RESULTS AND BUSINESS REVIEW

The Group's turnover for the year ended 31st December, 2004 was HK$905.2 million (2003: HK$1,021.1 million), while gross profit was recorded at HK$91.1 million (2003: HK$148.9 million). Loss attributable to shareholders was HK$40.9 million (2003: HK$23.5 million).

Quotas restricting international textile and clothing trade between member countries of the World Trade Organization ("WTO") were eliminated on 31st December, 2004. As analyzed in the Interim Report of the Group for the six months ended 30th June, 2004, customers were cautious and conservative in placing orders with quota-restricted countries to avoid disruption of product flow during the second half of the year as anticipated. The Group also reduced customers' risk by postponing the shipment of part of the products made in Indonesia to 2005. As a result, sales from the Group's production base in Indonesia went through a decline, while those from the Group's non quota-restricted production bases were relatively stable. In terms of product category, knit tops, woven bottoms, sweater tops and knitted fabrics accounted for 62.6%, 28.7%, 7.8% and 0.9% (2003: 70.2%, 25.8%, 4.0% and 0%) of the Group's turnover respectively.

The Group's gross profit margin lowered to 10.1% (2003: 14.6%). During the latter half of 2004, with the deadline for using the garment quotas approaching, quota price in Indonesia unreasonably skyrocketed. The unexpected high quota price tapered off the Group's profit considerably. With the Group's turnover edging down and average product unit cost going up, the Group's gross profit margin was further hampered by continuous price pressure from customers resulting from fierce market competition.

Indonesia

During the year under review, Indonesia remained the Group's major production base. The Indonesian factories contributed 50.9% (2003: 59.6%) to the Group's turnover, of which 28.0%, 16.6% and 6.3% consisted of knit tops, woven bottoms and sweater tops respectively. Despite the Group's every effort to improve the performance of the sweater division, it still recorded losses during the year. The sweater factory was eventually closed to prevent further losses.

El Salvador

During the year, Charter, S.A. de C.V., a knit factory in El Salvador, contributed 16.7% (2003: 11.2%) of the total turnover. The factory focused on the production of basic style products in bulk order. As the Group secured appropriate orders for the factory which fully optimized the factory's resources and strength, its performance was satisfactory.

Lesotho

The output from Shinning Century Limited, a knit factory in Lesotho, accounted for 11.9% (2003: 12.5%) of the total turnover. Following an organizational restructuring in 2003, the factory rebounded and made a small contribution to the Group. The passing of the AGOA Acceleration Act of 2004 in July 2004 ensured that Lesotho would continue to enjoy the preferential treatment for apparel items granted by the US.

Vietnam

Sales growth in Vietnam slowed down following the imposition of US quotas since 2003. The overall output from Vietnam, including subcontracting business, accounted for 10.1% (2003: 11.0%) of the Group's turnover. Molax Vina Co., Ltd., a knit factory in Vietnam, continued to perform well due to the stringent cost control and its output accounted for 5.3% (2003: 4.2%) of the Group's turnover.

Mainland China

Since the joint venture factory set up in Shandong province for knitting, dyeing and finishing of knitted fabrics commenced production only in the second half of the year, its sales contribution to the Group was minimal.

During the year, the Group successfully widened its customer base, with 16.0% of turnover generated from new customers. Generally speaking, orders placed by new customers require higher standard of quality and value-added services and the Group can enjoy higher margin from new customers' orders.

LIQUIDITY AND FINANCIAL RESOURCES

Having adopted a conservative financial management system, the Group continued to maintain a healthy liquidity position. At 31st December, 2004, cash and bank balances amounted to HK$76.9 million (2003: HK$84.0 million).

The Group's current ratio was 1.4 (2003: 1.4). The gearing ratio of total bank loans to shareholders' fund was 50.8% (2003: 40.7%).

During the year, the Group has replaced certain of its short-term finance by long-term bank loans to meet its development. The Group's bank loans were denominated in either HK dollars or US dollars. The debt maturity profile of the Group as at 31st December, 2004 was as follows:

	At 31st December, 2004 HK$'000	At 31st December, 2003 HK$'000
Repayable within one year	**80,825**	109,123
Repayable after 1 year, but within 2 years	**7,800**	–
Repayable after 2 years, but within 5 years	**15,600**	–
Total	**104,225**	109,123

CAPITAL EXPENDITURE

During the year, the Group incurred a total capital expenditure of HK$56.6 million (2003: HK$17.3 million), funded from its own financial resources and bank borrowings. Of the total HK$56.6 million, HK$53.0 million was invested in a new joint venture factory in Shandong province, the Mainland China.

FOREIGN EXCHANGE EXPOSURE

The Group's sales were principally denominated in US dollars. Operating expenses for the Group's factories and offices were either denominated in US dollars or their respective local currencies.

