





管理層之 討論及分析

MANAGEMENT DISCUSSION AND ANALYSIS

透過產品多元化及開拓優質客戶，
並優化生產流程去提升集團競爭力
Diversify the products, explore
quality clients and optimize
production process to enhance
the Group's competitiveness



經營環境

從一九七四年至二零零四年，全球服裝業的發展一直由配額制度推動，服裝生產分佈於擁有可用配額的國家。而自二零零五年一月一日起世界貿易組織（「世貿」）成員間撤銷配額後，服裝行業結構及傳統的競爭模式出現了變化，並趨向於集中在少數國家生產。

撤銷配額後的具體變化首先就反映在年內中美、中歐紡織品貿易磨擦上。由於中國出口至美國的7類服裝之數額迅速增加，美國分別於二零零五年五月與九月依據《特殊紡織品保護措施》及《特殊產品保護措施》對中國出口採取相應的保護措施，並要求與中國政府協商，以對中國的出口實施新配額限制。二零零五年十一月，中國政府與美國政府就貿易糾紛達成諒解備忘錄，就出口美國的21類中國紡織品及服裝產品訂出年度配額及每年增幅上限。

自美國宣佈實施新配額的決定後不久，歐盟亦於二零零五年五月對中國出口的T恤及亞麻紗重新實施新配額。於二零零五年六月及九月，中國政府與歐盟亦達成相應之諒解備忘錄，亦明確了中國出口歐盟之10類紡織品及服裝產品的年度配額及每年增幅上限。

中國政府為應對撤銷配額後紡織品出口歐美激增之態勢，採取了多項應對措施，其中之一就是從二零零五年一月一日起對148項次類別之出口服裝徵收出口關稅，並於二零零五年五月十二日決定自二零零五年六月一日起對其中38項調高出口關稅額。鑒於美國與歐盟於二零零五年五月對中國出口服裝實施配額限制，中國政府於二零零五年五月三十日作出決定，不但取消調整該等關稅的計劃，相反更撤銷對原148項次中若干出口服裝次類別徵收關稅。此外，於二零零五年七月二十一日作出另一項決定，自二零零五年八月一日起，進一步撤銷對受歐盟新配額限制的若干產品類別徵收出口關稅。二零零五年十二月十三日，中國政府宣佈，自二零零六年一月一日起，中國停止徵收紡織品出口關稅。

Operating Environment

From 1974 to 2004, the global apparel industry had been shaped by the quota system. Apparel production was scattered around countries with available quotas. However, changes emerged in the structure of the apparel industry and traditional patterns of competition following the abolition of quotas among member countries of the World Trade Organization ("WTO") as of 1 January 2005 and there was a growing trend for apparel production to be concentrated in fewer countries.

Changes in the post-quota era were immediately reflected in the trade dispute between China and each of the U.S. and the EU on textile products. The U.S. government invoked the textile-specific safeguard clause and the product-specific safeguard clause, respectively, in May and September 2005 to introduce protective measures against Chinese exports, following the sharp increase in China's exports to the U.S. in 7 categories of apparel. The U.S. government demanded negotiations with the PRC government to implement new quota restrictions on Chinese exports. In November 2005, the PRC government reached a memorandum of understanding with the U.S. government to resolve the trade dispute, whereby annual quotas and caps on annual increases for 21 categories of China's apparel and textile exports to the U.S were prescribed.

Shortly after the U.S. announced its decision to impose new quotas, the EU also reimposed in May 2005 new quotas on imports of T-shirts and flax yarns from China. In June and September 2005, the PRC government reached a similar memorandum of understanding with the EU which introduced annual quotas on EU imports of 10 categories of China manufactured textile and apparel products and caps on the annual increase of these quotas.

Effective from 1 January 2005, the PRC government imposed export tariffs on 148 product sub-categories to control the rapid growth of textile exports to Europe and the U.S. following the abolition of quotas. On 12 May 2005, the PRC government decided to increase the amount of export tariffs payable on 38 product sub-categories effective from 1 June 2005. On 30 May 2005, however, the PRC government called off plans to adjust the export tariffs and removed export tariffs on certain items among the 148 product sub-categories after the U.S. and the EU re-imposed quotas on apparel exports from China in May 2005. On 21 July 2005, the PRC government further decided that, effective from 1 August 2005, export tariffs on certain product subcategories that were subject to the new quota restrictions imposed by the EU would be removed. On 13 December 2005, the PRC government announced that all export tariffs on textile products would be suspended effective from 1 January 2006.



於二零零五年九月，中國商務部就推行新配額分配制度頒佈若干臨時規則。根據該制度，自二零零五年九月二十二日起，中國的紡織品製造商出口其產品至以下國家或地區(i)對中國紡織品及服裝出口實施限制措施；或(ii)與中國訂立有關中國製造紡織及服裝產品受影響類別的紡織品或服裝產品。中國商務部將首先向紡織品及服裝出口商，就各受影響市場，為各類有關受影響紡織品及服裝類別各自授出一個配額，配額數目每年予以檢討。配額分配的基準如下：各受影響產品類別配額的70%，將主要按於二零零四年六月一日至二零零五年五月三十一日期間，個別出口商佔中國出口該受影響產品類別至歐盟及全球其他地方總值份額的比例予以分配，而其餘30%的配額則通過招標分配。二零零五年十二月二日，中國商務部明確了該規則也適用於中美諒解備忘錄所涵蓋的21類受限制紡織品及服裝產品。

