

MANAGEMENT DISCUSSION AND ANALYSIS

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RESULTS AND BUSINESS REVIEW

In spite of severe market competition, the Group achieved steady overall growth in 2006. The board of directors is pleased to present to shareholders the encouraging results of the Group. For the year ended 31st December, 2006, the Group's revenues were HK\$1,211.7 million (2005: HK\$1,103.8 million) and its gross profit increased to HK\$238.8 million (2005: HK\$214.1 million). Profit attributable to equity holders amounted to HK\$68.1 million (2005: HK\$65.7 million). Excluding the HK\$4.1 million fair value gains on investment properties recorded last year, profit attributable to equity holders for the current year would show a growth of 10.5% over that of last year. Basic earnings per share was 18.88 HK cents for the year under review (2005: 18.25 HK cents).

Supported by the experienced and dedicated operation teams of its various production bases, the Group continued to boost the competitive capability of timely delivery of high quality products and services at affordable prices to its international clientele. Driven in part by expanded production capacity and favourable response of customers to its high quality products during the year, turnover of the Group increased by 9.6% over last year's. By product category, knit tops and woven bottoms accounted for 78.4% and 21.6% respectively of the Group's total turnover (2005: knit tops: 78.4%, woven bottoms: 21.0% and knitted fabrics: 0.6%).

Gross profit of the Group for the financial year ended 31st December, 2006 was HK\$238.8 million (2005: HK\$214.1 million), representing an increase of 11.5% as compared with last year. Gross profit margin increased slightly from last year's 19.4% to 19.7% for the current year, mainly attributable to a mild increase in selling price and improved production efficiency of the Group's factories.

業績及業務回顧

儘管市場競爭激烈，本集團於二零零六年之整體業績仍達致平穩增長。董事會欣然向股東提呈本集團令人鼓舞之業績。本集團截至二零零六年十二月三十一日止年度之收益達十二億一千一百七十萬港元（二零零五年：十一億零三百八十萬港元），而毛利增加至二億三千八百八十萬港元（二零零五年：二億一千四百一十萬港元）。權益持有人應佔溢利為六千八百一十萬港元（二零零五年：六千五百七十萬港元）。撇除去年錄得四百一十萬港元之投資物業公允值收益，權益持有人於本年度應佔溢利較去年增長10.5%。於回顧年度，每股基本盈利為18.88港仙（二零零五年：18.25港仙）。

憑藉各生產基地具豐富經驗及熱誠投入工作之營運隊伍之不懈努力，本集團得以繼續鞏固其競爭力，以優惠價格適時付運，向國際客戶提供優質產品和服務。本集團之營業額較去年增加9.6%，部份是由於年內擴充產能，加上客戶對集團之優質產品反應理想所致。就產品類別而言，針織上衣及梭織襯褲分別佔本集團總營業額78.4%及21.6%（二零零五年：針織上衣：78.4%、梭織襯褲：21.0%及針織布料：0.6%）。

截至二零零六年十二月三十一日止財政年度，本集團之毛利為二億三千八百八十萬港元（二零零五年：二億一千四百一十萬港元），較去年增加11.5%。本年度之毛利率較去年19.4%輕微上升至19.7%，主要由於售價溫和增長及本集團廠房之生產效率有所改善。

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Despite selling expenses, as a percentage of turnover, increased from 3.7% to 3.8%, mainly because of higher airfreight charges in the first half of 2006 that pushed up delivery cost, the Group was able to maintain the overall cost at a reasonable level. With the joint efforts of the Group's quality controllers and sub-contractors, the quality management of the latter's washing facilities was promptly improved, facilitating smoother shipment in the second half of 2006. As for administration expenses, as a percentage of turnover, it increased from 8.6% to 8.9%.

The Group indirectly holds a 40% effective interest in ShanDong WeiQiao HengFu Textile Limited ("SWHT"), which manufactures knitted fabrics. Through aggressive marketing efforts in the domestic market, SWHT has built up a reputation for quality in the fabric mill industry. For the year under review, it reported a turnover of HK\$101.0 million and a profit of HK\$12.2 million. The Group's share of net profit of SWHT was HK\$4.9 million (2005: HK\$0.3 million).

