

During the year ended 30 June 2001, the Group's business activities were organised into one corporate cost centre and two operating units whilst Distribution Europe has ceased to be an operating business since the beginning of the current fiscal year, and included in the analysis below for comparison purpose.

	Turnover		Operating profit (loss)	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Manufacturing Asia	887,272	695,991	90,166	74,302
Distribution Asia	32,193	37,907	51	(3,049)
Distribution Europe	-	8,260	-	(680)
Corporate	-	-	(33,428)	(34,566)
	<u>919,465</u>	<u>742,158</u>	<u>56,789</u>	<u>36,007</u>

## MANUFACTURING ASIA

Year 2000/2001 was a difficult year for export business. Most importing countries were plagued by the slowing economy which resulted in dwindling consumer spending and reduction in production demands.

Nevertheless, our core business attained double-digit growth in revenue and profit. OEM sales grew by 27% from HK\$696.0 million to HK\$887.3 million while operating profit increased by 21% from HK\$74.3 million to HK\$90.2 million.

There are two major factors to this improvement in performance. Firstly, our effort to expand our customer base in all markets was bearing fruit. The new customers we added in both the U.S. and Europe markets contributed to most of our sales growth. Secondly, the timely expansion of our manufacturing facilities in Thailand where quota was much less of a limiting factor and cost element than that in China, allowed us to produce for the incremental business with better bargain. Additionally, the devaluation of currencies in the Philippines and Thailand against U.S. dollar during the period has helped to lower our operating cost.

## DISTRIBUTION ASIA

Following the decision to restructure the unit, Distribution Asia has gradually turned in better results every year. This operating unit currently operates three retail stores in Hong Kong, a number of sales counters in Hong Kong and Taiwan, and a network of wholesale distribution in China. During the year, it turned around its performance from a loss of HK\$3.1 million recorded in the previous year to a profit of HK\$51,000. Despite a decrease in revenue from HK\$37.9 million to HK\$32.2 million, we are encouraged by the bottom line performance considering the retailing industry in the region has been hard hit by the sluggish economy. The improvement was attributable to strict discipline in inventory control and repositioning of our products against competitions and changing consumer needs. The popular-priced line of products that we introduced a year ago, has begun to gain consumer recognition.

## CORPORATE

There was a slight reduction in corporate spending primarily due to the decrease in interest expenses which amounted to 71% of the total corporate expenses during the year. By repayment of bank debts in July 2000 and January 2001 of HK\$25 million each in accordance with the agreements the Group entered into with the banks back in January 1998, we were able to cut down the interest payments consequential to the reduction in bank debts.

## OUTLOOK

Business in general continues to suffer from the global economy downturn. The recent terrorist attacks in the U.S., has exacerbated the situation and diminished any hope for a recovery in the foreseeable future. The buyers have been extremely conservative in making production demands, resulting in excess capacity in the recent months and shortened production lead time for the orders placed at the very last minute.

Our OEM business is not immune from this highly adverse market situation. Nevertheless, production booking towards the end of this calendar year and the few months beyond looks strong. We are hopeful that we could recover some of the lost ground in the earlier months.

Meanwhile, we will start migrating within the twelve months part of our manufacturing facilities in southern China to the inland regions where labor and operating costs are considerably lower than those in the coastal cities. This move leases strategic significance in anticipation of the negative impacts brought upon the conventional industries and labor-intensive operations as economic developments in the coastal cities of China accelerate over the next few years.

As for the Distribution unit, we will continue to nurture the business, with an objective to increase value and contribution to the Group. Retailing environment in general is still very difficult. We believe this business unit in the near future will see more growth opportunities in the China market.

The current market and economic outlook requires extremely cautious business approach. Given disciplined management and our rational business plan, we are confident that we can hold the solid foundation that we have built, and to take on the challenges confronting us in the coming year.

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*Group Managing Director*