

# Chairman's Statement

## Business Review

The Group's turnover for the year ended 31st August, 2000 was HK\$4,163.8 million, representing an increase of 9.6% as compared with that of the previous year. Knitting, dyeing, printing and sales of dyed fabrics, sewing threads and dyed yarns increased by 15.7% and accounted for 90.7% of the total turnover. Sales of garments decreased by 14.4% and accounted for 6.7% of the total turnover. Trading of yarns also decreased by 48.1% and accounted for 2.6% of the total turnover. The Group's profit for the period under review was HK\$186.9 million, representing a decrease of 14.4% over that of previous year.

The Group is principally engaged in knitting, dyeing, printing and sales of dyed fabrics, sewing threads and dyed yarns. The Group is the largest manufacturer and supplier of cotton knitted fabrics in Asia. The products of the Group are mainly supplied to garment manufacturers in Hong Kong, Asia and Australasia, which accounted for 85.2% of the total turnover. These garment manufacturers in turn produce apparel products for the most renowned brands in the world with major markets being the United States and Europe. Although the business environment had moderately improved during the period under review, the market and price of products were still weaker than that prior to the occurrence of the Asian financial turmoil. Despite the fact that the Group had increased its production efficiency and adopted more aggressive selling strategies, including adjustment in pricing to obtain greater market share, to achieve an increase in sales volume of more than 20%, turnover increased by only 15.7%. This also resulted in the decrease in the Group's profit margin.

Apart from the aforesaid, as the market outlook for textile products in the United States remained uncertain, the retailers had adopted more prudent approach towards inventory control. They required shortening of the ordering lead time so as to reduce carrying costs of inventory as well as the risks of overstock. The Group's effort to fulfill the ever-changing requirements of the buyers in a flexible manner lead to an increase in operating costs. This, together with the increase in energy costs resulting from the spiraling increase in oil price, has brought detrimental effect on the Group's profit.

As the profit margin was not satisfactory and its investment and equipment in Haiti were being written off, the Group's business in the sales of garment suffered from a serious loss over the period under review. Therefore, the Group had since repositioned and restructured this business and its performance is expected to progressively improve in the coming year.

As a measure to control inventory level, the Group reduced its trading of raw yarns, and the profit therefrom reduced accordingly.

In addition, although the Group continued to reduce its borrowings over the period under review, the associated interest costs did not decrease correspondingly because of the increase in interest rate. On the other hand, additional arrangement fee was incurred for re-organising some bank loans during the period.

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Due to a fall in the profit margin for the period as a whole, the Group continued to streamline operations, reduce production costs and improve production efficiency, with an aim to strengthen its competitiveness. In order to have better control on the supply of cotton yarn, the Group started to lease an additional spinning mill, Guang Qing Cotton Spinning Co. Limited. As a result, the Group currently operates four leased cotton yarn mills, which provides 20% of its demand for premium quality cotton yarn.

The Group will continue to devote its effort to improve product quality in order to satisfy the different requirements of customers. With the ISO 9002 certification of the Sales and PPC Department of Dongguan Fuan in July 2000, there are already five principal divisions of the Group that have obtained ISO certification. Other operating divisions are now actively implementing ISO 9002 quality management system.

## Outlook

As there are signs that the economy of United States is gradually slowing down and its demand for textile products is therefore expected to decrease. On the other hand, with the anticipation that PRC will soon enter the World Trade Organisation, there will be great opportunities ahead for various industries. Moreover, the interest rate of United States is believed to have already reached its peak level, it is likely that interest rate will begin to reduce in the coming year. This will then alleviate the Group's burden on interest costs to a certain extent.

In order to utilise more environmental friendly and cost efficient method of energy generation, the Group will be implementing a steam and electricity co-generation facility in its manufacturing plants in PRC. Also, a number of modern production machinery and equipment that use less water and chemical auxiliary will be installed, so as to reduce production costs.

Although the performance for the period under review is less impressive, the Group has adopted effective measures to improve its financial position and prepare for the expansion ahead. The Group will implement more stringent measures on cost and inventory control so as to improve its profit margin.

Apart from focusing on the textile business, the Group will also actively seek for new business opportunities. To conclude, the Group will put an emphasis on consolidating the current businesses and enhancing the productivity. It is anticipated that the Group will develop its businesses by utilising the strategies of active and prudent management.