於二零零五年七月二十一日，中國人民銀行發佈《關於完善人民幣匯率形成機制改革的公告》，決定實行以市場供求為基礎，參考一籃子貨幣進行調節，有管理的浮動匯率制度，人民幣匯率不再盯住單一美元，形成更富彈性的人民幣匯率機制。於二零零五年九月二十三日，中國人民銀行決定擴大銀行間外匯市場非美元對人民幣交易價的浮動幅度，從原來的上下1.5%擴大

In September 2005, the Ministry of Commerce promulgated certain provisional rules on a new quota allocation system. Under this system, effective from 22 September 2005, China-based textile and apparel manufacturers exporting to countries or regions that have (i) imposed restrictions on Chinese textile and apparel exports or (ii) entered into agreements with China relating to affected categories of China-manufactured textile and apparel products would be granted a quota in respect of each of the affected market and affected categories, which quota was subject to review on an annual basis. The quotas were to be allocated on the following basis: 70% of the quotas in each affected category to be mainly allocated in proportion to an exporter's share of China's total exports to the EU and the world in that category for the period from 1 June 2004 to 31 May 2005 and the remaining 30% to be allocated based on a bidding process. On 2 December 2005, the Ministry of Commerce clarified that the rules should be extended to the 21 categories restricted textile and apparel products covered by the Sino-U.S. memorandum of understanding.

On 21 July 2005, the People's Bank of China issued the Announcement on Reforms to Improve the RMB Exchange Rate Regime, announcing its decision to establish a more flexible RMB exchange rate regime by abandoning the RMB peg to US dollars and adopting a managed floating exchange rate for RMB based on market demand and supply with reference to a basket of currencies. On 23 September 2005, the People's Bank of China resolved to broaden the floating exchange rates between currencies



到上下3%，適度擴大了銀行掛牌匯價管理幅度，並取消了銀行對客戶掛牌的非美元價差幅度限制。截止二零零五年十二月三十一日，比較匯率改革前1美元兌人民幣8.28元，人民幣匯率已累計升值約2.5%；與匯率改革之初的1美元兌人民幣8.11元相比，人民幣兌美元已上升0.49%。

自二零零四年十一月初至二零零五年年中，因中國政府三次出台棉花收儲政策並不斷調高收儲價格，而紡織品出口的WTO配額放開，及紡紗量與紡織品出口紛紛再創新高，中國國內棉花價格止跌回升。而自二零零五年五月下旬至九月下旬，由於歐美設限等主要原因，中國國內棉花價格停止了上漲的步伐，穩定在相對高位。二零零五年九月底至本年底，由於中國國內棉花播種面積減少，並預期二零零五至二零零六年度全球棉花播種面積減少，及中國與歐美均已簽署紡織品和服裝貿易的諒解備忘錄，棉花價格最高曾達到人民幣14,500元／噸，並一直維持在比較高的價位。

other than the USD and RMB in the inter-bank exchange market from +/- 1.5% to +/- 3%, expanding moderately the managed range of exchange rates quoted by banks. Restrictions on price spreads for currencies other than USD quoted by banks to their customers were also abolished. As at 31 December 2005, RMB had appreciated by approximately 2.5% as compared to US\$1:RMB8.28 prior to the reform, or by 0.49% as compared to US\$1:RMB8.11 recorded immediately after the reform.

Cotton prices in China rebounded after the PRC government issued three announcements on State purchases of cotton reserves, at escalating prices, during the period from early November 2004 to mid-2005, coupled with record highs in textile production volume and exports following the relaxation of WTO quotas for textile exports. From late May to late September, 2005, cotton prices in China stabilized at a relatively high level in the wake of protective measures adopted by Europe and the U.S. From late September to the end of 2005, cotton prices stayed upbeat after hitting a high of RMB14,500 per ton. The strength in cotton prices was attributable to reduced cotton acreage in China, expected reduction in global cotton acreage in 2005/06 and China's memoranda of understanding with the EU and the U.S. on textile and apparel trade.



業務回顧

經過多年的迅速發展，申洲國際已確立了在中國針織服裝行業領導性地位。本公司於二零零五年十一月成功於聯交所主板上市，更是本集團可持續發展的重要里程碑。回顧年內業務發展，本集團發展重點如下：

運動服裝比例大幅提升

本集團自成立以來一直以休閒服裝為主要產品，近年來致力於運動服裝的開發。經過多年與客戶建立的關係，Adidas、Nike 及 Puma 等知名運動品牌客戶開始於年內增大訂單規模，並呈現快速增長態勢。比較二零零四年的1.9%比例，截至二零零五年十二月三十一日止年度運動服裝所佔總銷售額的比例提升至約8.8%。

順利開拓歐盟市場

雖然受歐盟紡織品設限影響，年內本集團歐盟市場發展亦能表現出良好態勢。比較二零零四年的1.5%比例，截至二零零五年十二月三十一日止年度出口歐盟服裝所佔當年總銷售額的比例約為6.4%。此外，受惠於本集團作為中國最大的針織服裝生產企業，本集團已取得中國輸歐美二零零六年度紡織品配額逾1,100萬件。可用的配額無疑將有力支持本集團順利拓展歐美市場。

生產能力迅速擴充

回顧年度內，本集團購置了新染整設備，順利將原有的染整廠房的染整設備搬遷至新的染整廠區。新染整廠區亦位處寧波經濟技術開發區，建築面積達250,000平方米，包括四個高規格漂染車間及其配套設施。此外，在新廠區還建有一個每日處理量達60,000噸的污水處理系統與每日回收量達10,000噸的中水回用系統。新染整廠房的投入使用，使本集團的染整能力（以染整廠房及配套設施計）日加工逾200噸，並使本集團縱向一體化生產工序中的瓶頸得到解決，基本滿足了集團未來五年發展對染整能力的需要。

