"The Group's strong relationships with its customers have enabled it to increase sales quantity by 15.1% compared to 2000 despite the recession in the United States and the September 11 terrorist attack. But the United States customers put pressure on the Group's selling prices and profit margin......"

Report Of

FINANCIAL REVIEW

The Group's strong relationships with its customers have enabled it to increase sales quantity by 15.1% compared to 2000 despite the recession in the United States and the September 11 terrorist attack. But the United States customers put pressure on the Group's selling prices and profit margin as they slashed prices to push sales and clear stocks. As a result, the Group's turnover for the year ended 31st December, 2001 remained fairly the same as in 2000 at HK$1,146.4 million (2000: HK$1,166.8 million), while gross profit fell by 8.7% to HK$245.6 million (2000: HK$269.1 million), or 21.4% of the Group's turnover (2000: 23.1%). Profit attributable to shareholders amounted to HK$95.0 million (2000: HK$120.1 million).

The Group established a sample-making facility in Dongguan in Guangdong Province in 2001 that also serves as a foothold in China for the Group. The additional parallel run costs in respect of the initial set up of the facility and surge in airfreight charges during the second half of the year contributed to the rise in selling expenses.

REPORT OF MANAGING DIRECTOR

Liquidity and financial resources

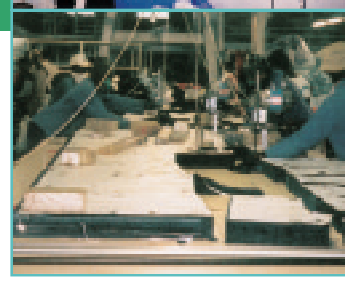
The continued earnings from operations enabled the Group to maintain a healthy liquidity position. As of 31st December, 2001, cash and bank balances amounted to HK$79.8 million (2000: HK$64.6 million) while bank loans, in the form of trust receipt loans and overdrafts, amounted to HK$64.7 million (2000: HK$49.0 million). The bank loans were denominated in either HK dollars or US dollars. Working capital represented by net current assets amounted to HK$147.7 million (2000: HK$175.8 million).

The Group's current ratio was 1.8 (2000: 1.9) and the gearing ratio of bank loans and overdrafts to shareholders' fund was 19.6% (2000: 15.4%). The Group's sound financial position provides adequate resources for its ongoing operating requirements.

Capital expenditure

The Group incurred a total capital expenditure of HK$68.5 million from its own financial resources in 2001. It spent HK$50.6 million on the initial capital expenditure of the new factories in El Salvador and Lesotho and the remaining balance of HK$17.9 million mainly on purchasing machineries, office furniture and equipment for other locations.

The sample making facilities in Dongguan, Guangdong, China



In Shinning Century Limited, workers were undertaking the fabric cutting process.

Managing Director

Foreign exchange exposure

As at 31st December, 2001, the exchange rates of Indonesian Rupiah and the South Africa Rand to one US dollar were Rp10,400 (1st January, 2001: Rp9,595) and South Africa Rand 12 (1st January, 2001: South Africa Rand 7.57) respectively. The depreciation of these currencies has no unfavorable impact on the Group's results for the year under review as the Group's sales were principally denominated in US dollars.

Salvadoran Colones, the local currency of El Salvador, has been pegged to the US dollars since 1st January, 2001 at 8.75 Colones to US$1, and the Group does not foresee any currency exposure in El Salvador.

Credit policy

The Group's credit policy has remained unchanged in accepting orders from customers under letters of credit at sight to 90 days. Over 93.4% of the Group's business was transacted under letters of credit, with the balance being on an open account basis. The open account term was granted only to existing customers for small orders. Credit limits for open account customers are set on an individual basis.

Report of Managing Director

Charges on fixed assets

The Group's properties in Hong Kong with a carrying value of HK$20.5 million has been pledged with a bank to secure trade facilities to the extent of US$18 million. At 31st December, 2001, the respective secured bank loans amounted to HK$10.1 million (2000: HK$12.3 million).

Contingent liabilities

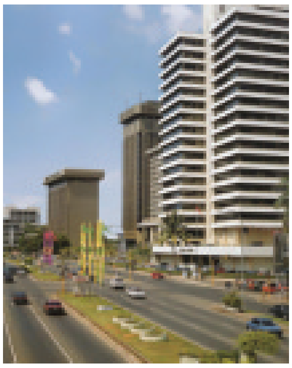
As at 31st December, 2001, the Group had no contingent liabilities except bills discounted to banks with recourse amounting to HK$19.2 million (2000: HK$19.3 million).