Indonesia

During the year under review, Indonesia remained the Group's major production base. Without making heavy capital investment, the Group boosted the output from Indonesia during the year. The achievement was the result of the Group's effective enhancement of the efficiency of its owned production facilities and its partnership with sub-contractors to meet increasing demands from branded customers. For the year under review, the Indonesia factories contributed 72.1% (2005: 64.3%) of the Group's turnover, of which 52.5% and 19.6% was from knit tops and woven bottoms respectively.

El Salvador

During the year, the knit factory, Charter, S.A. de C.V. in El Salvador, contributed 16.6% (2005: 16.4%) of the Group's total turnover, similar to last year. It received a strong stream of orders that had kept its capacity fully utilized for the year. As a result, the factory continued to contribute stable income to the Group.

於二零零六年上半年，由於空運費用上升導致運費增加，銷售開支佔營業額之百分比亦由3.7%增加至3.8%，然而，本集團之整體成本仍能維持合理水平。於二零零六年下半年，經過本集團品質監控人員與分包商之共同努力，分包商能迅速改善洗衣設施方面之品質管理，付運安排更見暢順。行政開支佔營業額之百分比則由8.6%增加至8.9%。

本集團間接持有山東魏橋恒富針織印染有限公司（「魏橋恒富」）40%之實益權益，其主要製造針織布料。透過在內地市場積極推行市場推廣活動，魏橋恒富於布廠業內以產品質素優良見稱。於回顧年度內，魏橋恒富錄得一億零一百萬港元之營業額及一千二百二十萬港元之溢利。本集團所佔魏橋恒富之純利為四百九十萬港元（二零零五年：三十萬港元）。

印尼

於回顧年度內，印尼仍為本集團之主要生產基地。本集團無須作出重大資本投資之情況下，於年內成功提升印尼之產量，全因本集團有效提高其生產設施之效率，加上與分包商緊密合作，以迎合品牌客戶日益嚴格之要求。於回顧年度內，印尼廠房佔本集團營業額72.1%（二零零五年：64.3%），其中針織上衣及梭織襯褲分別佔52.5%及19.6%。

薩爾瓦多

於年內，位於薩爾瓦多之針織廠Charter, S.A. de C.V.佔本集團總營業額16.6%（二零零五年：16.4%），與去年相若。該針織廠於年內取得大量訂單，故能充分發揮其產能。因此，該廠房繼續為本集團帶來穩定收入。

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Lesotho

The output from the knit factory, Shinning Century Limited in Lesotho accounted for 8.5% (2005: 9.8%) of the Group's total turnover.

Mainland China

With well-developed infrastructure and convenient ancillary facilities, Mainland China is a preferred base among apparel manufacturers for setting up production and business operations. To capture the vast opportunities in the Mainland China market and to facilitate expansion of overall production capacity to cater for increasing orders from international apparel brands, the Group acquired a piece of land in Heshan, Guangdong Province during the year under review for establishing additional production facilities. Phase I of the production base, including a factory, an office building and related staff quarters with a total gross area of 33,000 square metres, is expected to commence operation in mid 2007 and will provide additional knit tops facility for the Group.

LIQUIDITY AND FINANCIAL RESOURCES

Adopting a conservative financial management system, the Group maintains a healthy liquidity position. At 31st December, 2006, the Group's cash and bank balances amounted to HK\$94.9 million (31st December, 2005: HK\$49.9 million) while bank borrowings, in the form of trust receipt loans, amounted to HK\$60.6 million (31st December, 2005: HK\$76.4 million) and term loan, amounted to HK\$33.1 million (31st December, 2005: HK\$25.2 million). The bank loans were denominated in either HK dollars or US dollars. Working capital represented by net current assets amounted to HK\$136.0 million (31st December, 2005: HK\$103.1 million).

