Chairman's Statement

Traditionally the results of the Group's textile and clothing operations are weaker in the second half of the financial year from October to March due to seasonal factors. The seasonality has become more pronounced, as previously reported, and the trend is again attested by the Group's results for the full year ended 31 March 2001. The ailing economies of the major markets worsened the situation further. Whereas slight improvement was reported in the first six months, the full year results of the Group's textile and clothing operations have been eroded by deterioration in the second six months. After reporting very satisfactory results in the previous year, the performance of the Group's investment division took a dip in the year under review.

AUDITED RESULTS

Audited Group profit attributable to shareholders for the year ended 31 March 2001 amounted to HK$41,188,000, a decrease of 48.3% compared to HK$79,703,000 for the previous year. Earnings per share for the year under review was HK$0.16 compared to HK$0.31 for the previous year.

Textiles and Clothing

Combined turnover of the Group's woven garment, wool spinning, wool knitting and textile trading divisions in the year under review was HK$905.9 million, a decrease of 4.3% compared to HK$946.4 million in the previous year. Gross profit reported a greater percentage decrease of 9.4%, witnessing the continued pressure on margin. Through stringent control on costs and helped by a profit of HK$7.5 million on disposal of fixed assets, their operating profit before interest for the year under review was HK$70.5 million, compared to HK$69.5 million for the previous year. The performance of the individual divisions are mixed and will be analysed later on in this statement.

Investment

In contrast to a profit of HK$10.4 million in the previous year, the investment division reported an operating loss before interest of HK$27.0 million for the year under review. Dividend income amounted to HK$9.5 million and the loss was principally due to the realised and unrealised losses on certain stocks listed in the US held as short-term investments, and provision for the Group's long-term listed investments.

Associated Companies and Jointly Controlled Entities

The Group's share of the results of associated companies for the year under review was a profit of HK$8.5 million before tax, compared to HK$10.9 million for the previous year. The steady rising contribution from the 50% owned Winsor Health Products Limited has been counteracted by the operating losses of other associated companies engaged in the textile and clothing business.

The Group's jointly controlled entities are all operating in Mainland China. Their performance in the year under review in aggregate resulted in a profit before tax of HK$1.3 million, compared to a loss of HK$0.9 million for the previous year.

ANALYSIS OF RESULTS

Woven Garments

Exports to Europe was maintained but the US market deteriorated sharply, resulting in a decrease of 21% in overall turnover. In the first six months, a certain degree of customer selection for the maintenance of margin was possible. However, buyers have been holding back their orders in the second half year in view of the uncertain outlook of the US economy and consumer sentiments. Low margin orders had to be accepted in order to absorb overheads. The trend has continued into the current financial year.

Wool Spinning

Helped by falling wool prices, turnover of the Group's wool spinning operation jumped by 48% in the year under review. The margin, however, was still unreasonably low. Orders for the current financial year have slowed down and some buyers are postponing deliveries. The outlook for this division is middling.

Wool Knitting

The good performance in the first six months was not repeated in the second half year. Decrease in sales to Europe and Japan was compensated by an increase in exports to the US. Turnover for the full year was maintained but at the expense of a lower margin. In line with general market sentiments, the outlook for the current financial year is hardly optimistic.

Textile Trading

The Group's finished yarn trading division has contracted for the operation of a 30% owned jointly controlled entity in Heshan, Mainland China. Turnover improved by about 5% in the year under review. Substantial cost reduction was also achieved by switching from fuel oil to coal, and resulted in an improvement in profit. Business for the first half of the current financial year is satisfactory but the longer term outlook is uncertain.

The finished fabrics trading division took a more active role during the year in promoting the sale of a 50% owned finishing mill in Malaysia. Turnover for the year under review therefore increased by about 48% with a satisfactory improvement in profit.

Hong Kong

Analysed by geographical markets, local sales, which comprise mainly the supply of finished fabrics, cotton yarns and woollen yarns to local manufacturers, reported an increase of about 7% by reason of improved sales in cotton and woollen yarns. Sale of finished fabrics reported a decrease as more and more customers are ordering for direct delivery to their manufacturing bases in Mainland China.

North America

Exports to North America reported a decrease of about 15% in the year under review. Exports of woven garment were reduced to a greater extent than the increase in the exports of woollen knitwear.

Europe

The weakness of the European currencies has not been kind to Hong Kong's exports. Exports of the Group's woven garments and woollen knitwear to Europe therefore both reported a decline in the year under review and resulted in an overall decrease of about 4%.

Asia and Others

Exports of finished fabrics to Mainland China soared by almost three fold but exports of woollen knitwear to Japan was down by about 11%. Overall exports to Asian markets combined reported an increase of about 49%. The Group's exports to other markets continued to be insignificant.

BUSINESS CONDITIONS

The Group's textile and clothing business is hinged upon the economies of the major markets. The US economy has reversed its robust growth of the past decade, and Hong Kong's domestic exports to the US has been going downhill since September 2000. Interest rate in the US has been cut six times in 2001. Whereas it is generally expected that the US economy will recover in the fourth quarter of 2001, uncertainties will continue to hang over consumers and buyers alike. The economies of Japan and European countries in general are no better off, and their weak currencies are not favourable to Hong Kong's exports.

