Management Discussion and Analysis

OPERATING RESULTS

The turnover of the Group for the year increased 12% to HK$1,963 million. Audited net profit for the year and earnings per share decreased 26% to HK$71 million and HK20.1 cents respectively.

The increase in turnover was caused by the combined effect of 14% increase of export sales to North America, 1% decrease in sales in Asia and 9% increase in sales to Europe and other export markets. The segment result of each of the geographical markets posted a negative growth. The pre-tax contribution from North America segment decreased 19% to HK$87 million. The pre-tax contribution from Asia segment and Europe and other market segment decreased 95% and 15% respectively. As a result, the consolidated pre-tax contribution recorded a decrease of 24% to HK$94 million. The segment information of the Group is set out in note 4 to the financial statements.

Due to the following adverse impacts: (i) the reorganization of an unprofitable manufacturing plant; (ii) the increase in materials, labor and production costs; (iii) the price deflation pressure from customers of export business and (iv) the unsatisfactory operating results of both USA wholesale brand business and China retail business, the consolidated cost of sales as a percentage of sales increased from 73.5% to 76.6%. To support a higher level of turnover, selling and distribution expenses increased from HK$88.8 million to HK$103.3 million, representing an increase from 5.1% to 5.3% as a percentage of sales. Administrative expenses, though increased from HK$250.5 million to HK$262.5 million, dropped from 14.3% to 13.4% as a percentage of sales. Finance cost increased HK$0.5 million to HK$1.4 million. Other income decreased slightly from HK$5.0 million to HK$4.8 million.

CAPITAL EXPENDITURE

During the year, the Group spent approximately HK$49 million on the acquisition of fixed assets, compared to HK$19 million last year. Of which, about HK$24 million was used for the purchases of factory premises and production facilities and machineries for the setting up of the new garment factory in Hangzhou. The remaining balance of HK$25 million was attributed to the recurring addition and replacement of fixed assets in the Group.

On March 31, 2005, the investment properties situated in Hong Kong were revalued. Resulting from the revaluation, an additional surplus of approximately HK$13.4 million was generated and transferred to investment property revaluation reserve.

LIQUIDITY AND FINANCIAL RESOURCES

The financial position of the Group remained solid throughout the year and at the balance sheet date. After paying special cash dividend to shareholders and funding internally the production capacity expansion projects during the year, the Group's cash balance has been lowered to a level of HK$206 million at the year end date, compared to HK$330 million last year. Most of the cash balance was placed in USD and HKD short-term deposits with major banks in Hong Kong. Total bank borrowings of HK$13 million were trust receipt loans, bank overdrafts and bank loan in nature, denominated in USD, HKD and Renminbi, and represented 3% of the shareholders' funds at the year end date. Based on the net cash balance of HK$193 million and sufficient banking facilities, the Group has adequate liquidity and financial resources to meet the operation and investment needs.

The Group continued to adopt prudent financial policy and implement tight control on inventories and receivables throughout the year. The inventory turnover was 31 days compared with 34 days last year. Receivable turnover also improved to 50 days compared with 53 days last year. Due to the impact of paying special cash dividend to shareholders, current ratio and quick ratio were 2.1 and 1.5 respectively, compared to 2.6 and 2.0 respectively last year. Such ratios fully reflect that the Group is still operating at a very healthy working capital and liquidity level.

At March 31, 2005 certain land and buildings with an aggregate net book value of about HK$20 million (2004: HK$21 million), certain investment properties with an aggregate carrying value of approximately HK$8 million (2004: HK$6 million) and certain bank deposits of HK$0.2 million (2004: Nil) were pledged to banks to secure general banking facilities granted to the Group. At March 31, 2005, bills discounted with recourse were HK$67 million (2004: HK$61 million).

TREASURY POLICY

The Group adopts prudent treasury policies to hedge the fluctuation of exchange rates and manage interest rates on interest bearing loans. It is the policy of the Group not to engage in speculative activities. Except for the retail sales which are denominated in Renminbi, most of the export sales of the Group are denominated in USD, with a very minor portion denominated in Euros. Purchases and operating expenses are mostly denominated in USD, HKD and Renminbi. During the year, the Group entered into a limited number of forward contracts to hedge its receivables and payables denominated in foreign currency against the exchange fluctuation.

HUMAN RESOURCES

The Group, excluding the associates, had approximately 8,800 employees world-wide at the year-end date as compared with 8,100 last year. The rise was mainly due to hiring more factory workers in China and Asia during the year. The Group adopts a competitive remuneration package for its employees, by reference to industry terms, prevailing market conditions, individual merits and performance evaluation.


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