The Group's current ratio was 1.5 (31st December, 2005: 1.4). The gearing ratio of bank borrowings to equity attributable to the Company's equity holders was 30.7% (31st December, 2005: 39.8%).

萊索托

位於萊索托之針織廠耀晴有限公司之產量佔本集團總營業額8.5% (二零零五年: 9.8%)。

中國大陸

憑藉發展完善之基建以及配套設施四通八達，中國大陸成為成衣製造商建立生產及經營業務基地之首選。為了抓緊中國大陸市場湧現之龐大商機及擴充本集團之整體產能，以應付國際成衣品牌不斷增加之訂單需求，本集團遂於回顧年度內在廣東省鶴山市購入一幅土地，以興建額外之生產設施。第一期生產基地（包括廠房、辦公室大樓及相關員工宿舍共33,000平方米樓面面積）預期將於二零零七年年中投入運作，屆時將為本集團提供額外之針織上衣設施。

流動資金及財務資源

本集團採用審慎之財務管理系統，流動資金狀況保持良好。於二零零六年十二月三十一日，本集團之現金及銀行結存為九千四百九十萬港元（二零零五年十二月三十一日：四千九百九十萬港元），而以信託收據貸款形式籌措之銀行貸款為六千零六十萬港元（二零零五年十二月三十一日：七千六百四十萬港元），有期貸款則為三千三百一十萬港元（二零零五年十二月三十一日：二千五百二十萬港元）。銀行貸款以港元或美元結算。營運資金（即流動資產淨值）達一億三千六百萬港元（二零零五年十二月三十一日：一億零三百一十萬港元）。

本集團之流動比率為1.5（二零零五年十二月三十一日：1.4）。銀行貸款對本公司權益持有人應佔權益之資本負債比率為30.7%（二零零五年十二月三十一日：39.8%）。

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The debt maturity profile of the Group as at 31st December, 2006 was as follows:

本集團於二零零六年十二月三十一日之債項到期日分析如下：

		At 31st December, 2006	At 31st December, 2005
		於二零零六年 十二月 三十一日 (Audited) (經審核)	於二零零五年 十二月 三十一日 (Audited) (經審核)
		HK\$'000 千港元	HK\$'000 千港元
Repayable within one year	須於一年內償還	68,405	84,199
Repayable after 1 year, but within 2 years	可於一年後但 須兩年內償還	15,550	15,500
Repayable after 2 years, but within 5 years	可於兩年後但 須五年內償還	9,700	1,938
Total	總計	93,655	101,637

CAPITAL EXPENDITURE

For the year under review, the Group incurred a total capital expenditure of HK\$31.2 million (2005: HK\$27.2 million), which was funded by its own financial resources and bank borrowings. HK\$24.0 million was spent on development of the production facilities in Heshan, Mainland China and the balance of HK\$7.2 million was spent mainly on additions and replacements on plant and machinery in other factories.

資本開支

於回顧年度內，本集團之資本開支總額為三千一百二十萬港元（二零零五年：二千七百二十萬港元），由其財務資源及銀行貸款撥付。二千四百萬港元已用作發展位於中國大陸鶴山市之生產設施，而餘下七百二十萬港元則主要用作添置及更換其他廠房設備及機器。

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FOREIGN EXCHANGE EXPOSURE

The Group's sales are principally denominated in US dollars. It has factories and offices in Hong Kong, Indonesia, El Salvador, Lesotho and Mainland China. Operating expenses of the Group are primarily denominated in Hong Kong dollars, Indonesia Rupiah, Salvadoran Colones, South African Rand, Renminbi and some in US dollars.

As Hong Kong dollars and Salvadoran Colones are pegged to US dollars, the Group does not expect to be exposed to any currency risks in the near term. The Group will closely monitor fluctuations of other currencies and, if necessary, will enter into forward exchange contracts to reduce exchange risk.

