

Management Discussion and Analysis



Financial Review

The Group's turnover for the year ended 31 March 2003 increased by 43% from HK\$873 million to HK\$1.25 billion. Turnover of production and sale of knitted fabric increased by 32% to HK\$765 million, representing 61% of the Group's turnover whereas turnover of garment trading business surged to HK\$484 million, signifying a 65% growth as compared with last year.

Gross profit margin for production and sale of knitted fabric increased from 20.3% in 2002 to 23.5% in 2003. The substantial increase reflected the efforts of the management's tight control in operating costs, particularly with the operation of the coal-fired facility which increased the gross profit margin by more than 2%. During the year, the garment trading business concluded direct sales to the reputable buyers in the United States of America and Canada under landed-duty-paid programmes which improved the gross profit margin of this division from 8.6% in 2002 to 13.7% in 2003.

In line with the Group's capital expansion, depreciation charges increased from HK\$30 million in 2002 to HK\$35 million in 2003. In fact, the increase in productivity and efficiency of the Xinhui factory achieved economies of scale and

the percentage of depreciation charges to cost of sales was reduced and enhanced the growth of the profit margin.

During the year, the prevailing interest rates remained low. In addition, the management's effort to maintain the gearing ratio at low level also reduced the finance costs of the Group.

Liquidity and Financial Resources

As at 31 March 2003, the Group had total assets of HK\$1,043,507,000 (2002: HK\$803,180,000) which were financed by current liabilities of HK\$413,083,000 (2002: HK\$354,336,000), long term liabilities of HK\$44,831,000 (2002: HK\$39,847,000) and shareholders' equity of HK\$570,132,000 (2002: HK\$402,010,000). The current ratio was approximately 1.6 (2002: 1.4) and the gearing ratio, being the ratio of total borrowings (net of bank balances and cash) to shareholders funds was 21.0% (2002: 32.1%). 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 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.

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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\$98.7 million in fixed assets, of which 56% was used for purchase of plant and machinery and 34% for acquisition of property and construction of new factory plant.

As at 31 March 2003, the Group had capital commitments of approximately HK\$114 million in respect of acquisition of new machinery and construction of new factory plant, which are financed by long-term bank borrowings.

Placement of Shares

Pursuant to a placing agreement dated 14 March 2003, an aggregate of 40,000,000 ordinary shares of HK\$0.01 each in the Company were placed by Pearl Garden Pacific Limited and Madian Star Limited to independent investors at the price of HK\$1.75 per share. On completion of placing, Pearl Garden Pacific Limited



and Madian Star Limited together subscribed for an aggregate of 40,000,000 new shares in the Company at the price of HK\$1.75 per share so as to raise further working capital for the Company and broaden its shareholder and capital base. These shares ranked pari passu with the then existing shares in all respects. The net proceeds from the subscription of approximately HK\$68 million were used by the Group for the expansion of its production capacity and as general working capital.

Charges on Assets

As at 31 March 2003, investment properties and certain property, equipment, plant and machinery of the Group with net book value of approximately HK\$33 million were pledged to banks to secure banking facilities granted.

Contingent Liabilities

As at 31 March 2003, 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\$480 million. 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.

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Employee Information

As at 31 March 2003, total number of employees of the Group were approximately 120 in Hong Kong (2002: 100), approximately 10 (2002: 7) in the United States of America and Canada and approximately 2,000 in the People's Republic of China (2002: 1,800). 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 with 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 36.4% of the total sales for the year and sales to the largest customer included therein accounted for 14.4%.

Purchase from the five largest suppliers accounted for 34.7% of the total purchases for the year and purchase from the largest supplier included therein accounted for 10.9%.

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.

