The Group's business activities are organised into two operating units, namely Manufacturing and Brands, and a Corporate Cost Centre.

	Turnover		Profit (Loss)	
	2004	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000
Manufacturing	**1,194,769**	1,070,467	**210,899**	186,304
Brands	**22,274**	23,897	**(8,777)**	(9,587)
Corporate	**–**	–	**(7,725)**	(18,353)
Total	**1,217,043**	1,094,364	**194,397**	158,364

Group profit before taxation increased by 23% to HK$194.4 million on a Sales increase of 11.2% to HK$1.2 billion. This excellent profit performance was primarily due to a reduction in the charges attributable to our Corporate Cost Centre of HK$10.6 million, and the continued improvement of operating profit in the OEM business.

MANUFACTURING

Our core business saw a steady upturn in sales after the initial setback in the first quarter, as evidenced by the fact that sales turnover for the second half of the year was up 28% from the first half.

During the year, we shipped 53.5 million bras, with the second half year accounting for 55% of the total unit sales. This can be compared with 53 million bras shipped in the previous year with the second half year accounting for 49% of the total unit sales. Evidently, our earlier efforts to develop new customers in Europe and the U.S. markets are bearing fruit; a large proportion of the sales increase in the second half of the year related to growing business with these new customers.

It should be noted that more customers, particularly the new ones, are turning to the Group for fashion products which involve the use of expensive materials and skill demanding production processes. This trend is reflected by the modest increase in our unit selling price. We are pleased with our ability to trade up the quality of sales while maintaining our competitiveness in the volume but price-sensitive segment of the market, making us the most versatile and competent supplier in the trade.

The expansion of our new plant in Jiangxi, mainland China has been progressing well. During the year, the new plant shipped over 7.7 million units of bras, representing 14.5% of the total unit sales, versus only 6% in the previous year. The last building for sewing operations in the expansion project will be completed by December this year. We expect a staggered increase of low cost production output from Jiangxi as our new plant there continues its productivity build up over the next several months.

BRANDS

Branded sales dropped 7% during the year to HK$22.3 million, and now represent less than 2% of the Group's turnover. Operating losses remained disappointing at HK$8.8 million.

In Hong Kong, we closed one Marguerite Lee shop and one Meritlux shop during the financial year as we were unable to extend the shop leases on viable terms as a result of the tight and expensive supply of upscale retail properties. The decrease in the number of own retail shops in Hong Kong contributed to the drop in total turnover.

In mainland China, we managed a modest increase in sales to our existing customers but the progress of business development with new accounts fell short of expectations. This emerging market has attracted a large number of brassiere brands and many of our competing brands were offering aggressive sales terms in order to gain market access. We, on the other hand, opted for rational trade terms and selecting the right trading partners in order to ensure proper control of distribution and collection. The conservative business approach, though minimising risks at the expense of sales growth, is viewed as necessary in our strategic plan to invest in the brand business to ensure a long presence in the mainland China market.

CORPORATE

The charges attributable to our Corporate Cost Centre dropped almost 58% to HK$7.7 million in the financial year. This decrease was primarily due to a saving of HK$5.5 million in interest expenses from the reduction of bank debts, and the release of exchange reserve of HK$4.0 million on the winding up of two subsidiaries in Europe. We are pleased with our success in holding down other corporate and administration costs despite the continued growth in our core business.

FINANCIAL POSITION

The Group's financial position continued to improve throughout the year.

- Shareholders' funds increased from HK$264.7 million at 30 June 2003 to HK$330.6 million at 30 June 2004.

- At 30 June 2004, the Group had credit facilities amounting to HK$160 million, of which HK$16.5 million had been utilised. Our gearing ratio, which is measured by total borrowings to net worth, decreased from 9% to 6%. This was mainly due to our continuous reduction in bank debts. The Group is capable of generating internal cash flows to finance its daily operations.

- Our cash position has further improved during the year. Bank balances and cash increased by HK$13 million as compared with the previous year. The Group continues to have the ability to generate a substantial net operating cash surplus. At 30 June 2004, cash available to the Group net of bank borrowings amounted to HK$97.3 million.

- The Group's current ratio remained stable at 2.4 reflecting the Group's ability to maintain a positive financial position for the year.

OUTLOOK

Our core business continues to look strong in the months ahead. Most of the new OEM accounts we opened a year ago have started to develop strong business relationships with the Group. There are also potential new customers who might soon be included on our customer lists. In anticipation of increasing demand and in order to balance the investment of our expansion in mainland China, we have recently started to build a new plant in Thailand. This new plant, when fully operative next year, will give us the additional capacity needed to support our growth. On the other hand, we are mindful of the general concerns in the market on rising oil prices and upward adjustments of interest rates, which might trigger a downward cycle in the economy and negatively affect our business.

As for our brand business, we will adhere to our strategic plan with a focus on developing the mainland China market. While the sales turnover currently accounts for less than 2% of the Group's income and we are willing to take a long term but low risk approach to build the business, we do not expect it to have a significant impact on our overall performance in the near future.

Wong Chung Chong, Eddie

Group Managing Director