

Management Discussion and Analysis

OPERATIONAL REVIEW

The Group's core business continued to focus on the design, manufacture and sale of a range of high-end men's and women's apparel and uniforms. During the financial year ended 30 June 2004, the People's Republic of China (the "PRC") continued to be the Group's most important market, contributing approximately 83% of the Group's total external customer sales. The Hong Kong market being the other geographical segmental account for approximately 17% of the Group's total sales. The corresponding distribution for the two respective geographical segments for the year ended 30 June 2003 being 90% and 10%, respectively. The intensified competition in the PRC apparel market has contributed to an overall decrease in the proportion of PRC sales.

For the financial year ended 30 June 2004, the Group recorded a turnover and net profit attributable to shareholders of HK\$189.0 million and HK\$30.3 million, respectively. These measure against the turnover and net profit attributable to shareholders of HK\$208.7 million and HK\$40.3 million, respectively, recorded for the previous financial year ended 30 June 2003. The decline in turnover was mainly the carry-over effect of the reduced sales order received by the Group during the SARS period, which impacted the Group's business during the first half of the financial year 2004. The Group also recorded diminished dividends received and gain from disposal of the Group's investment during the year under review. To strengthen the Group's sales and marketing of garment in the PRC, the Group increased its promotional and marketing activities including television commercials, which accounted for the bulk of the increase in selling and distribution expenses for the current year. The overall decline in profitability of garment business was however partially offset by profit contribution from the Group's investment in nano-technology business.

The Group's investment in Hi-Tech business began to exhibit results for the current year. In arriving at net profit for the current year, sharing in profits of jointly-controlled entities of HK\$10.5 million has been included. These sharing in profits are mainly attributable to the Group's joint venture investment in Hi-Tech business of nano-technology applications.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's liquidity position remains robust and continues to adopt prudent funding and financial policies. As at 30 June 2004, the Group's cash and bank balances, which were principally Renminbi and Hong Kong dollar denominated, amounted to over HK\$148 million. Responding to the Group's strong cash asset backing, there were minimal borrowing needs on part of the Group which mainly included interest-bearing bank borrowings of approximately HK\$2.4 million.

The Group's capital commitments as at 30 June 2004 amounted to HK\$7.6 million and are mainly in respect of investment in jointly-controlled entities. The Group's presently available internal resources are sufficient in meeting these commitments.

CAPITAL STRUCTURE, GEARING LEVERAGE AND USE OF PROCEEDS

The Group generally finances its operation with internally generated resources. The Group's gearing ratio, measured on the basis of total borrowings as a percentage of total assets, remained at a low level over the two years at less than 1%.

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Apart from listed ordinary shares, the Company's capital instrument in issue during the year included warrants exercisable at HK\$0.37 per share to subscribe for a maximum of 360,000,000 new ordinary shares in the Company. During the year, certain of these then outstanding warrants were exercised and resulted in the issuance and allotment of 97,180,000 new ordinary shares in the Company. The subscription right attached to all remaining warrants had expired on the date of this report. The resulting net proceed realized from the exercise of warrants amounted to approximately HK\$35.9 million and has been utilised for general working capital of the Group and for future investment.

EXPOSURE TO FLUCTUATION IN EXCHANGE RATE

The majority of the Group's transactions and borrowings are denominated in Hong Kong dollars and Renminbi, and therefore the Group's exposure to exchange rate fluctuation is relatively insignificant. In general, the Group mainly utilizes its Renminbi income receipt for operating expenditures in China and does not use any financial instruments for hedging purpose.

MATERIAL ACQUISITION AND SIGNIFICANT INVESTMENTS HELD

On 18 March 2004, Holt Hire Holdings Limited, a wholly-owned subsidiary of the Company entered into an agreement with Rise Star Investment Limited, a company incorporated in the British Virgin Island, for the acquisition the entire issued share capital of Charming World Investments Limited ("Charming World"). The principal asset of Charming World consisted of a 40% equity interest in Putian City Keneng Hi-Tech Development Co. Ltd. ("Putian Keneng"), a limited liability company established in the PRC and owned as to 60% by a wholly-owned subsidiary of the Company. In turn, Putian Keneng holds as its principal asset a 55% equity interest in Zhongke Nanotech Engineering Center Co., Ltd. ("Zhongke Nanotech"), a PRC limited liability company engaged in the development and sale of nano material and related products. A provisional consideration of HK\$98 million (subject to downward adjustment) is payable for the acquisition. As a result of the acquisition, the Company's effective equity interests in Zhongke Nanotech has increased from the previously applicable 33% to 55% as at 30 June 2004. Further details of the acquisition are set out in the Company's circular of 13 April 2004 to its shareholders in connection with the acquisition.

Charming World and Putian Keneng remained essentially dormant subsequent to completion of the acquisition, and recorded minimal results from operation. The profit sharing in Zhongke Nanotech group of companies for the year ended 30 June 2004 and as reflected in the accompanying audited financial statements amounted to approximately HK\$10.5 million.

PLEDGE OF ASSETS

The Group's bank borrowing facilities are secured by certain of the Group's leasehold land and buildings in Hong Kong; pledged bank deposits of HK\$36.7 million; and corporate guarantees given by the Company.

CONTINGENT LIABILITIES

The Company and the Group do not have contingent liabilities of material amounts outstanding as at 30 June 2004.

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EMPLOYEE

As at 30 June 2004, the Group employed approximately 700 employees in our factory premises and approximately 17 staff in Hong Kong. The Group employs and remunerates its staff based on their qualification, experience and performance. On-going training sessions were conducted to enhance the staff's capabilities. In addition to basic salary payments, other benefits for eligible candidates include contributions to mandatory provident fund, group medical and accident insurance. To retain and reward valued employees, certain eligible candidates are invited to participate in the share option scheme of the Company. The salaries and allowance of employees for the year ended 30 June 2004 amounted to approximately HK\$8.0 million.