Business Review

Shenzhou International has established a leading position in the PRC knitwear industry following years of rapid development. The listing of the Company on the Main Board of the Stock Exchange in November 2005 represented an important milestone for the Group's sustainable development. Key business developments of the Group during the year under review included the following:

Substantial growth in sports wear product

While the Group has been focusing on casual wear since its establishment, considerable efforts have been devoted to the development of sports wear in recent years. More contracts were signed for orders from renowned brand name customers including Adidas, Nike and Puma during the year, on the back of strong customer relationships established over the years, and there were indications that the volume of their orders would grow rapidly. For the year ended 31 December 2005, sports wear contributed to 8.8% of the Group's total sales, as compared to 1.9% in 2004.

Market expansion into the EU

The Group enjoyed positive developments in the EU market during the year despite EU restrictions on textile imports from China. For the year ended 31 December 2005, apparel exports to the EU accounted for approximately 6.4% of the total sales for the year, as compared to 1.5% in 2004. In addition, the Group benefited from its status as the largest knitwear manufacturer in China and has awarded a quota of over 11 million pieces for exports of Chinese textile products to Europe and the U.S. in 2006. The available quota will lend strong support to the Group's expansion initiatives in Europe and the U.S.

Rapid expansion of production capacity

During the year under review, the Group acquired new dyeing and finishing equipment as well as relocated the dyeing and finishing equipment at the former dyeing and finishing facilities to its new dyeing and finishing complex. Located in the Ningbo Economic and Technical Development Zone and occupying a gross floor area of 250,000 sq.m., the new complex featured four high-specification dyeing workshops with ancillary facilities. The new complex also featured a 60,000-ton per day waste water treatment system and a 10,000-ton per day water recycling system. With the commissioning of the new dyeing and finishing facilities that brought about a daily dyeing and finishing capacity of over 200 tons (in terms of dyeing and finishing plant and its ancillary facilities), the bottleneck in the vertical integration of the Group's production processes was removed and new capacities will be available to meet the Group's anticipated requirements in the next five years.

產品品質持續提高

年內，本集團進一步加強品質管制，注重全過程品質控制，並於年內擴建了一個面積超過6,000平方米及達到中國先進水平的面料實驗室。此外，通過資產、業務及管理整合，進一步優化縱向一體化生產模式，以客戶服務為中心進一步提升各個工序的工藝水平與團隊合作，在品質、交貨期及工序效能上更臻完美。

提升區域服務能力

開拓區域性之全天候服務，是本集團致力發展的一個方向。年內，本集團已策略性地在柬埔寨金邊市設立製衣廠房，並於二零零五年九月底正式投產，成衣產能每月將超過50萬件，主要為北美的客戶提供服務，並將惠及其他歐美客戶及日本客戶。本集團在柬埔寨的策略性投資，配合本集團的中國政府輸歐美紡織品之配額，及關稅優惠之政策，必將有利本集團拓展歐美市場之策略。

財務回顧

銷售額

銷售額由截至二零零四年十二月三十一日止年度的人民幣2,116,907,000元，增至截至二零零五年十二月三十一日止年度的人民幣2,482,984,000元，增加了人民幣366,077,000元，增幅達17.3%。增長因素主要表現為運動服裝銷售額的快速上升及歐洲市場銷售額的顯著增加。

Consistent improvements to product quality

During the year, the Group adopted further quality control measures with special emphasis on controls throughout the entire production process. To that end, a fabric laboratory with an area of over 6,000 sq.m. and boasting nationally advanced standards was built during the year. The vertically integrated production process was further optimized through consolidation in assets, businesses and management. Process standards and team work at each stage were further enhanced with a focus on customer service, while further improvements were made in terms of quality, delivery schedules and processes.

Enhanced regional servicing capabilities

The ability to pursue regional diversification in operation represented an important focus in the Group's development. During the year, the Group has strategically established garment factory in Phnom Penh, Cambodia in late September, 2005. With a garment production capacity exceeding 500,000 pieces per month, the garment factory is mainly serving customers in North America, with opportunities to benefit other customers in Europe, the U.S. and Japan. Combining with quotas of Chinese textile exports to Europe and the U.S. and aided by tariff concessions, the Group's strategic investments in Cambodia will support its expansion initiatives in Europe and the U.S.

FINANCIAL REVIEW

Sales

Sales for the year ended 31 December 2005 amounted to RMB2,482,984,000, an increase by RMB366,077,000 or 17.3% compared to RMB2,116,907,000 for the year ended 31 December 2004. The growth was mainly driven by the sharp increase in the sales of sports wear and sales to the European market.

