



DIVERSITY

CHAIRMAN'S STATEMENT

2000 HAS BEEN A CHALLENGING YEAR.

The Group reported a loss attributable to shareholders of HK\$68.9 million for the year ended 31st December, 2000 compared with a profit of HK\$18.1 million in 1999. Turnover for the Group was HK\$1,668.6 million compared with HK\$1,719.1 million in 1999.

The change in (loss) profit attributable to shareholders from a profit of HK\$18.1 million in 1999 to a loss of HK\$68.9 million in 2000 was mainly attributable to the following factors: (a) a reduction in other revenue of HK\$19 million; (b) an increase in administrative expenses of HK\$25 million; and (c) a provision of HK\$39 million for property development projects. The reduction in other revenue was mainly due to decrease in exchange gain realised from foreign currency transactions. Increase in administrative expenses was mainly due to the opening of overseas retail stores and investment in marketing expenditures for brand enhancement. In spite of these, our core apparel business was able to maintain its profitability.

During the Year 2000, the Group remained fixed on its strategy to increase asset value by combining the steadily growing cash flow from apparel manufacturing, the medium term capital appreciation derived from our value-added property developments, and the strong growth potential of our investment in technology businesses.

To accomplish this, the Group is organised into three divisions. The first is Apparel, which includes a streamlined garment manufacturing business and the international marketing of brand name products. The second is Property, which comprises investments in quality residential and industrial developments in Hong Kong and property management. The third is Technology Investment, which encompasses investments in existing and high-growth business sectors.

The Group's garment manufacturing operation had its sixth straight year of continued growth with profit before taxation increasing to a record HK\$74 million from HK\$53 million in the prior year. This substantial and steadily increasing cash flow from garment manufacturing has allowed the Group to finance its investment strategy in residential property development and high growth business sectors.

While the anticipated slow-down in our major export markets will affect the cash flow generated by the manufacturing operation, the effect is expected to be minimal. The Group is relatively insulated from movements in business cycles because of our well-diversified manufacturing base. In the long term, with continued expansion in production facilities, earnings

will continue to grow from manufacturing operations.

Our trading business, is under severe margin pressure, therefore, we have elected to restructure our London trading operation.

The Year 2000 was challenging in many respects. Despite some signs of a steady recovery, the economy remained rather subdued and the property sector did not recover as expected. In addition, the high-tech boom turned out to be short-lived with the valuation of TMT (Telecommunications-Media-Technology) asset prices continuing to collapse as we prepare this report.

Despite the slow residential property market, sales at The Waterfront remained satisfactory with some 200 units sold during the year generating over HK\$1.4 billion in revenue. But given the market's uncertain outlook, despite recent Government measures to relax market regulations and a further reduction in mortgage rates to a 30-year low, we decided that to be prudent we would not recognise any profits from The Waterfront sales. In addition, the Group made a provision of HK\$39 million in respect of its residential development portfolio.

SUNDAY Communications Limited, in which the Group has an 11.5% interest, was successfully listed on The Stock Exchange of Hong Kong and NASDAQ in March 2000. SUNDAY made tremendous progress during a difficult year. It achieved sustained growth in the subscriber base and a relatively stable ARPU (Average Revenue Per User) despite intense competition. This is the second consecutive year that its ARPU is believed to have outperformed that of its competitors.

With tight financial controls and improved efficiencies, SUNDAY'S operating results improved significantly and it is expected to achieve a breakeven EBITDA (Earnings before interest, taxes, depreciation and amortization) within the first half of 2001. With a cash reserve and available credit facility totalling HK\$1.7 billion, SUNDAY will use its own resources to finance its continued growth during the coming year.

Our UK subsidiary, Chivers Communications plc ("Chivers") continued to generate a healthy profit and cash flow from its large print and audio books businesses and it is developing a technology platform to distribute audio books over the Internet. The management of Chivers firmly believes in the future of the Internet as a distribution medium that will enhance its earnings capability. As a prudent financial measure, Chivers decided to write down all of the technology development costs.

STRATEGIC DIRECTION

Despite the year's results, the Group firmly believes in its strategy of achieving growth by leveraging its solid recurring cash-flow from manufacturing operation to expand into property development and invest in technology businesses.

The Group will further strengthen its garment manufacturing capabilities by seeking overseas production sites that offer cost benefits and/or preferential trading arrangements. One such base is planned in Madagascar which enjoys preferential trade arrangement with the U.S. and the European Union. We

also operate plants in Guangdong Province, Cambodia, and Myanmar. A new plant in Guangdong Province is under construction in Ruyuan. In addition to reaping the cost benefits of operating in developing countries, our investments add economic value to these developing areas.

Residential property development will continue to be a strategic focus for the Group. In addition to the marketing and sales of the remaining units at The Waterfront, consisting mainly of better quality units in terms of layout and views that command higher value, we anticipate that the projects in Kowloon Tong and Siu Lam will come on-stream in late 2001.

Technology will play a significant role in increasing operational efficiencies thus substantially enhancing business value, especially important in the traditional apparel industry. In line with this, the Group has joined with several other parties to establish a technology investment fund, with up to US\$20 million in total funding, to seek investment opportunities in technology related businesses with particular emphasis on the apparel industry.

We firmly believe that technology will drive the future economy and the dramatic downturn in this sector means we can gain entry without having to pay inflated premiums. However, during the evaluation process, we will continue to adhere to prudent financial management principles and we also will continue to be closely involved in our technology investments in SUNDAY and Chivers.

PROSPECTS

The current weakness in the U.S. economy will have some impact on our manufacturing operation, but this is not expected to be substantial. The continual downward trend in interest rates should help to stabilize property prices in Hong Kong and motivate potential buyers. We will remain vigilant to any volatility in the Hong Kong economy because of declining global share prices and the weakening U.S. economy.

The Group's balance sheet is strong. The syndicated loan facilities used to finance the development of The Waterfront were fully repaid and, taking advantage of the liquidity in the market, the Group arranged facilities of up to HK\$2.95 billion to refinance the project and as a result recouped some HK\$184 million. Since the refinancing is on a non-recourse basis, it has substantially reduced our gearing and therefore our risk. We also should benefit from the general interest rates reduction in the Hong Kong inter bank market.

Over the long term, China's entry into the WTO is expected to benefit the Group when the U.S. quota system expires in 2005. It will also benefit Hong Kong's economy thus bolstering confidence and strengthening the property market.

Overall, we look forward to a bright future for the Group that will benefit our shareholders as we capitalize on exciting new growth opportunities.

VOTE OF THANKS

On behalf of the Board of Directors, I would like to thank all of our management, staff and consultants for their spirit and efforts contributed in building a strong platform for the Group's future growth.

Christopher Cheng Wai Chee

Chairman