Orders have not disappeared drastically in the market place, but both the prices offered and delivery time are tight. While the peg of the Hong Kong dollar to the US dollar has afforded Hong Kong financial stability, Hong Kong's exports could no longer compete with the exports of emerging producer countries in terms of cost. The entrenched deflation in the local economy has not given manufacturers any comfort as our competitors' costs have fallen by a greater extent.

OUTLOOK

The above factors together paints a very bleak future for Hong Kong's already waning textile and clothing exports. Under such general climate, both the turnover and profit of the Group's textile and clothing business are expected to report a decline for the year ending 31 March 2002.

GROUP STRUCTURE

Since the close of the general offer made by Super-Rich Finance Ltd. for the Company's shares ("Offer") on 30 January 2001, 192,615,464 shares representing approximately 74.17% of the issued share capital of the Company are held by Super-Rich Finance Ltd. The Offer did not have any impact on the management and operations of the Group.

Other than the disposal of certain dormant subsidiaries, the acquisition of the minority interest in a subsidiary and the formation of a new associated company, there were no material acquisitions and disposals of subsidiaries, associated companies and jointly controlled entities during the year under review. In May 2001, the Group entered into a joint venture engaged in professional broadcasting engineering system design and integration with a view to benefit from the global trend for television broadcasting to migrate from analogue to digital transmission. The Group's interest therein is 60% and the cost of investment is HK$750,000.

FIXED ASSETS

As previously reported, 5 units in Global Gateway (Hong Kong) (formerly known as Winsor Centre) were sold during the year under review and two floors of the Regent Centre at 63-73 Wo Yi Hop Road, Kwai Chung were acquired in partial replacement of the sold premises. Apart from the acquisition and the associated relocation expenditure incurred, there were no other material capital expenditure by the Group during the year under review nor is any planned in the current financial year.

INVESTMENT PORTFOLIO

At 31 March 2001, the net book value of the Group's long-term listed investments was HK$54.3 million and their market value was HK$344.2 million as at that date. There has been no change in the portfolio since then other than the write back of provisions in the amount of HK$5.8 million and their market value was HK$366.2 million as at 30 June 2001.

The Group's short-term listed investments are carried at market value. Their carrying value as at 31 March 2001 was HK$72.1 million. The portfolio was reduced to HK$57.9 million as at 30 June 2001 by net disposal. Realised and unrealised gains during the quarter ended 30 June 2001 was about HK$3.8 million.

At 31 March 2001, the carrying value of the Group's long-term unlisted investments was HK$122.5 million and there has been no material movement since then. The Group's 18% interest in phase 2 of Shanghai East Ocean Centre, Shanghai accounted for the lion's share of such investments. Phase 2 of Shanghai East Ocean Centre is wholly financed by investors' loans. Occupancy of office space in the project is now over 90%, but the joint venture is not yet in a position to make a return to investors. No material unlisted investments are expected in the current financial year.

FINANCIAL POSITION

As at 31 March 2001, the Group's cash and bank balances amounted to HK$316.5 million, and bank borrowings amounted to HK$171.8 million. In view of the changed interest rate disparities in favour of Hong Kong dollar borrowings, the Group has during the year under review converted all its US dollar bank borrowings into loans denominated in Hong Kong dollar. All the bank borrowings are short-term unsecured loans with interest based on HIBOR plus a margin.

By including the proposed final dividend of 3 cents per share, the Group's net current assets and shareholders' funds as at 31 March 2001 were HK$324.8 million and HK$914.2 million respectively, as compared to HK$271.9 million and HK$907.6 million respectively at 31 March 2000. The Group's gearing ratio as at 31 March 2001, computed as the ratio of total bank borrowings of HK$171.8 million to shareholders' funds of HK$914.2 million, was 18.8%.

The Group's contingent liabilities as at 31 March 2001 amounted to HK$63.8 million, of which HK$49.4 million represent guarantees given in respect of banking facilities granted to associated companies and investee companies. The balance of HK$14.4 million was in respect of bills discounted with recourse.

EMPLOYEES

Staff cost amounted to HK$183.8 million for the year ended 31 March 2001. As at that date the Group employed a total of about 3,400 employees, of which about 2,400 were employed in Mainland China. Remuneration level is normally reviewed annually. Retirement benefits are provided in accordance with local government requirements. Other benefits are awarded at the discretion of the Group. Staff training is provided as and when required.

DIVIDENDS

Since the Offer was declared unconditional on 15 January 2001 and in accordance with the terms of the Offer, a special dividend of 10 cents per share for the 9 months ended 31 December 2000 was paid on 8 February 2001 instead of the interim dividend of 5 cents per share. The Directors have recommended to declare a final dividend of 3 cents per share for the year ended 31 March 2001. Subject to the approval of the Annual General Meeting to be held on 15 August 2001, total dividend for the year ended 31 March 2001 will aggregate 13 cents per share, representing a total distribution of HK$33,759,000 and at the same level as that for the previous year.

PROPOSED EMPLOYEE SHARE OPTION SCHEME

A resolution will be proposed to the forthcoming Annual General Meeting to approve a share option scheme for the Group's employees. A circular containing an explanatory statement and details of the scheme will be despatched to shareholders.

CHOU Wen Hsien
Chairman

Hong Kong, 4th July, 2001.