管理層討論與分析

Management Discussion and Analysis

以下為本集團二零零五年度及二零零四年度按產品類別分析的銷售額比較：

Sales of the Group analyzed by product categories for 2005 and 2004 is compared as follows:

		截至十二月三十一日止年度					
		For the year ended 31 December					
		二零零五年		二零零四年		變動	
		2005		2004		Change	
		人民幣千元		人民幣千元		人民幣千元	
		RMB'000	%	RMB'000	%	RMB'000	%
按產品	By product						
出口銷售	Exports sales						
休閒服裝	Casual wear	1,992,836	80.3	1,899,535	89.8	93,301	4.9
運動服裝	Sports wear	218,770	8.8	41,172	1.9	177,598	431.4
其他針織品	Other knitting products	87,117	3.5	89,936	4.2	(2,819)	(3.1)
出口銷售小計	Export sales — subtotal	2,298,723	92.6	2,030,643	95.9	268,080	13.2
國內銷售	Domestic sales	184,261	7.4	86,264	4.1	97,997	113.6
銷售額總計	Total sales	2,482,984	100.0	2,116,907	100.0	366,077	17.3

於二零零五年，運動服裝所佔比例大幅度得以提高，主要得益於本集團為 Nike、Adidas 及 Puma 等知名運動品牌代工的業務大幅增加。比較二零零四年的 1.9%，二零零五年運動服裝所佔總銷售額的比例大幅提升至 8.8%。

The substantial increase in the contribution from sports wear was mainly attributable to the substantial increase in OEM manufacturing for renowned brand names such as Nike, Adidas and Puma. Sports wear accounted for 8.8% of the Group's total sales in 2005, representing a significant increase as compared to 1.9% in 2004.

以下為本集團二零零五年度及二零零四年度按市場劃分的銷售額比較：

Sales of the Group analyzed by region for 2005 and 2004 is compared as follows:

		截至十二月三十一日止年度					
		For the year ended 31 December					
		二零零五年		二零零四年		變動	
		2005		2004		Change	
		人民幣千元		人民幣千元		人民幣千元	
		RMB'000	%	RMB'000	%	RMB'000	%
按市場	By region						
國際銷售	International sales						
日本	Japan	2,017,248	81.2	1,885,709	89.1	131,539	7.0
歐洲	Europe	159,341	6.4	33,123	1.5	126,218	381.1
美國	U.S.	79,418	3.2	77,842	3.7	1,576	2.0
其他國家	Others	42,716	1.8	33,969	1.6	8,747	25.7
國內銷售	Domestic sales	184,261	7.4	86,264	4.1	97,997	113.6
銷售額總計	Total sales	2,482,984	100.0	2,116,907	100.0	366,077	17.3

於二零零五年，歐盟市場所佔比例得以提高，其主要原因在於自二零零五年一月一日起世貿成員間取消紡織品配額限制，本公司歐洲採購商 Decathlon 採購量有大幅增長所致。比較二零零四年的1.5%，二零零五年歐盟市場佔本集團總銷售額為6.4%。

銷售成本及毛利

本集團截至二零零五年十二月三十一日止年度的銷售成本約為人民幣1,908,661,000元（二零零四年：人民幣1,646,574,000元）。二零零五年度本集團銷售毛利率為23.1%，較二零零四年度的22.2%增長約0.9%。雖然本年度人工成本的增加、能源價格的上升及人民幣升值等因素對公司的利潤產生了較大的壓力，但本集團通過增加運動服裝的銷售、新面料的開發、傳統產品的改良及成本控制的加強，使毛利率繼續保持了上升趨勢。

本公司股權持有人應佔權益

於二零零五年十二月三十一日，本公司股權持有人應佔本集團權益為人民幣1,702,022,000元（二零零四年：人民幣1,271,360,000元）。其中非流動資產為人民幣1,330,951,000元（二零零四年：人民幣1,136,914,000元）、流動資產淨值為人民幣383,223,000元（二零零四年：人民幣247,108,000元）、非流動負債為零（二零零四年：人民幣80,694,000元）及少數股東權益為人民幣12,152,000元（二零零四年：人民幣31,968,000元）。本公司股權持有人應佔權益增加主要由於保留盈利增加及於二零零五年十一月首次公開售股所得款項所致。

流動資金及財務資源

截至二零零五年十二月三十一日止年度，本集團經營業務所得現金淨額約人民幣392,555,000元，而二零零四年則約為人民幣680,907,000元。本集團於二零零五年十二月三十一日之現金淨額（現金及現金等價物減銀行借貸）為人民幣1,064,000元，較二零零四年十二月三十一日之債務淨額增加人民幣609,940,000元。該增加包括二零零五年十一月首次公開售股與十二月行使超額配股權所得款項淨額約人民幣892,192,000元，及扣除其他現金流出（主要是投資業務現金淨支出超過經營業務現金淨流入及分派上一年度股息的現金流出等）。

The increase in the contribution from the EU market in 2005 was mainly attributable to the significant increase in purchases made by Decathlon, a European merchandiser, following the abolition of textile quotas among WTO member countries commencing from 1 January 2005. The EU accounted for 6.4% of the Group's total sales in 2005, representing a considerable increase as compared to 1.5% in 2004.

Cost of sales and gross profit

Cost of sales of the Group for the year ended 31 December 2005 amounted to approximately RMB1,908,661,000 (2004 : RMB1,646,574,000). The gross profit margin of the Group's sales in 2005 was 23.1%, which was approximately 0.9% higher as compared to 22.2% in 2004. The Group managed to maintain growth in gross profit margin through increase in the sales of sports wear, development of new fabrics, improvements to traditional products and enhanced cost controls, despite pressures on profitability from direct labor costs, rising energy prices and the appreciation of RMB.

Equity attributable to equity holders of the Company

At 31 December 2005, the Group's equity attributable to equity holders of the Company was RMB1,702,022,000 (2004: RMB1,271,360,000) of which non-current assets were RMB1,330,951,000 (2004: RMB1,136,914,000), and net current assets were RMB383,223,000 (2004: RMB247,108,000), non-current liabilities were nil (2004: RMB80,694,000) and minority interests were RMB12,152,000 (2004: RMB31,968,000). The increase in equity attributable to equity holders of the Company is mainly reflected by the increase in retained profits and the proceeds received from the initial public offering in November 2005.

