

## **RISK FACTORS**

*In evaluating an investment in the Offer Shares, potential investors should consider carefully all the information contained in this prospectus including the risk factors set out below.*

### **RISKS RELATING TO THE GROUP**

#### **Reliance on key management**

The Group's success is, to a significant extent, attributable to the management skills and experience of Mr. Cheung and Mrs. Cheung and their well-established relationships with the Group's customers and suppliers. Mr. Cheung is the key person responsible for the Group's marketing functions and the establishment of business relationships with its customers and has over 7 years' experience in the trading of garment products. Mrs. Cheung is the key person responsible for the Group's procurement functions and the establishment of business relationships with its suppliers and has over 7 years' experience in the trading of garment products. There may be an adverse impact on the Group's profitability should either one of Mr. Cheung and Mrs. Cheung cease to be involved in the Group's management in the future.

#### **Reliance on major suppliers**

The Group is principally engaged in the sourcing, manufacture and sale of garments to countries in South America. For the three years ended 31st March, 2002, sales of garment products represented approximately 92.1%, 89.5% and 89.5% of the Group's total turnover respectively. The Group is also engaged in the trading of a variety of premium items to countries in South America and Canada.

However, the Group did not own any production facilities for garment products nor had it had any manufacturing experience in garment products until it invested in certain manufacturing entities in the PRC, namely Rontex (Jiayun), Rontex (Ningbo) and Rontex (Beijing) since July 1999, and the production at Rontex (Beijing) and Rontex (Ningbo) only commenced in September and December 2001 respectively. Should the Group's investment in these manufacturing entities prove to be unsuccessful, it may also have to heavily rely on the suppliers for the supply of garments, details of which are set out in the sub-paragraph headed "Sourcing of garments" in the paragraph headed "Sourcing, manufacture and sale of garments" under the section headed "Business" of this prospectus.

On the other hand, the Group also does not own any production facilities for premium products nor had it had any manufacturing experience in premium products. As a result, throughout the Track Record Period, the Group mainly relied on its five largest suppliers for the supply of garment products, premium products and raw materials for manufacturing garment products. For each of the three years ended 31st March, 2002, the five largest suppliers accounted for approximately 60.2%, 64.2% and 59.6% of the Group's cost of purchases and the largest supplier of the Group accounted for approximately 20.0%, 27.5% and 22.8% of the Group's total cost of purchases respectively.

As the Group has not entered into any long term supply contracts with these suppliers, any discontinuation of the supply of garment products, premium products and raw materials to the Group by any of these five suppliers or any increase in the prices of garment products, premium products and raw materials supplied by them may have an adverse impact on the Group's profitability.

## **RISK FACTORS**

### **Reliance on major customers**

For the three years ended 31st March, 2002, sales of the Group's garments and premium products to its five largest customers accounted for approximately 72%, 60% and 62% of the Group's turnover respectively. The largest customer accounted for approximately 28%, 23% and 19% of the Group's turnover for the three years ended 31st March, 2002 respectively. As the Group's major customers are located in Chile and Peru, any significant decline in the economy of Chile or Peru and/or reduction in the level of purchases by the Group's customers in Chile or Peru will have a material adverse impact on the Group's performance and profitability.

### **Sustainability of profit margin**

For the three years ended 31st March, 2002, the net profit margin achieved by the Group was maintained at approximately 16.1%, 15.5%, and 17.9% respectively due to the Group's ability to source a range of garment products manufactured by the vendors of garment products located in the northern part of the PRC that meet customers' demand. There is no assurance that the net profit margin of the Group could continue to be maintained at a similar level in the coming years.

### **Dividend policy**

For each of the three years ended 31st March, 2002, the Group paid dividends in the amounts of approximately \$9.0 million, \$9.0 million and \$9.5 million respectively, representing approximately 48%, 41% and 42% of the profit attributable to shareholders for the respective periods. Special dividends of \$10 million were declared and paid by the Group on 31st July, 2002. The payment of these dividends was financed by the internal resources of the Group.

Potential investors should note that the above dividend payments should not be used as a reference for the Company's dividend policy. Further details on the dividend policy of the Company are set out in the paragraph headed "Profit forecast, dividends and working capital" under the section headed "Financial information" of this prospectus.

### **Change in customer base**

The Group has not built up a diversified customer base. There is no assurance that the Group will be able to successfully approach new buyers to obtain new buying orders. The success of the Group in capturing new buyers will depend on a number of factors, such as the continuous economic growth in the overseas and the PRC, the stability of the PRC political environment, the development of its competitors, factors which are all beyond the control of the Directors. Consequently, there is no assurance that the Group will succeed in expanding and diversifying its customer base.

### **Limited management resources**

The Group currently has 11 employees in Hong Kong who are engaged in the trading operations of the Group including sales, marketing and merchandising, and finance, accounting and administration. In addition, the trading operations of garment products contributed to more than 90% of the Group's profits from operating activities during the Track Record Period as the Group's manufacturing operations only commenced in December 2001 and incurred a net loss for the year ended 31st March, 2002. Whilst the Directors are of the view that the current staffing level is sufficient for the Group's operations, the departure of certain experienced staff member, in particular from the merchandising and sourcing department, may cause disturbance to certain

## **RISK FACTORS**

part(s) of the Group's operations in the event that suitable replacement could not be found within a reasonable period of time.

