

Business Operations

The Group is engaged in the manufacturing of a wide range of fashion including suits, jackets, coats, outerwear and sportswear under customers' brandnames. The Group is also engaged in the retailing and trading of men's casual sportswears and ladies fashion under various brandnames in Hong Kong, the Mainland China and other Asian countries. Most of the Group's products are manufactured according to the designs, fabrics and accessories provided by the customers.

This year is an excellent year to the Group in terms of profitability and business expansion. The Group has achieved synergy through combining the sales, production, procurement and finance operations with the Hwa Fuh Group subsequent to the merger in 1999. The Group is able to boost its sales by focusing on its target markets and achieving additional productivity gain and cost savings in the production plants. The Group has employed an outside consultant to further assist the Group's efforts in streamlining operations to achieve greater efficiencies and profitability.

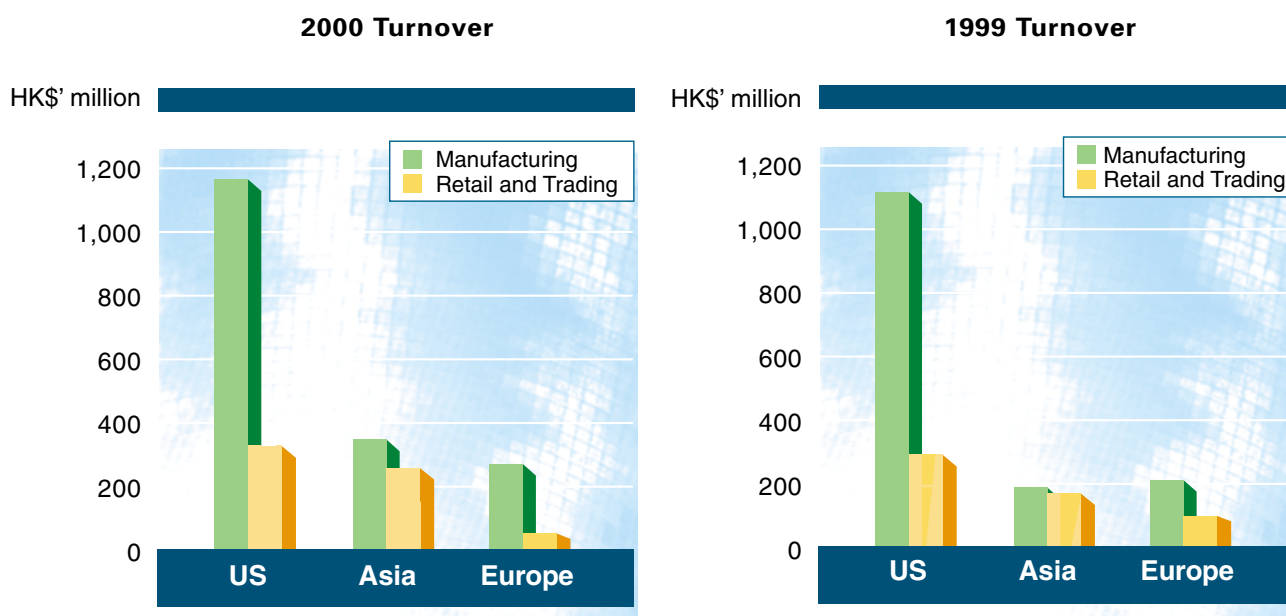
The Group produced about 13.9 million pieces of garments in 2000 (1999 - 10.3 million pieces) from 14 factories located in Hong Kong, the PRC, the Philippines, Taiwan and the Union of Myanmar. The Group has about 18,000 (1999 - 17,000) employees who are entitled to a string of benefits in addition to their basic salaries.

Operating Results and Financial Position

For the year ended December 31, 2000, total turnover was approximately HK\$2,431,891,000 of which approximately HK\$1,791,508,000 was derived from the Group's manufacturing operations and the balance from the retail and trading operations.

Turnover of the Group increased from approximately HK\$2,073,645,000 in 1999 to HK\$2,431,891,000 in 2000, representing an increase of approximately 17%. The Group's export sales to Asia were up by 70% from HK\$359,132,000 to HK\$609,531,000. The increase is attributable to the recovery of the Asian market and the sales growth in the Japanese casual wear market. The Group's sales to the US and Europe were up by 6% and 7% respectively. US continues to be the dominant market for the Group accounting for 61% (1999 - 68%) of the total turnover.

The analysis of the Group's 2000 and 1999 turnover by principal activities and markets is as follows:



Due to the unsatisfactory results of the joint venture operations in Europe, the Group terminated the joint venture in March 2000. The loss on closure of the Group's European operations was approximately HK\$6,250,000 which had been fully provided for in the prior year. Its operating results were shown as discontinued operations in the consolidated income statement.

Gross profit of the Group increased from approximately HK\$399,756,000 in 1999 to HK\$563,912,000 in 2000, an increase of 41% or HK\$164,156,000. The increase is attributable to the continuous improvement over production costs and the recovery in the contribution margin in the trading and retail market. The Group is able to compete directly with specialty retail chains through its lady dress up sales in department stores. Moreover, certain private labels in the retail market continued to perform well.