Liquidity and financial resources

For the year ended 31 December 2005, the Group's net cash generated from operating activities amounted to approximately RMB392,555,000, compared to approximately RMB680,907,000 in 2004. Net cash (cash and cash equivalents less bank borrowings) of the Group at 31 December 2005 amounted to RMB1,064,000, an increase of RMB609,940,000 compared to the net debt position at 31 December 2004. Such increase was a result of the net proceeds of approximately RMB892,192,000 received from the initial public offering in November and the exercise of the over-allotment option in December 2005 less other cash outflow (comprising mainly net cash outflow from investing activities in excess of net cash inflow from operating activities and cash outflow resulting from distribution of dividends for the previous year).

本集團於二零零五年十二月三十一日的現金及現金等價物為人民幣559,801,000元（二零零四年：人民幣238,428,000元），總借貸餘額為人民幣558,737,000元（二零零四年：人民幣847,304,000元，其中人民幣80,000,000元為長期銀行借款），均為短期貸款。本公司股權持有人應佔權益為人民幣1,702,022,000元（二零零四年：人民幣1,271,360,000元）。本集團淨現金狀況良好。負債對權益比率（按未償還總借貸佔本公司股權持有人應佔權益百分比計算）為32.8%（二零零四年：66.6%）。

於二零零五年十二月三十一日，本集團主要借貸均按固定利率計息。本集團並無利用利率掉期來對沖利率風險。

融資成本及稅項

於截至二零零五年十二月三十一日止年度，融資成本從二零零四年之開支人民幣20,347,000元，大幅增加至人民幣53,164,000元，主要原因是由於二零零五年度的人民幣貸款附有較高利率，且較二零零四年同期的百分比為高所致。年內本集團的美元及人民幣貸款利率分別介乎2.77%至5.72%以及介乎4.70%至5.76%，此外，年內資本性開支上升而增加了貸款金額使相應利息支出上升。

於截至二零零五年十二月三十一日止年度，集團的所得稅支出從二零零四年度之人民幣33,550,000元，大幅下降至人民幣2,429,000元。主要原因是集團附屬公司中的外資企業可享受「二免三減半」的所得稅優惠政策，本集團於二零零五年度的稅前利潤中享受免稅優惠部分的金額高於二零零四年度所致。

本集團之資產抵押

於二零零五年十二月三十一日，除本集團合共約人民幣2,310,000元（二零零四年：人民幣47,360,000元）存放於若干銀行的存款作為銀行授出若干貿易融資信貸之抵押外，本集團並無以本集團任何資產作為其銀行借貸之抵押。

Cash and cash equivalents of the Group at 31 December 2005 amounted to RMB559,801,000 (2004: RMB238,428,000). The total amount of outstanding borrowings was RMB558,737,000 (2004: RMB847,304,000, comprising RMB80,000,000 of long-term bank borrowings), all being short-term loans. Equity attributable to equity holders of the Company amounted to RMB1,702,022,000 (2004 : RMB1,271,360,000). The Group was in a solid net cash position, with a debt to equity ratio (total outstanding borrowings as a percentage of equity attributable to equity holders of the Company) of 32.8% (2004: 66.6%).

At 31 December 2005, majority of the borrowings of the Group were subject to payable interests at fixed rates. The Group did not enter into any interest rate swap to hedge against risks associated with interest rates.

Finance costs and taxation

Finance costs for the year ended 31 December 2005 increased substantially to RMB53,164,000 from RMB20,347,000 in 2004, mainly due to higher interest rates for RMB loans in 2005, as compared to the percentage for the same period in 2004. The Group's USD and RMB loan interest rates during the year ranged from 2.77% to 5.72% and 4.70% to 5.76%, respectively. Moreover, interest expenses were higher with larger loan amounts to finance the increased capital expenditures during the year.

For the year ended 31 December 2005, income tax expenses of the Group substantially decreased from RMB33,550,000 in 2004 to RMB2,429,000. It is mainly due to the tax preferential policy of "Two-year exemption and Three-year 50% reduction" enjoyed by the subsidiaries of the Group which are foreign owned enterprises and as a percentage of profit before tax, the amount exempted for tax of the Group in 2005 is higher than that in 2004.

Pledge of the Group's assets

Other than deposits with various banks with a total amount of approximately RMB2,310,000 (2004: RMB47,360,000) pledged as securities for certain trade financing facilities granted by banks, the Group did not pledge any of the Group's assets for its bank borrowings as at 31 December 2005.

本公司首次公開售股所得款項之用途

本公司於二零零五年十一月在聯交所上市時發行新股之所得款項，在扣除相關股份發行開支後約為856,000,000港元。此等所得款項部份已於截至二零零五年十二月三十一日止年度內按照售股章程所載之建議用途動用，載列如下：

- 約912,000港元(約人民幣949,000元)用作本集團在中國生產設施購置新染整設備；
- 約1,747,000港元(約人民幣1,817,000元)用作在中國生產主要用於運動服裝的功能性面料購置新廠房及設備；
- 約1,212,000港元(約人民幣1,261,000元)用作本集團在中國生產設施購置新織造設備；
- 約2,760,000港元(約人民幣2,871,000元)用作本集團在中國生產設施購置新裁剪與縫紉設備；
- 約305,000,000港元(約人民幣317,261,000元)用作償還本集團部份長期銀行借貸；及
- 約48,000,000港元(約人民幣49,930,000元)用作本集團之額外一般營運資金。

