

Q1 What is the impact of China's accession to the World Trade Organization ("WTO") on the apparel manufacturing industry?

A1 China's abundant but low-cost labor force has turned the country into a competitive manufacturing base. Many expect China's accession to the WTO will further boost its clothing and textile industry as all WTO members have to remove quota restrictions by 2005. But a US-China bilateral textile agreement allows the US to impose import safeguards after 2005. The growth of China's garment industry will ultimately depend on the policy of the US as it is the biggest garment importer in the world.

We believe other regions of the world, particularly those that are parties to free trade agreements with the US (such as El Salvador and Lesotho), will continue to offer great advantages over China even after 2005. Competitive factors such as production cost, lead-time, geographical proximity and product flexibility, will gain importance over quota availability as quotas are phased out. Apparel manufacturers will require proficiency in full-package production, along with improved efficiencies and streamlined supply chains, to compete in the post-quota era. With our extensive experience in the apparel industry, we are confident that the Group's competitive edge can well be maintained after China's accession to the WTO.

Management's

Q2 What measures are being considered to cushion the effects of the current unfavorable economic environment?

A2 The ailing economy in US has put pressure on the Group's selling prices and profit margin. In response, the Group has enlarged its production capacity to gain economies of scale. It has also adopted stringent cost control measures to compensate for the falling prices of its orders.

The Group has expanded its production capacity through maximizing the productivity of its existing production facilities as well as acquiring additional production bases. Charter, S.A. de C.V., acquired in January 2001, contributed to 19.9% of the Group's turnover in 2001. Two other acquired factories in Lesotho, sub-Saharan Africa are expected to raise production output by 15% in 2002.

The Group has also been consistently reviewing its internal control system in particular, for ensuring that cost control measures are implemented effectively.

Nonetheless, the current unfavorable economic condition does provide ample investment opportunities with lower cost of entry. The Group is actively looking for suitable opportunities to enhance shareholders' value in long run.

MANAGEMENT'S CHATROOM

Q3 What kind of benefits will the Group gain from technological advancement?

A3 We believe the integration of technology with the manufacturing process is the key to success in the garment manufacturing industry. Advanced information technology has helped us reduce cost, enhance efficiency and ensure data accuracy.

The Group has been developing a management information system that links the Group's merchandising team in Hong Kong with its overseas production bases. This system enables us to synchronize the flow of products information and to identify the most efficient logistic solution by using real-time data.

The Group is also one of the pilot vendors in employing Electronic Data Interchange ("EDI") with our major customers. The EDI solution allows the Group receiving purchase orders and sending advanced shipping notices to customers electronically. EDI has enabled the Group to minimize data entry activities, shorten the audit trail, ease the processes of confirming shipment, packing and delivery, as well as quicken the replenishment cycle.

PT Aneka, Indonesia.



In Shinning Century Limited, a worker was operating computerized embroidery machines.

Chatroom

Internally, the use of Intranet also reduces in-house administrative tasks and improves communication between management and employees.

Q4 Do you think Carry Wealth deserves a higher price/earnings ratio ("PE") and how do you intend to achieve that?

A4 Industrial stocks traditionally suffer relatively low PE in the local market because the local market, in general, places less importance on them. Carry Wealth's shares were listed with an issue price at HK\$1 per share and a PE of 3.45X in March 2000 before the "hi-tech" bubble burst. The prevailing PE of 5.4X is a reflection of gradual market recognition given the proven track record of the Group's results and dividends payout over the past two years.

The Group paid dividends of 30 Hong Kong cents per share in total for the two years ended 31st December, 2001. We believe investors in pursuit of stable dividend income welcome our shares. The management has formulated strategic plans to enhance the Group's competitiveness and is confident that investors would realize that the Group does deserve a higher PE over time.

Management's Chatroom

Q5 Sales from the top five customers accounted for 87% of the Group's turnover. Would you consider that an over-concentration?

A5 We are aware of certain investors' concern about the large portion of the Group's turnover represented by a few major customers. Some may even describe it as a kind of over-concentration that is harmful to a business. We would like to address this matter at a different angle.

Firstly, business with these customers offer ample room for expansion as sales to them comprise a tiny proportion of their turnover even though they represent a substantial proportion of the Group's turnover.

Secondly, the Group has maintained strong relationships built on mutual trust and benefits with these major customers for more than ten years. Due to these solid relationships, the Group was able to increase its sales volume despite the economic downturn in the US in 2001.

Thirdly, the large bulk orders with these customers contribute to lower production cost and higher margins.

Having said that, as a precautionary measure against credit risk, over 93% of the Group's sales was transacted under letters of credit, with the rest operating 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.