Profit attributable to shareholders increased by 52% from HK\$74,131,000 in 1999 to HK\$112,663,000 in 2000. Apart from the increase in gross profit of the Group, the increase is also attributable to the exchange gain arising from the devaluation of Philippines Peso. Whilst the devaluation of the Philippines Peso has had a positive impact on the operating results of the Group, it has also led to a decline in the carrying value of our Philippines assets in Hong Kong dollar terms.

Working Capital and Liquidity

In the current year, the Group continues to have good working capital and a strong liquidity position. Receivable turnover averages at around 42 days (1999 - 41 days) and inventory turnover averages at around 33 days (1999 - 42 days). This is a result of continuous effort on collection of receivables and an improvement on the logistics of the entire production cycle.

After accounting for the payment of the interim dividend and the proposed final dividend totalling HK\$47,410,000, the Group is still able to maintain a sound and satisfactory level of current and quick ratios at 1.36 and 0.99 respectively as at December 31, 2000 (1999 - 1.17 and 0.78 respectively).

Capital and Debt Structure

The Company has not issued any additional shares subsequent to the merger with Hwa Fuh Group in April 1999. There is no present requirement or plan to raise fund through the issuance of equity or debt. During the year, the Group was able to maintain a strong cash flow position and the net cash inflows from operating activities amounted to approximately HK\$237,003,000 (1999 - HK\$143,197,000).

As at December 31, 2000, the Group had outstanding bank loans and overdrafts of approximately HK\$55,601,000. Such bank loans and overdrafts were short-term in nature and were mainly used to facilitate the settlement of fabric purchases for production. Total bank borrowings reduced from approximately HK\$152,888,000 in 1999 to HK\$55,601,000 in 2000, a decrease of 64%. With the significant improvement in the Group's current year's operating results, the Group was able to finance itself through internally generated funds and reduce its bank borrowings. As at December 31, 2000, cash and bank balances totalled approximately HK\$106,546,000, an increase of HK\$25,910,000 when compared with 1999.

As a result of the significant reduction in bank borrowings, gearing ratio improves significantly to 10% as at December 31, 2000 (1999 - 28%). The ratio has been calculated based on the total bank borrowings to the total shareholders' equity of the Group.

During the year, the Group entered into a limited number of forward contracts to hedge its foreign currency denominated receivables or payables against the fluctuation of exchange rates.

The Group had unutilized banking facilities of approximately HK\$838,000,000 as at December 31, 2000 (1999 - HK\$857,000,000). Save as disclosed in the financial statements, the Group did not create any charges on its assets to secure the banking facilities during the year.

Results of Significant Investments

The Group's interests in associated companies, Hua Thai Manufacturing Public Company Limited and its subsidiaries (the "Hua Thai Group"), amounted to approximately HK\$96,709,000 as at December 31, 2000 (1999 - HK\$124,593,000). The principal activity of the Hua Thai Group is also garment manufacturing and its principal place of operation is Thailand. The Group's share of operating profit after taxation of Hua Thai Group reduced from HK\$9,822,000 (for the 9-month ended December 31, 1999) to HK\$6,980,000 (for the year ended December 31, 2000).

During the year, the Group disposed of its joint venture operations in Europe, which were not performing at a level that satisfied management expectations. Through eliminating these investments, the Group is able to refocus on the markets where the Group has stronger competitive advantage.

As at December 31, 2000, the Group had other long-term investments of approximately HK\$3,791,000 (1999 - HK\$4,022,000). It also held investment properties of approximately HK\$7,600,000 (1999 - HK\$2,300,000). These investments are not considered as significant investments to the Group as the return on these investments does not have significant impact to the Group's operating results.

Contingent Liabilities

Under the normal trading practices, the Group received bills of exchange to settle its receivables from customers. In order to improve its operating cash flows, the Group had discounted part of these bills of exchange to its banks. As at December 31, 2000, the outstanding discounted bills with recourse to the banks amounted to approximately HK\$1,563,000 (1999 - HK\$21,575,000).

In the normal course of business, the Group may be subject to certain claims/counter claims from suppliers, customers or other third parties. Management has estimated that these contingent liabilities, even if they materialize, will not have a material adverse effect on the ongoing operations of the Group.

Human Resources

The Group recognized human resources as the most important asset and rewarded staff through fair remuneration packages and other fringe benefits. To cope with the current year's expansion, the Group hired more production workers to meet the increasing sales orders from customers. In addition, the Group may also grant discretionary bonus to eligible employees based on the Group's business performance and individual performance.

In each of the years from 1998 to 2000, the Company also granted share options to certain employees, entitling them to subscribe for shares of the Company. These options are exercisable in stages commencing twelve months from the date of grant. The expiry date of the options is three years after the date of grant. No options have been exercised since the date of grant to December 31, 2000.

Future Prospects

The Group will continue to focus on its core business and has no present plan to diversify or invest into other business activities. There are also no material capital commitments which would require a substantial use of the Group's present cash resources or external funding.