In addition, the marketing and business development function of the Group is delegated to an Independent Chilean based marketing consultant, together with his team of marketing professionals, for the South American markets, which accounted for more than 90% of the Group's total turnover during the Track Record Period. Whilst the Directors are of the view that the current arrangement is sufficient as the Independent Chilean marketing consultant will visit the Group together with the South American buyers periodically to discuss the market trends with Mr. Cheung, the chairman of the Company, who is also responsible for the Group's marketing function. However, the departure of the Independent Chilean marketing consultant and/or certain experienced marketing personnel of his team may cause disturbance to the Group's marketing and business development efforts in the South American markets in the event that suitable replacement could not be found within a reasonable period of time.

### **Effective tax rate**

For each of the three years ended 31st March, 2002, the Group's effective tax rates were approximately 0.3%, 2.1% and 5.6% respectively. Potential investors should note that the above low effective tax rates should not be used as a reference for the Group's future effective tax rates. As the current sales and marketing operation of the Group in the South American markets carried out by Ever Gold is offshore in nature, the profits arisen therefrom are not subject to Hong Kong profits tax in accordance with the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong). If there is any deterioration in the price negotiation efforts performed by the Independent Chilean marketing consultant engaged by Ever Gold and his team of marketing professionals, the profit contribution from Ever Gold will decrease and the Group's effective tax rate may increase accordingly.

In addition, if the sales and manufacturing operations of the Group's knitwear carried out through Rontex (Ningbo) are successful in the future, resulting in the tax losses and the tax holiday of Rontex (Ningbo) being fully utilized and lapsed respectively, the Group's effective tax rate may increase as the Group will then be subject to the PRC foreign enterprise income tax, the standard tax rate of which is currently at 33%.

### **Investment in listed equity securities**

For each of the two years ended 31st March, 2001, the Group had invested approximately \$32.2 million and \$5.9 million respectively in listed equity securities as advised by certain securities brokers and bankers. Although the transactions were frequent and numerous, the Directors had relied heavily on the advice of those securities brokers and bankers in such investments and did not actively participate in the investment decisions. Accordingly, the Directors do not consider these investments the Group's core activity during the Track Record Period. As such, the losses incurred from such investment activities of approximately \$4.7 million for each of the two years ended 31st March, 2001 were recorded and included as other operating expenses in the Group's consolidated income statements for the two years then ended. Although such investment activities in listed shares in Hong Kong had ceased after 31st March, 2001 and the whole investment portfolio was disposed of at carrying value in April 2001, the Directors consider that in the long term, a balanced investment portfolio of the Group's surplus funds should still include investments in high quality listed equity securities from the worldwide stock markets. As such, the operating results of the Group in the future may be adversely affected if the Group has listed equity securities investments in its surplus funds portfolio and the general stock market conditions are not favourable at the relevant time.

## **RISK FACTORS**

### **RISK RELATING TO THE INDUSTRY**

#### **Competition**

So far as the Directors are aware, there are a number of companies involved in the trading and manufacturing of garment products in Hong Kong and the PRC. The Directors consider that the Group faces competition from Hong Kong and the PRC manufacturers which mainly compete against the Group on price and quality. If the competition intensifies and/or the Group is unable to match the products requirements of its competitors, the business and profitability of Group may be adversely affected.

### **RISK RELATING TO CHILE AND PERU**

For each of the three years ended 31st March, 2002, the Group's exports to Chile and Peru accounted for an aggregate of approximately 94.8%, 93.8% and 94.7% of its total turnover respectively. The Directors anticipate that the exports of the Group's garment and premium products to Chile and Peru will continue to represent a significant portion of the Group's turnover in the near future. In this connection, the Group is inevitably exposed to changes in the economic, political and social conditions in Chile and Peru as well as changes in the domestic demand for the Group's products in these countries. Although the overall economic conditions in Chile and Peru now present a favourable environment and ample business opportunities for exporters, details of which are set out in the section headed "Industry overview" of this prospectus, there is no assurance that any change in the economic, political or social conditions in Chile and/or Peru may not have a material adverse effect on the Group's future performance and profitability.

### **RISKS RELATING TO THE PRC**

#### **Political and social considerations**

As all of the Group's production facilities are located in the PRC, the Group's profitability may be adversely affected in the event of changes in the PRC's political and social conditions and the policies of the PRC government such as introduction of measures to control inflation, changes in interest rates or method of taxation and the imposition of additional restrictions on currency conversion and foreign remittances.

#### **Economic and legal considerations**

The economy of the PRC has been transforming from a centrally planned economy to a market economy with socialist characteristics. There is no certainty that the PRC government's programme of economic reform will be maintained.

Since the PRC's adoption of the open-door policy in 1978, the trend of PRC legislation has, on the whole, significantly enhanced the protection afforded to foreign investors in the PRC. However, as the PRC legal system matures, there can be no assurance that changes in its legislation or the interpretation of its legislation will not have an adverse effect on the business and prospects of the Group.

<b>RISK FACTORS</b>
---------------------

**PRC's admission as a member of the WTO**

The PRC has successfully entered into the WTO. It is anticipated that competition in the garment industry will be intensified. If the Group fails to maintain its competitive edge against the intensified competition, the Group's performance and profitability may be adversely affected.

**RISKS RELATING TO ECONOMIC AND POLITICAL STATUS****Uncertain global economic and political outlook**

The terrorist attacks in New York and Washington, US on 11th September, 2001 (the "Terrorist Attacks") have exerted and will continue to exert considerable direct and indirect influence on the global economy. It is generally expected that further growth of the global economy may be slowed down as a result of the Terrorist Attacks.