CREDIT POLICY

In line with prevailing industry practice, trading terms with more customers were switched from letters of credit to open account basis. During the year under review, about 29.4% (2005: 59.6%) of the Group's business was transacted under letters of credit, and the rest on open account basis granted to several well-established customers. The credit ratings of customers are constantly reviewed and their respective credit limits adjusted, if necessary.

CHARGES ON FIXED ASSETS

The Group's properties in Hong Kong with a carrying value of HK\$22.3 million (31st December, 2005: HK\$22.3 million) have been pledged to a bank to secure trade facilities of up to HK\$140.2 million (31st December, 2005: HK\$140.2 million). At 31st December, 2006, the respective secured bank loans amounted to HK\$38.5 million (31st December, 2005: HK\$41.8 million).

匯率波動風險

本集團之銷售額主要以美元計算。本集團於香港、印尼、薩爾瓦多、萊索托及中國大陸均設有廠房及辦事處。本集團之經營開支主要以港元、印尼盾、薩爾瓦多貨幣科朗、南非蘭特、人民幣及部分以美元計算。

由於港元及薩爾瓦多貨幣科朗與美元掛勾，本集團並不預見近期會承受任何貨幣風險。本集團將會不時密切監察其他貨幣之匯率波動情況，並於需要時將會訂立遠期外匯合約以減低匯率風險。

信貸政策

與現時行業慣例相符，本集團與愈來愈多客戶之買賣條款由信用狀付款轉為記賬形式。於回顧年度內，本集團約29.4%（二零零五年：59.6%）之業務以信用狀進行交易，其餘多個已建立穩定關係之客戶則以記賬形式處理。本集團定期審閱客戶之信貸狀況，並於需要時調整彼等之信貸額。

固定資產抵押

本集團以賬面值為二千二百三十萬港元（二零零五年十二月三十一日：二千二百三十萬港元）之香港物業作為為數最多達一億四千零二十萬港元（二零零五年十二月三十一日：一億四千零二十萬港元）之貿易信貸之抵押品。於二零零六年十二月三十一日，該筆有抵押銀行貸款為三千八百五十萬港元（二零零五年十二月三十一日：四千一百八十萬港元）。

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CONTINGENT LIABILITIES

As at 31st December, 2006, the Group had no contingent liabilities.

HUMAN RESOURCES AND REMUNERATION POLICIES

The Group believes that employees' commitments and the provision of a harmonious working atmosphere to staff are important to its success. The Group offers its employees rewarding careers and provides them with a variety of training programmes. It rewards employees according to prevailing market practices and employees' individual experience and performance. To attract and retain high calibre employees, the Group also awards discretionary bonuses and share options to staff.

As at 31st December, 2006, the Group employed a total of 8,673 (31st December, 2005: 7,595) full-time employees in the following regions:

Indonesia	印尼	5,300
Lesotho	萊索托	1,574
El Salvador	薩爾瓦多	1,257
China (Mainland and Hong Kong)	中國(大陸及香港)	542
Total	合計	<u>8,673</u>

OUTLOOK

With its keys customers being mostly US-based renowned apparel brands, the Group's business performance will largely depend on future situation of the US economy. Although new orders for durable goods and housing demand in the US have declined, with inflation subsiding and the US government adopting stable monetary policy, many economists believe the economy will have a soft landing. The apparel industry will be filled with many challenges including keen competition, intensive pressure on order prices and volatile market condition. The Group will constantly review its business strategy and adjust its product mix so as to sustain steady income to the Group even in uncertain times. The US market still looks promising to the Group considering the immense scale of the market.

