ANALYSIS OF RESULTS

Turnover

The Group followed the prudent sales strategy that it adopted in the previous year of focusing on servicing a core group of good customers with stable orders and regular shipping schedules in order to ensure that customers' demand for shorter manufacturing time was met. In addition, one of the major impacts of the removal of textile quota system in China was that the sales price structure of the Group was deeply affected. During the year, in anticipation of the elimination of quota charge, many customers requested for reduction in sales price such that the benefits of the lower cost were passed to them.

As a result of the Group's prudent sales strategy and lower prices, the Group could only achieve a small increase in turnover of 2.43% to HK$338 million for the year ended 31st March, 2005 (2004: HK$330 million).

During the year, the Group restructured its non knitted-to-shape garments business such that its non knitted-to-shape garment orders were not made by the Group on its own but were diverted to sub-contractors. This decision is borne out of the production restructuring to ensure that the production facilities of the Group are dedicated entirely to producing knitted-to-shape garments.

The Group purchased and installed additional 77 computerized knitting machines during the year. In the initial phase, the computerized machines were used in doing sub-contracting work. This new source of income accounted for the growth in sub-contracting income of 79.78% to HK$10.6 million for the year ended 31st March, 2005 (2004: HK$5.9 million).

During the year, the US markets continued to be the Group's largest market. Sales to the US represented approximately 88% of the total turnover of the Group for the year ended 31st March, 2005 (2004: 89%).

Profitability

For the year ended 31st March, 2005, the Group recorded a net loss of HK$29 million (2004: loss of HK$5 million). The increase was attributed mainly to lower gross profit margin on sales, and the depreciation charge as well as initial set up costs for the computerized knitting machines.

For the year under review, the gross profit margin of the Group dropped as a result of lower unit price and higher raw materials and labor costs. The drop in unit price was the direct result of the change in price structure as discussed in the previous section. With global oil price climbing to over US$50 per barrel in the year, raw materials cost was also increased. Compounding the pressure on the gross profit margin of the Group was the labor shortage in southern China in 2004. Labor cost in general rose by 10-15% as compared with the previous year. It is expected that with the constant increase in demand for labor in southern China, the labor shortage phenomenon will only get worse and labor cost will continue to increase.

The Group purchased additional 77 computerized machinery in the financial year of 2004. It is expected that as the computerized knitting machines are firmly in place, they will enable the Group to counter the rising labor cost, reduce wastage and generally improve the profitability of the Group.

LIQUIDITY AND CAPITAL RESOURCES

During the year, the Group had used HK$29 million for purchasing property, plant and equipment (2004: HK$10 million), most of which were used for the acquisition of 77 computerized machinery.

The Group believes that it can continue to finance its operations with its operating cashflow and available banking facilities of over HK$210 million. Of the banking facilities, HK$78 million has been utilized at 31st March, 2005. Most of the banking facilities were used in the capital expenditures for the acquisition of the computerized machinery. The banking facilities were secured by corporate guarantees given by the Company. The Group's gearing ratio computed as total borrowings over shareholders' fund was 34.2% at 31st March, 2005 (2004: 6.9%).

The Group borrowed HK$19 million in net borrowings for the computerized machinery. All of the Group's borrowings carry interests at floating rates. As interest rates remained to be low during the year under review, the Group's finance costs for the year ended 31st March, 2005 amounted to HK$2.2 million (2004: HK$0.5 million).

As most of the funds of the Group are held in Hong Kong and US dollars, the Group does not have any significant exposure to foreign currency fluctuation and has not found it necessary to make foreign currency hedging arrangements during the year ended 31st March, 2005. However, in view of the constant pressure on the Chinese government to appreciate the exchange rate of Renminbi, and with the Group's labor cost denominated in Renminbi, the Directors are closely monitoring the potential impact on the Group should the Renminbi exchange rate go up.

CHARGE ON GROUP ASSETS

The Group has pledged plant and machinery having a net book value of approximately HK$3,506,000 (2004: Nil) to secure general banking facilities granted to the Group.

CAPITAL EXPENDITURES AND COMMITMENTS

At 31st March, 2005, capital commitments of the Group amounted to approximately HK$27.95 million in relation to the acquisition of property, plant and equipment. The acquisition will be largely funded by banking facilities.

CONTINGENT LIABILITIES

At 31st March, 2005, the Group did not have any significant contingent liabilities (2004: Nil). At 31st March, 2005, the Company had issued corporate guarantees to banks in connection with facilities granted to certain of its subsidiaries amounting to HK$183 million (2004: HK$106 million).

HUMAN RESOURCES

At 31st March, 2005, the Group had approximately 1,057 employees (2004: 1,380). The size of the workforce is expected to remain more or less the same in the coming year. The Group's remuneration policies are in line with the prevailing market practice and are determined on the basis of the performance and experience of the individual employees. The remuneration policies and packages are reviewed on a regular basis. Bonuses are linked both to the performance of the Group as well as to that of the individual as recognition of their contribution to the Group. At the date of this Annual Report, there is no plan to grant any shares of the Company under the share option scheme adopted by the Company on 9th November, 2001.

FUTURE PROSPECTS

The elimination of textile quota for exports from China has so far produced paradoxical results. On one hand, the lower costs of exports have attracted more customers to buy from China. On the other hand, the proliferation of exports from China invites counter-measure of trade restrictive policies and action from the US and European markets. The constant threats of such counter-measures have in fact created uncertainties in the textile industry. In addition, many customers demanded that the saving from the lower quota cost be passed to them, resulting in fluctuations in the Group's profit margin.

As strategic measures to stabilize its sales and profitability and to consolidate its competitive position as a leader in the knitted-to-shape garment industry, the Group intends to continue to expand its computerized knitting machine division. For 2005 and 2006, the Group intends to add additional computerized machinery. As the Group gains experience in operating the computerized machinery, it will be able to improve on its margin from products produced by the computerized machinery. The computerized knitting machines will enable the Group to diversify its product range, improve on the uniform standard of the quality of its products, lower labor cost, and improve production flexibility in facing trade restriction measures by placing the machines at such trade friendly countries.

While the US economy, the biggest market of the Group's products, appears to be sputtering, the continued demands for the low cost quality products made in China are as strong as ever. The Group's management believes that by taking the bold development move of equipping the Group with more computerized knitting machines, maintaining cost control and improving operational efficiency, it will continue to maintain its competitive advantage of being one of the leading knitted-to-shape garment manufacturers and be better positioned to withstand the uncertainties of international trades and rising production costs. The Group's management believes that it will face a better year in 2005.