As at 31st December, 2004, the exchange rates for Indonesian Rupiah, South African Rand and Vietnamese Dong to one US dollar were 9,355 (1st January, 2004: 8,465), 5.7 (1st January, 2004: 6.7) and 15,737 (1st January, 2004: 15,647) respectively. The Group closely monitors currency fluctuations and reduces its exchange risk by hedging with forward exchange contracts from time to time.

Salvadoran Colones, the local currency of El Salvador, has been pegged to the US dollars since 1st January, 2001 at 8.75 Colones to US$1. The Group does not foresee any currency exposure in El Salvador.

CREDIT POLICY

The Group's credit policy remained unchanged. It accepted orders from customers under letters of credit. Over 86.3% (2003: 82.1%) of the Group's business was transacted under letters of credit, with the balance being on an open account basis.

The open account term was granted under normal circumstances to existing customers. Credit limits for open account customers are set on an individual basis. The credit ratings of customers are constantly reviewed and their respective credit limits adjusted, if necessary.

CHARGES ON FIXED ASSETS

The Group's properties in Hong Kong with a carrying value of HK$18.6 million (2003: HK$19.2 million) has been pledged with a bank to secure trade facilities to the extent of HK$140.2 million (2003: HK$140.2 million). As at 31st December, 2004, the respective secured bank loans amounted to HK$56.9 million (2003: HK$32.7 million).

CONTINGENT LIABILITIES

As at 31st December, 2004, the Group had no contingent liabilities except bills discounted to banks with recourse amounting to HK$12.0 million (2003: HK$12.8 million).

HUMAN RESOURCES AND REMUNERATION POLICIES

The Group believes that employees' commitments and a harmonious working atmosphere between management and staff are important to the Group's success. Employees are rewarded on the basis of prevailing market practices, experience and performance. Benefits include medical and accidental insurance coverage as well as a provident fund scheme. In order to attract and retain high caliber employees, the Group also awards its employees discretionary bonuses based on performance evaluation and also maintains a share option scheme.

As at 31st December, 2004, the Group employed a total of 7,664 (2003: 7,509) full-time employees in the following regions:

Indonesia	3,718
Lesotho	1,390
El Salvador	1,246
Vietnam	616
China (Mainland and Hong Kong)	694
Total	7,664

OUTLOOK

Since the global textile quotas were eliminated among WTO members on 31st December, 2004, almost all garment producers have gained free access to the global market. Branded apparel makers and apparel retailers tend to consolidate their sourcing activities in fewer countries that offer competitive advantages. They also incline to source from large-sized manufacturers that produce a wider assortment and various categories of apparel so as to lower their sourcing costs.

Exports from the Mainland China are expected to grow dramatically. China will most likely become the preferred source for many textile and clothing articles due to its competitive advantages, such as high productivity of workers, availability of various materials, advanced equipment and well-developed infrastructure. In view of the huge potentials, the Group plans to set up production facilities there, with the aim to enhance overall value-added services for customers, shorten lead-time and increase varieties of products, which better-positions the Group for procuring orders of higher margin. The Group also considers the adoption of outward processing arrangement in Macau and Hong Kong to tackle any special safeguard measures that may impose on China under the WTO rules and regulations.

Indonesia, which is the major production base of the Group, has long been one of the dominant players in apparel exports. Despite being hindered by quota restrictions in 2004, following the abolition of quotas, Indonesia still has competitive advantages on the basis of parameters such as labor productivity and the positive development of apparel industry there. To further cope with customers' strategy and demand in sourcing from large-sized manufacturers, the Group is determined to expand its production capacity in Indonesia. The Group expects that factories operating on a larger scale tend to be more profitable in the post-quota era. Resources will also be focused on expanding categories of knitted and woven products so as to enhance the overall profit margin.

In garment industry, Vietnam is renowned for its cheap labor and good quality. Vietnam is a strategic source of garment supplies for the American market. The European Union and Canada also removed quota limits on textile imports from Vietnam effective from 1st January, 2005. The Group is cautiously optimistic about the prospects of Vietnam and will closely monitor the development of the industry in Vietnam.

The Group will continue to streamline its operations, boost its productivity and impose stringent cost control measures. More investments will go into logistics enhancement as well as training and management of workers so as to reduce turnaround time and improve labor productivity.

Enlarging and diversifying the Group's customer portfolio, the Group will continue its effort to strengthen its sales and marketing arm which strives to provide quality and value-added services to customers. The Group successfully secured a number of new customers in 2004 and will continue its efforts in this direction. Although competition is anticipated to intensify, the Group is confident that with the concerted effort of its employees, there would be a promising progress in the foreseeable future.