或然負債

於二零零六年十二月三十一日，本集團並無或然負債。

人力資源及薪酬政策

本集團深信其業務之成功有賴僱員對工作之投入及向員工提供和諧之工作環境。本集團為僱員提供多個不同培訓課程，讓僱員開展個人事業。僱員薪酬福利乃根據目前市場慣例及按僱員個別經驗與表現釐定。為吸引及保留高質素專業人才，本集團亦向僱員授予酌情花紅及購股權計劃。

於二零零六年十二月三十一日，本集團在以下各地共僱用8,673名(二零零五年十二月三十一日：7,595名)全職僱員：

展望

鑑於本集團主要客戶大多數為美國著名成衣品牌，故本集團之業務表現將主要取決於美國經濟之未來走勢。雖然美國之耐用品新訂單及房屋需求同告下跌，但隨著通脹率持續下降，加上美國政府採取穩健之貨幣政策，不少經濟學家相信美國經濟將會軟著陸。成衣業將面對激烈競爭、沉重訂單價格壓力及波動市況等挑戰。本集團將會不斷的檢討業務策略及調整其產品組合，務求於市況不明朗之際，仍可保持穩定之收入。鑒於美國市場龐大，本集團對其前景仍感樂觀。

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The Group will from time to time review and restructure the production scale and capacity of its Indonesian production base to make sure they are at optimum levels at all time to guarantee smooth production flow, production efficiency and minimum wastage. Continual internal re-engineering and tightened cooperation with various renowned sub-contractors will see the production base in Indonesia contribute significantly to the Group's overall productivity in the future.

The term of the Third Country Fabric Provision under the African Growth and Opportunity Act, which allows apparel manufacturers to use imported fabrics from any country in the world, has been extended to 2012. The Group will continue to take advantage of the provision and use non-African fabrics in Lesotho for producing apparel for export duty-free to the US market.

The Mainland China apparel industry is facing a number of challenges including appreciation of the Renminbi, labour shortage and the Chinese government imposing different macro economic austerity measures. Notwithstanding these uncertainties, Mainland China is a competitive apparel exporter by global standard. According to Chinese customs statistics, textile and apparel sector was the main source of Mainland China's trade surplus for the year 2006. Regarding domestic consumption of apparel and clothing, increasing urbanisation and the blooming Chinese economy has boosted the income of the people who are spending more on clothing of better quality and trendy style. The Group is cautiously optimistic about its long term development in Mainland China.

The Group will continue to invest in product design and development, logistics and technology, and strive for closer collaboration and process integration with key customers. To support its future development and long-term growth, the Group will also inject more resources into reinforcing its competitive strengths. It will recruit additional qualified manpower, impose stringent cost control measures and employ advanced information technology to strengthen its back office infrastructure.

本集團將不時檢討及整合印尼生產基地之生產規模及產能，藉此確保可經常達致最佳之生產水平，保證生產流程暢順，加強生產效率及減低資源浪費。透過不斷整合內部運作，並與當地多個信譽昭著之分包商建立更緊密聯繫，相信印尼生產基地對本集團未來之整體生產力將有極大貢獻。

根據非洲成長暨機會法下第三國布料條文之規定，成衣製造商可使用世界各地任何國家之進口布料之年期已延長至二零一二年。本集團將會繼續受惠於該條款規定，於萊索托充分利用非於非洲製造之布料，以生產免稅出口成衣至美國市場。

中國大陸成衣業正面臨重重挑戰，包括人民幣升值、勞工短缺及中國政府實施多項不同宏觀經濟調控措施。儘管存在上述不穩定因素，以世界標準而言中國大陸仍是具競爭優勢之成衣出口國。根據中國海關之統計數字顯示，紡織品及成衣業成為中國大陸二零零六年貿易盈餘之主要來源。至於國內成衣消費方面，城鎮化進程持續加快，加上中國經濟一直騰飛，國民收入增加，優質時尚衣服方面之消費亦相對提升。本集團對中國大陸之長遠發展保持審慎樂觀。

本集團將會繼續投資產品設計及開發、物流運作及提升生產技術，並致力與主要客戶保持更緊密之聯繫，加快運作流程。為繼續支持未來之發展及長遠增長，本集團亦將投放更多資源以鞏固其競爭優勢。本集團將增聘具豐富經驗之人員，實施嚴緊之成本控制措施及採用先進之資訊科技，藉此強化集團之後勤基礎設施。