

Management Discussion and Analysis

FINANCIAL REVIEW

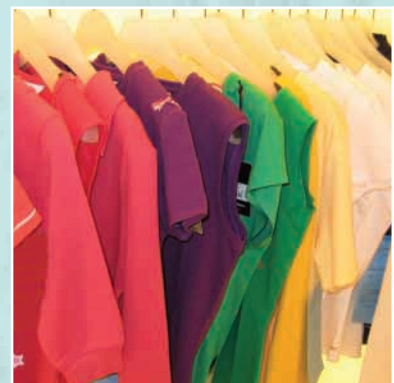
The Group's turnover for the year ended 31 March 2005 increased by 40% from HK\$1.7 billion to HK\$2.4 billion. Turnover of production and sale of knitted fabric and dyed yarn increased by 56% to HK\$1.7 billion, representing 71% of the Group's turnover whereas turnover of garment trading business surged to HK\$702 million, signifying a 13% growth as compared with last year.

The increase in turnover was mainly due to the consolidation of the whole-year result of the yarn dyeing business which commenced operation in August 2003. In addition, the doubling of monthly production capability of knitted fabric to 12 million pounds since October 2004 also contributed to the turnover growth. Other factors include exploring overseas markets such as Korea, Taiwan, Singapore and Bangladesh, diversifying into the PRC domestic market including quick turn-around but higher margin subcontracting orders, all added to the driving force of the turnover growth momentum.

Gross profit margin for production and sale of knitted fabric and dyed yarn slightly dropped from 24.3% to

22.6% in the year under review. Cotton price remained reasonably steady throughout the year whereas dyestuffs and chemicals rose substantially due to increase in oil price. Nevertheless, enhancement of production capability achieved economies of scale and together with the implementation of the new designed coal-fired facility in August 2004 further minimized the impact of increased production costs.

Turnover of the garment trading business increased by 13%, mainly contributed to the hard work of the marketing teams in developing new customers and diversifying product ranges. On the other hand, facing with uncertainties in the transitional period brought by the elimination of quota since January 2005, garment



prices were deflated. This together with the preliminary expenses in setting up new marketing teams to explore new export markets and product ranges, net profit margin for this business segment decreased from 6.1% in 2004 to 5.1% in 2005.

To cope with the increase in business turnover and capital investments, finance costs was kept at a

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2005, the Group had total assets of HK\$2,582,392,000 (2004: HK\$1,968,941,000) which were financed by current liabilities of HK\$780,945,000 (2004: HK\$783,679,000), long term liabilities of HK\$689,884,000 (2004: HK\$264,215,000) and shareholders' equity of HK\$1,073,993,000 (2004:

reasonable level of HK\$18 million in 2005, taking into the account of uprise of the global interest rate. The Group has tried its best endeavor in obtaining favourable banking facilities and arranging interest rate swap facilities with its bankers so as to keep the adverse impact brought by the increase in interest rate to minimal.

HK\$896,669,000). The current ratio was approximately 1.9 (2004: 1.7) and the gearing ratio, being the ratio of total borrowings (net of bank balances and cash) to shareholders funds was 76% (2004: 51%). All of the Group's borrowings were at floating rate basis.

The Group services its debts primarily through cash earned from its operations. The Directors believe that



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the Group has maintained sufficient working capital for its operation and future expansion. Should other opportunities arise requiring additional funding, the Directors believe that the Group is in a good position to obtain financing on favourable terms.

EXPOSURE TO FLUCTUATION IN FOREIGN EXCHANGE

The Group's monetary assets and liabilities were principally denominated in Hong Kong dollars, Chinese Renminbi and US dollars. Inasmuch as the Hong Kong dollars is pegged to the US dollars, and that there has been minimal fluctuation in exchange rate between Hong Kong dollars and Chinese Renminbi, the Group's exposure to currency exchange risk was minimal.

CAPITAL EXPENDITURE

During the year, the Group invested approximately HK\$449 million in fixed assets, of which 42% was used for purchase of plant and machinery, 11% for construction of the second coal-fired facility for producing steam and electricity and 40% for acquisition of property and construction of new factory plants.

At 31 March 2005, the Group had capital commitments of approximately HK\$121 million in respect of acquisition of new machinery and construction of new factory plants, which are financed by long-term bank borrowings.

CHARGES ON ASSETS

At 31 March 2005, investment properties and certain property, equipment, plant and machinery of the Group with net book value of approximately HK\$57 million were pledged to banks to secure banking facilities granted.

CONTINGENT LIABILITIES

At 31 March 2005, the Company had contingent liabilities in relation to guarantees given to banks and other financial institutions to secure credit facilities granted to certain subsidiaries amounting to approximately HK\$2.3 billion. The Company also gave guarantee to a financial institution to secure factoring financing facilities granted to a subsidiary amounting to approximately HK\$15.5 million.

EMPLOYEE INFORMATION

As at 31 March 2005, total number of employees of the Group were approximately 220 in Hong Kong (2004: 180), approximately 10 (2004: 10) in the USA and Canada and approximately 4,800 in the PRC (2004:



3,200). Remuneration packages are generally structured by reference to market terms and individual qualifications. Salaries and wages are normally reviewed on an annual basis based on performance appraisals and other relevant factors. Bonuses are normally paid to management staff based on



individuals' merits as well as the results of the Group. Other benefits to the staff include a provident fund scheme as well as medical insurance.

The Company maintains a share option scheme, pursuant to which share options are granted to selected eligible executives, with a view to providing senior management an appropriate incentive interest for the growth of the Group.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the five largest customers accounted for 28.0% of the total sales for the year and sales to the largest customer included therein accounted for 12.4%.

Purchase from the five largest suppliers accounted for 22.1% of the total purchases for the year and purchase from the largest supplier included therein accounted for 6.6%.

None of the Directors, their respective associates (as defined in The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) or shareholders of the Company who own more than five percent of the issued share capital of the Company has any interest in the Group's five largest customers during the year under review.

