

On the other hand, the price of raw materials for garment manufacturing such as yarn and cotton in the People's Republic of China (the "PRC") experienced significant inflation for the year under review. Moreover, one of our major market, Peru has imposed tax tariff on import goods with source of origin in the PRC. Since over 95% of the suppliers of the Group are located in the People's Republic of China, the cost of production and sales price of our products soared substantially. As a result, the demand for the products of the Company decreased.

Thanks to the great effort of our management team who have carried out effective measures to minimize the impact of the incidents abovementioned on the financial performance of the Group. During the period of outbreak of SARS, we did our business through electronic media. On the other hand, in order to recap the growth opportunities, our management team has transferred the increment in cost due to price inflation of raw materials to our customers to sustain the profit margin and broadened our scope of value added services such as quality assurance and shipment arrangement to retain our customers.

# CHAIRMAN'S STATEMENT (CONTINUED)

## LOOKING BACK (Continued)

We have also reviewed our marketing strategies. During the year under review, the Group has restructured its sales teams for the purpose of exploring new markets including Japan and Europe. Together with the benefits accrued from our continuous implementation of measures of productivity enhancement and cost reduction, the Group reported profits for two consecutive years despite the challenges encountered for the year.

On the other hand, our investments in the PRC manufacturing facilities has got breakthroughs. Firstly, the Group has entered into a joint venture agreement with two PRC individuals on 27th October 2003 for the formation of 寧波朗迪紡織品有限公司 (“寧波朗迪”) which was a wholly owned subsidiary of the Company prior to the execution of the joint venture agreement. We are of the opinion that the introduction of investments of Chinese entrepreneurs into its PRC manufacturing facilities could reinforce solid foundation for the Group's long-term business growth through the participation of Chinese shareholders who possess extensive networks and industry expertise in the management of the 寧波朗迪. Moreover, 寧波朗迪 could be benefited from additional financial resources.

Secondly, Huzhou Ronco Sweaters Company Limited, another PRC subsidiary which principally engages in the manufacturing and sale of sweater products, has completed construction progress during the year under review and commenced manufacturing in April 2004. The manufacturing facilities of the Group were strengthened which enhanced the production capacity and competitiveness of the Group.

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## LOOKING AHEAD

We keep on seeking investment opportunities with similar business operations and outstanding potential profitability companies in the PRC for capturing business opportunities triggered by the rapidly growing economic of the PRC and to strengthen the production facilities of the Group.

Due to uncertainties caused by the outbreak of the SARS and the war in Iraq in the first quarter of the year under review, the Group has slowed down the process of identification of investment opportunities. In light of encouraging movements of important global macro-economic indicators and the strong growth of the PRC economy, the Group is moving actively and carefully to search for high return investment which will be able to maximize the benefits of shareholders of the Company.

The Group has also devised new marketing strategies to explore Japan, United States and European markets for diversification of clientele basis. With the cancellation of the quota system in the United States and Europe, the Group can enter these markets with lower entry barriers. The Group plans to participate in several garment exhibitions to be held overseas or in Hong Kong. We believe our strong production facilities and extensive sourcing network will furnish us with competitive edge in striving new market segments.

Besides diversification of our markets, we have planned to improve the quality of clientele basis. More resources such as human capital, financial resources will be shifted to clients with high profit margin and proven records of settlement of trade receivables. We believe that with continuous improvement of the quality of our clients, the financial liquidity and cash flow position of the Group will be reinforced. We will also continue implementing stringent measures and contingencies in operations of the business, with a focus on quality-driven and cost efficient operations.



## CHAIRMAN'S STATEMENT (CONTINUED)

### **LOOKING AHEAD** (Continued)

Looking ahead, we are dedicated to explore new markets with a view to enhance the market competitiveness of the Group. Our management team has strong perception of market risks to adjust its future business development directions in response to the rapid change of market demand and turbulent global economy.

### **APPRECIATION**

On behalf of the Group, I wish to express my sincere thanks to our management team and to our employees for their talents and efforts devoted to the Group. I would also like to express my gratitude to our shareholders and business partners for their continuing support for the Group.

**Cheung Keng Ching**

*Chairman*

Hong Kong, 28th July 2004