

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the year ended 31st March 2004, the Group recorded a turnover of approximately HK\$144,561,000 (2003: HK\$163,112,000), down 11.4% compared to the previous year. The profit from operations and net profit attributable to shareholders for the year under review decreased by 51.0% and 52.8% to approximately HK\$16,715,000 (2003: HK\$34,104,000) and HK\$14,253,000 (2003: HK\$30,235,000) respectively, as compared to the previous year. The main reasons for the decrease in turnover was the outbreak of the SARS which threatened our clients from using our sourcing services, the inflation of price of garment manufacturing raw materials and the tariff imposed by Peru. The decrease in the profit from operations was attributable to the mushroom of administrative expenses in the PRC production facilities and additional expenses for the management of the Company to travel between PRC production facilities and Hong Kong office to carry out management duties, business communication with vendors and PRC investors and solicit potential customers. The Group has also recorded a loss amounting approximately to HK\$700,000 on deemed disposal of 49% interest in 寧波朗迪紡織品有限公司. The basic earnings per share amounted to HK0.9 cents (2003: as adjusted 2.0 cents), decreased by 55% compared to the previous year.

OPERATION REVIEW

Garment products

Garment product business has continued to be the major source of revenue of the Group. For the year ended 31st March 2004, it accounted for 94.9% (2003: 94.5%) of the Group's turnover. Revenue and operating profits derived from garment product business decreased by 11.0% to HK\$137,280,000 and by 52.0% to HK\$16,138,000. The decrease in turnover was as a result of the decline in sales orders from overseas customers due to outbreak of SARS which threatened our customers from visiting our office for screening garment products and negotiation of sales contracts. Increase in cost of garment manufacturing raw materials has also pressured our cost of goods sold and demand for the products of the Group was further impacted by the tariff imposed on products with source of origin in the PRC by Peru which is one of our major market. The decrease in operating profit was due to the increase in administrative expenses of PRC production facilities.

Knitwear products, which contributes approximately 48.0% (2003: 36.0%) of the turnover of the Group, recorded segment turnover and operating profit of approximately HK\$69,451,000 (2003: HK\$58,680,000) and HK\$7,385,000 (2003: HK\$10,705,000). This was attributable to the Group's investment in a Chinese-foreign equity joint venture, 寧波朗迪紡織品有限公司 which achieved 100% growth in turnover for the year under review. This production base is a wholly owned subsidiary of the Group in the previous year and is specialized in the production of various kinds of knitwear products. On the other hand, both business segments of woven garment products and sweaters recorded a decrease in turnover and operating profits due to the causes abovementioned.

Premium products

For the year ended 31st March 2004, the results of premium products remained stable and accounted for 5.0% (2003: 5.5%) of the turnover of the Group. The revenue and operating profits of premium products were approximately HK\$7,281,000 (2003: HK\$9,021,000) and HK\$577,000 (2003: HK\$490,000) respectively. To recap the growth momentum of premium products, the management team of the Group devised specialized marketing strategies and cost control measures to boost the profitability of this business segments.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

OPERATION REVIEW (Continued)

Geographical

Chile continues to be the Group's largest market which accounted for 68.1% (2003: 77.4% of the turnover of the Group for the year under review. Revenue and operating profits decreased by 22.0% to HK\$98,512,000 and 63.4% to HK\$11,197 respectively. The tariff imposed by Peru has also diminished our sales in Peru, our management team has responded promptly to switch attention and efforts to other geographical areas such as Australia, the impact on the profitability of the Group. On the other hand, the Group is keen to explore the European and United States market and is planning to participate in the coming garment expo held in the United States or Hong Kong to promote the products of the Group to United States and European customers.

Development in the PRC

On 27th October 2003, the Group has entered into a joint venture agreement with two PRC individuals 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. The directors of the Company 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.

In March 2004, 湖州朗迪毛衫有限公司(「湖州朗迪」) another PRC subsidiary which principally engages in the manufacturing and sale of sweater products, has completed construction progress and commenced manufacturing in April 2004. The directors of the Company anticipated that 湖州朗迪 could reinforce the business segment of sweater products and could strengthen the production capacity and competitiveness of the Group.

Option to acquire an equity interest of a company

During the year, the Group has acquired from an independent third party, which are independent of and not connected with the directors, chief executive or substantial shareholder of the Company or any of its subsidiaries or an associate of any of them, the option (the "Option") to acquire equity interests of a Company (the "Investee Company") which is pursuing to be listed in the American Stock Exchange (AMEX). The Company paid HK\$15,000,000 as consideration to the independent third party for the grant of the Option. However, subject to the approval of the listing committee of the corresponding stock exchange granting the listing of and permission to deal in the shares of the Investee Company, the acquisition of Option will be revoked and the consideration will be refunded.