於二零零五年十二月三十一日餘下之所得款項淨額約496,369,000港元，已存放於香港及國內作為銀行存款。董事擬按售股章程所披露之方式使用該筆所得款項淨額。

外匯風險

由於本集團銷售以美元結算為主，採購以人民幣結算為主，滙率波動對本集團的成本及經營利潤率構成一定影響。本集團針對美元兌人民幣的滙率波動的現狀，採用相應政策對沖部份有關外匯風險。對沖金額視乎本集團預期的美元收益、採購、資本開支，還需要顧及市場預測美元兌人民幣的滙率波動而定。

Use of proceeds from the initial public offering

Proceeds from the issue of new shares of the Company for listing on the Stock Exchange in November 2005, after deducting related share issuance expenses, amounted to approximately HK\$856 million. Such proceeds had been utilized during the year ended 31 December 2005 in accordance with the proposed use of proceeds allocation set out in the Prospectus:

- approximately HK\$912,000 (approximately RMB949,000) for the acquisition of new dyeing and finishing equipment for the Group's production facilities in China;
- approximately HK\$1,747,000 (approximately RMB1,817,000) for the acquisition of new plant and equipment in China for the production of functional fabrics mainly used in sports wear;
- approximately HK\$1,212,000 (approximately RMB1,261,000) for the acquisition of new weaving and knitting equipment for the Group's production facilities in China;
- approximately HK\$2,760,000 (approximately RMB2,871,000) for the acquisition of new cutting and sewing equipment for the Group's production facilities in China;
- approximately HK\$305,000,000 (approximately RMB317,261,000) for partial repayment of the Group's long-term bank borrowings; and
- approximately HK\$48,000,000 (approximately RMB49,930,000) as additional general working capital of the Group.

As at 31 December 2005, the balance of the net proceeds of approximately HK\$496,369,000 had been deposited with banks in Hong Kong and China. The Directors intend to utilize such net proceeds in the manner disclosed in the Prospectus.

Exposure to exchange risks

As the Group's sales were mainly settled in USD while its purchases were mainly settled in RMB, its costs and operating profit margin were affected by exchange rate fluctuations. The Group adopted a policy to hedge part of its exchange rate risks in light of existing fluctuations of the exchange rate between USD and RMB. The amount to be hedged would depend on the Group's expected USD revenue, purchases and capital expenditure requirements, as well as market forecast of fluctuations in the USD to RMB exchange rate.

為免因人民幣兌美元的滙率出現任何變動導致日後的現金流量減值及出現波動，本集團自二零零三年起已訂立外滙遠期銷售合約，以對沖若干外幣風險，尤其是美元的外滙風險。截至二零零五年十二月三十一日止年度，本集團就外滙遠期合約錄得人民幣1,784,000元的收益，而外滙遠期合約在二零零五年十二月三十一日總值約91,000,000美元。本集團並無進行任何外滙交易作投機用途。

僱用、培訓及發展

於二零零五年十二月三十一日，本集團共僱用逾22,900名員工。年內，員工成本總額佔本集團銷售額約16.2%。本集團按僱員的表現、資歷及行業慣例釐定給予員工的報酬，而酬金政策會定期檢討。根據年度工作表現評核，僱員或會獲發放花紅及獎金。此外，本公司亦會給予僱員獎勵或其他形式的鼓勵以推動僱員個人成長及事業發展。如本集團持續向員工提供培訓，以提升彼等的技術、產品知識以及對行業質量標準的認識及本集團所有新員工均須參加入門課程，而全體員工亦可參加各類培訓課程。

資本開支及資本承擔

於本年度內，本集團於固定資產之投資約為人民幣464,771,000元，其中約53%用作購買廠房及設備、約45%用作興建新工廠大樓及購置行政樓，而餘款則用作購買其他固定資產。

於二零零五年十二月三十一日，本集團已訂約購建的物業、廠房和設備之資本承擔約達人民幣92,221,000元。以首次公開售股所得款項及內部資源所得款項淨額撥付。

或然負債

於二零零五年十二月三十一日，本集團概無任何重大或然負債。

To protect against reductions in value and the volatility of future cash flows which might result from exchange rate movement between RMB and USD, the Group had since 2003 entered into foreign exchange forward sales contracts to hedge against certain foreign currency exposures, in particular, exposure to the USD. For the year ended 31 December 2005, the Group recorded gains of approximately RMB1,784,000 on forward exchange contracts with a total amount of approximately USD91,000,000 as at 31 December 2005. The Group had not engaged in any foreign exchange transactions for speculative purposes.

Employment, training and development

At 31 December 2005, the Group had over 22,900 employees. Total staff costs amounted to approximately 16.2% of the Group's sales during the year. The Group remunerated its staff according to their performances, qualifications and industry practices and conducted regular reviews of its remuneration policy. Employees might receive discretionary bonuses based on their ratings in annual performance appraisals. The Company also offered rewards or other incentives to motivate personal growth and career development of the employees, such as ongoing opportunities for training to enhance their technical and product knowledge as well as knowledge of industry quality standards. All new staff members of the Group were required to attend an introductory course. There were also various types of training courses available to all of the Group's employees.

Capital expenditure and commitments

The Group's investment in fixed assets during the year amounted to approximately RMB464,771,000. Approximately 53% was used for the acquisition of plant and equipment and 45% was used for the construction of new factory buildings and purchase of office building. The balance was used for the purchase of other fixed assets.