BUSINESS REVIEW

Further globalization of the Group's manufacturing base has enabled the Group to offer a wider range of products, gain economies of scale, and leverage the geographical advantages offered by its production bases around the world. Through acquiring new production bases in El Salvador in Central America and Lesotho in sub-Saharan Africa in 2001, the Group has been able to tap the trade benefits of the Trade and Development Act of 2000 of the United States. Today, the Group's production facilities are distributed over three continents in Asia, America and Africa.

Indonesia

With a population of more than 210 million, Indonesia is the fourth most populous nation in the world and provides the garment manufacturing industry with an abundant supply of low-cost labor. The Group's production facilities in Indonesia are principally located in the bonded zones of Tanjung Priok and Cakung in the north of Jakarta, within which no duties, excise or government levies is imposed on materials imported to produce finished goods for export purpose.



High-rises in Jakarta, Indonesia

The Group operates the factories under the names of PT Caterindo Garment Industri, PT Aneka Garmentama Indah and PT Kater Busanacemerlang. Islamic protests in Indonesia following the United States' declaration of war on the Telaban in Afghanistan in response to the September 11 attack had no adverse effect on the Group's operations. Indonesia remains the Group's major production base, contributing about 72.5% of the Group's turnover.

PT Aneka, a woven bottom factory in Indonesia, equips with trousers finisher machines.

REPORT OF MANAGING DIRECTOR

Enhanced productivity had boosted the production volume of the Group's Indonesian operations by 13.5% compared to 2000.

El Salvador

El Salvador is located in the southwest coast of the Central American Isthmus on the Pacific Ocean and its capital city, San Salvador, lies close to Los Angeles in western United States. El Salvador's international airport is considered to be one of the most modern airports in Latin America. El Salvador's geographical proximity to the Group's principal market makes it strategically attractive for the Group to establish a production arm there.

National Palace in San Salvador, El Salvador

The Group acquired Charter, S.A. de C.V., which is located in the tax-free industrial zone of San Marcos in El Salvador, for US$2 million (HK$15.6 million) in early 2001. Charter, S.A. de C.V. engages in the manufacturing of knit tops and acted as a subcontractor to the Group prior to the acquisition. Charter, S.A. de C.V.'s output accounted for about 19.9% of the Group's turnover in 2001 which was consistent with its performance in 2000.

Charter, S.A. de C.V., a knit factory in El Salvador

Lesotho

The Group acquired two factories in Lesotho in response to the favorable investment climate in sub-Saharan Africa. Lesotho, a country located in and totally bordered by the Republic of South Africa, is the third largest exporter to the United States among the 15 countries that now qualified for incentives granted by the African Growth and Opportunity Act under the Trade and Development Act of 2000 of the United States.

A map of Lesotho

In early 2001, the Group acquired a controlling stake in Shinning Century Limited, a knit factory located in Maseru of Lesotho and expanded the facility to double its production capacity within the same year.

Report of Managing Director

In April 2001, the Group acquired Supreme Bright Group Limited, a woven bottom factory in Maputsoe of Lesotho.

Supreme Bright Group Limited owns computerized production facilities.

Since the above acquisitions, the management has concentrated on tuning up production capacity and efficiency of the newly acquired factories. A special training team formed by experienced factory managers from Indonesia provides training and support from time to time. The new factories have yet to make any meaningful contribution to the Group in 2001 as the Group needs to bring them on par with its standard. Nonetheless, the acquisitions of the two factories lay the foundation for volume growth in the coming years.

HUMAN RESOURCES AND REMUNERATION POLICIES

The Group considers its employees as its most important asset and believes that their commitment is critical to its success. The Group aims to align its employees with its strategic goal through active corporate communication.

As at 31st December, 2001, the Group employed a total of 8,532 (2000: 5,977) full-time employees:

Hong Kong and China	256
Indonesia	5,589
El Salvador	1,013
Lesotho	1,674
Total	8,532

The employees were rewarded based on the market practice and performance. Benefits include medical and accidental insurance coverage as well as a provident fund scheme.

As in 2001, employees received incentive bonuses based on their performance and the Group's annual results. The Group also granted share options as an incentive to senior management during the year. The Group's bonus and share option schemes aim at strengthening the loyalty of its employees and attracting high caliber professionals to the Group.

REPORT OF MANAGING DIRECTOR

OUTLOOK

The first half of 2002 saw a reduction in both the value of the export selling price and the profit margin. Nevertheless, as at the report date, the Group's orders from customers received for the first half year in terms of quantity are comparable to the same period last year.

Recent United States economic indicators raised hopes that the recession, which began last March, might have come to an end and that its economy would rebound in the latter half of 2002. But the Directors remain cautious and plan no significant capital expenditure for 2002. Furthermore, the Group has consistently reviewed its internal control system in order to reduce operating cost and raise profit margin. The Directors are confident that tighter control measures would put the Group in a better position to respond to market opportunities when the United States economy rebound.

Lee Sheng Kuang, James
Managing Director

25th March, 2002