The option was acquired by piece-meal method and was funded with internally generated funds. The directors of the Company have studied the financial information such as liquidity, profitability, prospects etc. and researches of the Investee Company. The directors of the Company are of the opinion that this long-term investment could enhance long-term interests and returns to our shareholders.

Prospects

The sustaining growth of the PRC market has created opportunities for the Group. Global traders will frequent to the PRC and the demand for business partners in Asia who can cater retailer's global need will increase. With the Group's current establishment in the PRC and continuous development which cement our presence in garment and fashion market, the Group is keen to reap the emerging opportunities induced by the latest trend of global trade.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

OPERATION REVIEW (Continued)

The directors of the Company have also noticed that the potential return of SARS and concentration of markets which will pose impact on our profit margin. In response to these challenges, the Group will carry out reformation on marketing strategies which aims at market diversification and continue implementing stringent measures and contingencies in business operations, with a focus on quality-driven and cost efficient operations.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st March 2004, the Group had net current assets of HK\$19,729,000 (31st March 2003: HK\$17,329,000). The Group's current ratio, as a ratio of current assets to current liabilities, was maintained at a healthy level of approximately 203% (31st March 2003: 195%) and the Group's gearing ratio, as a ratio of total interest-bearing borrowings to total assets, was maintained at a lowest level of 9.5% (31st March 2003: 2.8%).

The Group generally finances its operations with internally generated cash flow, facilities provided by its principal bankers in Hong Kong and the PRC and net proceeds from initial public offer. During the year under review, the Group recorded a net cash inflow of HK\$2,600,000 (2003: HK\$16,762,000), which raised the total cash and cash equivalents to HK\$19,999,000 (2003: HK\$17,388,000) as at the balance sheet date.

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES AND RELATED HEDGES

The bank borrowing of the Group as at 31st March 2004 were HK\$12,580,000 (31st March 2003: HK\$2,876,000), which were denominated in Hong Kong dollar, Renminbi and United States dollars. All of the Renminbi bank borrowings are at fixed interest rate of 5.46% per annum whilst the Hong Kong dollars borrowing are at variable interest rate ranging from 0.5% to 0.75% above the best lending rates. As the Group's transactions are mostly settled by Hong Kong dollars, Renminbi and United States dollars and the existing currency peg of Hong Kong dollars with United States dollar will remain unchanged in the foreseeable future; the exposure to foreign exchange fluctuation is minimal, therefore the use of financial instruments for hedging purpose is considered not necessary.

CONTINGENT LIABILITIES

As at 31st March 2004, the Group had contingent liabilities arising from bills of exchange discounted with recourse and long service payment of approximately HK\$3,910,000 (2003: HK\$2,842,000) and HK\$137,000 (2003: HK\$46,000) respectively.

CAPITAL COMMITMENT

As at 31st March 2004, the Group had no capital commitment.

EMPLOYEES AND REMUNERATION POLICIES

As at 31st March 2004, the Group had 13 staffs working in Hong Kong. In addition, 220 workers were employed by the Group in the PRC at a factory located in Ningbo.

The Group remunerates its employees largely based on industry practice. Remuneration packages comprised salary, commissions and bonuses based on individual performance.



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

PLEDGE OF ASSETS

The Group's banking facilities were secured against the Group's land and buildings located in Hong Kong and the PRC and motor vehicles in the PRC of approximately HK\$22,331,000 (2003: HK\$22,873,000) and HK\$700,000 (2003: HK\$774,000) respectively.

CORPORATE GOVERNANCE

The Group weights good corporate governance as one of the key elements to sustain its competitiveness and growth. We are committed to maintaining high standards of corporate governance practices and achieve financial prudence and has complied throughout the year with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("the Listing Rules"). We have implemented effective financial and management policies to strengthen the Group structure and operation systems. All Directors are responsible for overseeing the daily operations. Directors and senior management meet regularly to formulate overall strategies and discuss corporate governance, risk management, statutory compliance and financial performance of the Group.

The Group established the Audit Committee which comprises of two independent non-executive directors of our Group. All of them are members of professional bodies and possess unique industry experience and financial knowledge to advise on the matters of the Group. To achieve financial prudence and independence, our Audit Committee reviews the accounting policies, interim and final results of the Group.

AUDIT COMMITTEE

The Audit Committee comprises the two independent non-executive directors, Messrs Chow Chi Kit and To Yan Ming, Edmond. The Audit Committee has reviewed with management the accounting principles and practice adopted by the Group, and discussed auditing, internal control and financial reporting matters including the review of the financial statements for the year ended 31st March 2004.