At 31 December 2005, the Group had capital commitments of approximately RMB92,221,000 in connection with the acquisition and construction of properties, plant and equipment, which will be financed by proceeds from the initial public offering of the Company and internal resources.

Contingent liabilities

The Group had no significant contingent liabilities at 31 December 2005.

未來前景及策略

自一九七四年至二零零四年，全球服裝業的發展一直由配額制度推動，形成服裝生產分佈區域廣、製造商規模小的格局。二零零五年一月一日起取消世貿成員國之間的紡織品配額，及中歐、中美間經系列談判所形成的過渡性協議，表明配額的影響正逐步削弱。

撤銷服裝配額對行業結構的影響將是深遠的。當品質、價格、交貨期限、服務功能及政治穩定等因素真正成為競爭優勢時，服裝將集中於少數幾個國家生產。服裝生產商的單體規模將有顯著擴大，而服裝採購商將越來越喜歡在品質優良、價格合理、交貨期短、品種齊全的生產商處集中採購。

本集團洞悉服裝業的發展前景及巨大的服裝代工市場，將致力於發展針織服裝的代工，努力做強做大，成為全球最具競爭力的針織服裝代工企業。

二零零六年及其後，本集團可預見人民幣將持續升值。由於匯率的大起大落不利於中國經濟平穩發展，因此人民幣匯率水準將保持基本穩定，這是中國政府對貨幣政策的取向。二零零五年十一月二十五日中國人民銀行與國內10家銀行進行60億美元的掉期操作中，約定一年後中國人民銀行再以1:7.85的價格用人民幣買回美元。本集團相信，未來人民幣匯率總體基本穩定，而匯率彈性將顯著增強。而本集團未來多項措施與策略業已充分考慮了人民幣升值因素。

Future prospects and strategies

From 1974 to 2004, the global apparel industry had been shaped by the quota system. Apparel production was characterized by scattered geographical distribution and small-scale operation. The impact of the quota system has been gradually weakening, however, since the abolition of quotas among WTO member countries as of 1 January, 2005 and the subsequent transitional agreements reached between China and each of the EU countries and the U.S.

The abolition of the quota system will prove to have a profound impact on the apparel industry. Apparel production will be concentrated in fewer countries when competition is based more on quality, prices, lead time, services and political stability. The scale of individual apparel manufacturers will be significantly expanded, while merchandisers will tend to source products on a consolidated basis from manufacturers who are able to offer superb quality, reasonable prices, short lead time and product varieties.

In view of the development prospects of the apparel industry and the enormous apparel OEM market, the Group will focus on knitwear OEM, and strive to become the most competitive knitwear OEM manufacturer in the world through ongoing consolidation and expansion efforts.

The Group foresees a continuous rise in the value of RMB in 2006 and beyond. The PRC government's monetary policy will favor a stable exchange rate for RMB as excessive fluctuations would undermine China's economic development. On 25 November, 2005, the People's Bank of China entered into swap arrangements with 10 domestic banks for an aggregate amount of USD6 billion, pursuant to which the People's Bank of China would buy back the USD in RMB at a rate of USD1: RMB7.85 upon the expiry of a one-year period. The Group believes that the RMB exchange rate will generally be stable in future with a much higher level of flexibility. The Group has taken full account of RMB appreciation when formulating future measures and policies.

就二零零六年及其後棉花價格走勢，本集團認為，由於目前中國國內棉花價格相對國際棉花價格是偏高的。美國棉花目前處於低價位，而中國國內棉花價格處於高價區間。就二零零六年棉花行情而言，由於全球棉花供應壓力加大，庫存增加，消費增長率放緩，總體而言將是一個向下尋找支撐的過程。由於本集團是一家規模化的針織服裝代工企業，新訂單的定價基礎考慮了主要原材料價格的漲跌因素，因此如同歷史上（如二零零四年棉花價格的變動）與客戶的議價原則，未來棉花的漲跌並不會形成對本集團毛利率構成重大影響。另一方面，隨本集團所使用原材料中化纖比例的持續提升，棉花價格的變動影響將進一步削弱。而化纖價格由於其部分原料進口依存度較大，及中國國內化纖行業於二零零四年底產能擴充亦較大，致使二零零五年中國國內化纖價格總體處於低價位運行態勢。本集團預計二零零六年化纖價格由於其供需矛盾有所緩和，其價格將基本保持平穩。

本集團所具有從織布、染色與後整理、印繡花及裁剪與縫製的縱向一體化工序的生產模式，使本集團處於獨特且有利的位置。本集團將進一步提升各個工序的工藝水平與團隊合作，使各工序及各工序間的效能與服務能力發揮至最佳。本集團也將視客戶需求、風險控制之需要及時機，適時適度拓寬工序與終端服務之能力，以進一步提升競爭力。

區域性之全天候服務，是本集團致力發展的方向之一。本集團深知，雖然自二零零五年一月一日起取消世貿成員國之間的紡織品配額，但世貿現行規則的兩項保護措施，即《特殊紡織品保護措施》與《特殊產品保護措施》，將不時影響中國大陸紡織品的順利出口。同時，關稅仍將發揮重要作用。因此，本集團於二零零五年策略性地在柬埔寨金邊市設立製衣廠房，並視客戶之需要不斷加強服務能力。本集團相信，實現區域性之全天候服務能力，保證客戶不受地域、政治、經濟、匯率、政策等影響，有助於本集團不斷提升競爭力。

