Chairman's Statement

RESULTS

The fiscal year ended March 31, 2005 was a year of difficulties to the Group.

The Group entered the year with a prudently optimistic outlook, bearing in mind that global uncertainty and volatility still prevailed. Based on our core strength of high product value and flexible multi-country production capacities, the Group achieved a double-digit growth in the manufacture and export sales. However, the Group encountered during the year a number of adverse factors, inter alias, the reorganization of an unprofitable manufacturing plant in the first half of the year, the increase in materials, labor and production costs, the market chaos emerged from the post quota era and the deeper than expected price deflation imposed by customers especially in the second half of the year. The combined negative impacts of these factors eroded the gross profit margin for the year. Coupled with the unsatisfactory operating results of both USA wholesale label business and China retail business, the Group's net profit for the year was much lower than last year. Anticipating the possible significant decrease of profit for the second-half year ended March 31, 2005, the Group issued a profit warning statement in the interim report dated December 17, 2004.

For the fiscal year ended March 31, 2005, the turnover of the Group increased 12% to approximately HK$2 billion. Audited profit attributable to shareholders and earnings per share decreased 26% to HK$71 million and 20.1 HK cents respectively. Thanks to the payment of a special cash dividend in March 2005 in addition to the normal interim dividend paid in January 2005, the shareholders' funds decreased 17% to HK$479 million or HK$1.36 per share. As a result, return on average equity for the year decreased to 13.4%.

FINAL DIVIDEND

As stated in the interim report dated December 17, 2004, the Group will fully distribute the total net profit for the year ended March 31, 2005 to our shareholders, in view of the foreseeable downturn of profitability. The Board of Directors has hereby resolved to recommend at the forthcoming Annual General Meeting a final dividend of 14.0 HK cents per share (2004: 13.5 HK cents per share), payable on September 13, 2005 to shareholders whose names appear on the Register of Members on September 6, 2005. Together with an interim dividend of 6.0 HK cents per share (2004: 6.0 HK cents per share) and a special dividend of 33.0 HK cents per share already paid, the total dividends for the year will be 53.0 HK cents per share (2004: 19.5 HK cents per share).

BUSINESS REVIEW

Manufacture and export business

During the year, the trading conditions for the core manufacture and export business of the Group were unfavorable. Global uncertainties and volatilities caused by the rising oil price and interest rates prevailed and suppressed the economic growth. The Group adhered to the strategic focus of building a closer alliance relationship with customers and offered the market a high value and quality products with strong and flexible multi-country manufacturing capacities in China and Asia. As a result, the Group achieved a 15% growth in export sales for the year. However, the uncertainties and chaos emerged from the post quota era accelerated the overall price deflation and also dampened the sourcing plan of our customers on certain most sensitive categories of garment in China.

Chairman's Statement

For the year under review, sales to North America increased 14% to HK$1,755 million, representing 89% of the turnover of the Group. Export sales to Europe and other markets increased 9% to HK$71 million, representing about 4% of the turnover of the Group.

As stated in the interim report, in order to enhance productivity and competitiveness, the Group reorganized the management and operation of an unprofitable manufacturing plant in the second zone of Shenzhen in China in the first half of the year. After the reorganization, such manufacturing operation has turned around its loss situation and has started to make profit in the last quarter of the year. Total loss incurred by that manufacturing operation for the year amounted to approximately HK$5 million.

USA wholesale label business

The wholesale label business experienced great challenge throughout the year. Both labels diversified the original collections but were ultimately not well received by the customers. The total sales for the year were much below plan and dropped drastically by 33% compared to last year, attributable to the loss of orders from department-store customers. The Group reorganized certain management and rationalized the scale structure of the operation. Due to the significant sales shortfall, total sales for the year accounted for less than 2% of the turnover of the Group and the operating loss of the wholesale label business enlarged.

China retail business

China's macro-economic measures continued to well adjust the overheated economy during the year, but did not have any significant adverse impact on the highly competitive retail market. The Group continued to exercise a cautious approach in operating China retail business, and rationalized the underperforming stores and opened new stores as adhered to plan. Attributable to the losses incurred by the Zariah and T+T brands, and the increased promotional activities as a whole, the retail operation incurred a loss for the year. At the year end date, the Group operated 89 Betu label stores, 11 Zariah label stores and 10 T+T label stores. Total retail sales amount in China for the year was similar to last year and accounted for about 6% of the turnover of the Group.

PROSPECTS

Manufacture and export business

Based on our existing solid platform of value products, interdependent customer relationship, high productivity and flexibility of multi-country manufacturing capacities, and our leading edge in silk garment production in China, the Group will persist in continuous improvement and is confident to gain increased market share in the medium and long term. On the other hand, the Group will streamline our organization and tighten controls on production costs and expenses.

In the coming year, the global economic growth, clouded with rising oil price and interest rates, is expected to slow down. Global garment export trading conditions will continue to be unfavorable and price deflation pressure is expected to prevail. Uncertainties and chaos, including the short-term challenges of safeguards, quota embargoes and trade disputes, especially between the USA and China, will continue to prevail. However, the Group is well positioned to capitalize on core strength of multi-location production capacities well established in China, Thailand, the Philippines, Vietnam and Hong Kong and make flexible and effective production capacity planning, in order to alleviate the negative impact of such challenges on the quota garment export business. Meanwhile, the Group will keep upgrading our product design and development capability and continue to grow our core silk garment manufacture business strategically.

According to the current order projection and barring any unforeseen circumstances, the Group anticipates a slight decrease for the total export turnover in the first half of the coming year.

USA wholesale label business

The Group has been implementing corrective measures on the operating management and strategies on products and designs, marketing and sourcing of the wholesale collections. Since Fall 2005, we have re-started to sell to department-store customers but sell-through performance in the stores is yet to be confirmed. The Group is committed to improve the operating result of the wholesale label business in the coming year.

China retail business

In the short term, retail climate in China is still intensively competitive and the Group will continue to run the operations cautiously. Rationalization of the retail outlet composition will be continued and underperforming stores will be closed. Subsequent to the year end date, a total of 19 stores were closed and 10 stores were opened. As at report date, there are 80 Betu stores, 12 Zariah stores and 9 T+T stores are in operation. The Group is having plans underway to improve the operating results by enriching our products and designs, evolving our in-store environment and enhancing our marketing. The Group targets to open about 20 stores in the balance of the coming year.

Major Factories/ Offices | Wholesale labels in the United States | Retail Stores in China

HUMAN RESOURCES

The Group's long-term growth and prosperity depends on our continuous investment and proactive re-engineering process in our human resources. We recognize and offer opportunities for competent, talented people who have great enthusiasm to keep up with our corporate value and long-term growth. We are determined to upgrade the value of every one of us in the Group to embrace every challenge in future.

ACKNOWLEDGEMENT

I would like to express gratitude to our valued customers, business associates and shareholders for their continuous trust and support. I would like to thank our global management team and staff force for their hard work, loyal service and commitment for our long-term growth. Last but not least, I appreciate deeply all members of the Board for their diligent guidance and support.

Benson Tung Wah Wing
Chairman

Hong Kong, July 12, 2005


Betu


ZARIAH