## Liquidity and Financial Information

At 31st August, 2000, the total assets of the Group amounted to HK\$4,570.9 million. The shareholders' funds and minority interests amounted to HK\$2,364.7 million.

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In order to further consolidate the Group's financial position, in February 2000, the Group signed with a bank a five years term loan agreement for HK\$480 million which has been fully utilised for repayment of an existing loan. The Group has started the first repayment of this new bank loan on October 2000. In April 2000, the Group signed another loan agreement for HK\$330 million with seven banks and financial institutions for a term of three years, which will be partially applied for repayment of another existing syndicated loan, while the balance will be used as the Group's working capital.

During the past few years, the Group has been actively repaying its loans in different phases and managed to reduce its gearing ratio to a more healthy level. At 31st August, 2000, the gearing ratio of the Group was 1.10 times, whilst that of the same period last year was 1.22 times. Bank borrowings amounted to HK\$1,768.5 million at 31st August, 2000, whilst that of the same period last year was HK\$1,940.2 million, representing a decrease of HK\$171.7 million. Bank borrowing ratio was down from 0.94 times to 0.81 times. The long-term bank borrowings ratio was down to 0.40 times from 0.49 times at the beginning of the period.

At 31st August, 2000, the Group's bank deposits and cash in hand amounted to HK\$204.8 million.

Whilst the sales of the Group is mainly denominated in Hong Kong dollars and US dollars, the purchase of raw materials is made mainly in Hong Kong dollars, US dollar or Renminbi. Bank borrowings are also denominated in Hong Kong dollars and US dollars, and interests are charged on a floating rate basis. Hence, the Group's exposure to foreign exchange risk is minimal.

### Capital expenditure

For the year ended 31st August, 2000, the Group invested HK\$97.6 million (1999: HK\$97.9 million) in property, plant and equipment. In the next two years, it is expected that the Group will invest HK\$250 million for the equipment in the steam and power co-generation project as well as addition of production machinery.

### Pledge of assets

At the balance sheet date, property, plant and equipment of its subsidiaries with an aggregate carrying value of HK\$629.7 million (1999: HK\$687.9 million) and a short-term bank deposit of the Company of HK\$22 million (1999: HK\$22 million) were pledged to various banks under fixed charges to secure general banking facilities granted to the Group.

Subsequent to the balance sheet date, one of the banks released the pledge of a short-term bank deposit of HK\$22 million and certain properties.

### Contingent liabilities

At the balance sheet date, the Group had contingent liabilities amounting to HK\$38.9 million in respect of discounted bills with recourse and invoices factored with recourse.

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## Employees and Emolument Policies

At 31st August, 2000, the Group has a total of 9,412 full time employees. Compared with the number of that as at 31st August, 1999, the number of full time employees increased by 221, which attributed to the addition of Guang Qing Cotton Spinning Co. Limited.

The Group's emolument policies are formulated on the performance of individual employees and on the basis of the salary trend in various regions, and will be reviewed regularly every year. The Group will also provide discretionary performance bonus to its employees as an incentive to the employees for their contribution, subject to the profit of the Group and the performance of the employees. On 1st June 2000, the Group granted 7,700,000 share options in accordance with the Share Option Scheme of the Group, of which the employees may subscribe for the shares of the Group at a subscription price of HK\$0.62 per share.

The Group has established its provident fund scheme and medical insurance for over fourteen years, and has established its mandatory provident fund scheme for selection by its employees.

The Group regularly provides training courses and subsidies for continuing education, so as to improve the skills of its employees with respect to selling, production and management. In 2000, the Group recruited about 40 post-secondary and university graduates.

## Dividend

The Board recommends the payment of a final dividend of HK 3.5 cents per share for the year ended 31st August, 2000 payable to shareholders whose names appear on the register of the members on 12th February 2001. Subject to the approval of the shareholders at the forthcoming Annual General Meeting, the total annual dividend for the year will be HK 7.0 cents per share, which is same as last year.

## Acknowledgement

Despite the difficult operating environment, the businesses of the Group remained stable. On behalf of the Board, I would like to extend my whole-hearted appreciation to various business partners, banks, customers and suppliers for their support and trust, and to all of the Group's employees for their dedicated efforts.

On behalf of the Board

**HA Chung Fong**

*Chairman*

Hong Kong

15th December, 2000