In terms of cotton prices in 2006 and beyond, the Group is of the view that cotton prices in China are currently at a premium to international cotton prices. Cotton prices in the U.S. are currently at a low level, while China is sustaining higher cotton price bands. Global supply of cotton is expected to increase in 2006 with piling inventories and a slowdown in consumption. In short, cotton prices will be heading downwards to establish the bottom level. As a large-scale knitwear OEM manufacturer, the Group will factor in fluctuations in the prices of major raw materials when determining prices for new orders. As such, future fluctuations in cotton prices are not expected to have any significant impact on the Group's gross profit margin given the historical principle of price negotiations (as in the case of cotton price fluctuations in 2004). On the other hand, as chemical fiber accounts for an increasing proportion of raw materials used by the Group, the impact of any change in cotton prices will be minimized. The prices for chemical fiber in China remained at low levels for most of the time during 2005, as certain raw materials for the manufacture of chemical fiber were heavily dependent on imports and the domestic production capacity for chemical fiber was considerably expanded before the end of 2004. The Group expects chemical fiber prices to remain stable in 2006 as the gap between demand and supply starts to close up.

The Group's vertically integrated business model that combines weaving and knitting, dyeing and finishing, printing and embroidery and cutting and sewing has given it a uniquely advantageous position. The Group will further enhance process standards and teamwork to achieve optimized efficiency and servicing capabilities between production stages. The Group will also broaden its process and end service capabilities as and when appropriate, pending on customers' requirements, risk control concerns and timing, with a view to enhancing overall competitiveness.

Regional diversification in operation represents an important focus on the Group's development. The Group is well aware that Chinese textile exports will from time to time subject to two safeguard measures available under existing WTO rules, namely the textile-specific safeguard clause and the product-specific safeguard clause, despite the abolition of textile quotas among WTO member countries since 1 January, 2005. Meanwhile, export tariffs will continue to play a crucial role. Hence, the Group strategically established a garment factory in Phnom Penh, Cambodia in 2005 and enhanced its servicing capabilities according to customer needs. The Group believes that capabilities in regional diversification that allow customers to free themselves from the influences of geographical, political or economic factors, such as exchange rate fluctuations or changes in government policies, etc, will contribute to the ongoing enhancement of the Group's competitive strengths.

產品之全天候服務，亦是本集團致力發展的方向之一。休閒服裝仍將是本集團傳統之主力產品，具有穩固的客戶與市場，銷售額將得以穩步提高。最近幾年本集團大力培育如 Nike、Adidas 及 Puma 等國際知名體育運動品牌客戶，運動服裝所佔銷售額比例得到顯著提升。借助二零零六年德國世界盃與二零零八年北京奧運會之機遇，本集團相信，未來幾年運動服裝的銷售額比例將不斷得以提升。此外，內衣、家居服裝的產品類別也有理想表現，使本集團產品更呈系列化與多樣化，為客戶提供更多的選擇。

日本作為本集團的主要市場，佔二零零五年度之銷售額約為81%，本集團期望鞏固並持續發展日本市場。而同時本集團借助現有國際著名客戶的基礎，及獲取的歐美紡織品配額，穩健並積極開拓歐美市場，實現市場多元化，以降低日本作為主要市場所帶來的經營風險。

就水資源緊張與水價持續走高的態勢，本集團除已與寧波市北侖區人民政府達成二十年供水協議外，還將尋求更經濟、更有效的渠道解決水資源問題，保障公司更順利、更健康的持續發展。

為鞏固本集團作為中國規模最大的縱向一體化針織服裝製造商之地位，以及應付客戶經常轉變的需求，本集團有意持續擴大其面料與成衣設計隊伍，藉以提升市場研究及產品開發能力。本集團相信，擁有一支強大的面料與成衣設計隊伍，可讓本集團成功開發更多不同種類較高利潤率的產品。本集團亦相信，本集團日後的增長，將視乎能否開發優質、先進的面料及成衣產品，以供製造運動服裝等利潤較高的產品。

Product diversification represents another focus in the Group's development. Casual wear remains the traditional principal product of the Group and sales from this product will continue to grow steadily on the back of a stable clientele and market. On the other hand, sales contributions from sports wear have increased significantly in recent years following the Group's dedicated efforts to develop a customer base among globally renowned brand names such as Nike, Adidas and Puma. The Group believes that sales contributions from sports wear will continue to rise in the coming years, leveraging sporting enthusiasm associated with the upcoming World Cup event in 2006 to be held in Germany, and the 2008 Olympic Games to be held in Beijing. Moreover, categories such as underwear and home wear are also giving solid performances, as part of the Group's diversified product lines offering customers with additional choices.

While the Group seeks to consolidate and develop on a sustainable basis in its Japanese market, a major destination of the Group's products accounting for approximately 81% of its sales in 2005, it will also pursue market diversification to lower the risk of over-reliance on Japan by exploring the European and U.S. markets in a proactive and yet prudent manner, with the benefit of a customer base featuring renowned international brand names and quotas for textile exports to Europe and the U.S..

For water shortages and persistent high level of water prices, in addition to the water supply agreement that the Group has entered into with the People's Government of Beilun District Ningbo City for a term of 20 years, the Company will seek more economical and effective means to solve water shortages and to sustain a smooth and healthy development.

The Group has planned to enhance its market research and product R&D capabilities by expanding its fabric and garment design team, with an aim to reinforce its position as the largest vertically integrated knitwear manufacturer in China, and to respond to ever-changing demand from customers. The Group believes that a strong fabric and garment design team will allow the Group to develop products with higher margins in different varieties. The Group also believes that its future growth will depend on its ability to develop technically advanced high-quality fabrics and garments for manufacturing sports wear and other high-margin products.