

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 sportswear 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.

Operating in a declining global economic environment, facing weak consumer sentiments as well as keen competition from other manufacturers were the major challenges encountered by the Group in year 2001. The anticipated US economic recovery was further slowed down by the tragic events of September 11. Nevertheless, with the hard work of different functional teams, the Group is able to attain a healthy growth of 5% in the US market and 11% in the European market, although business to Asia is lower than year 2000.

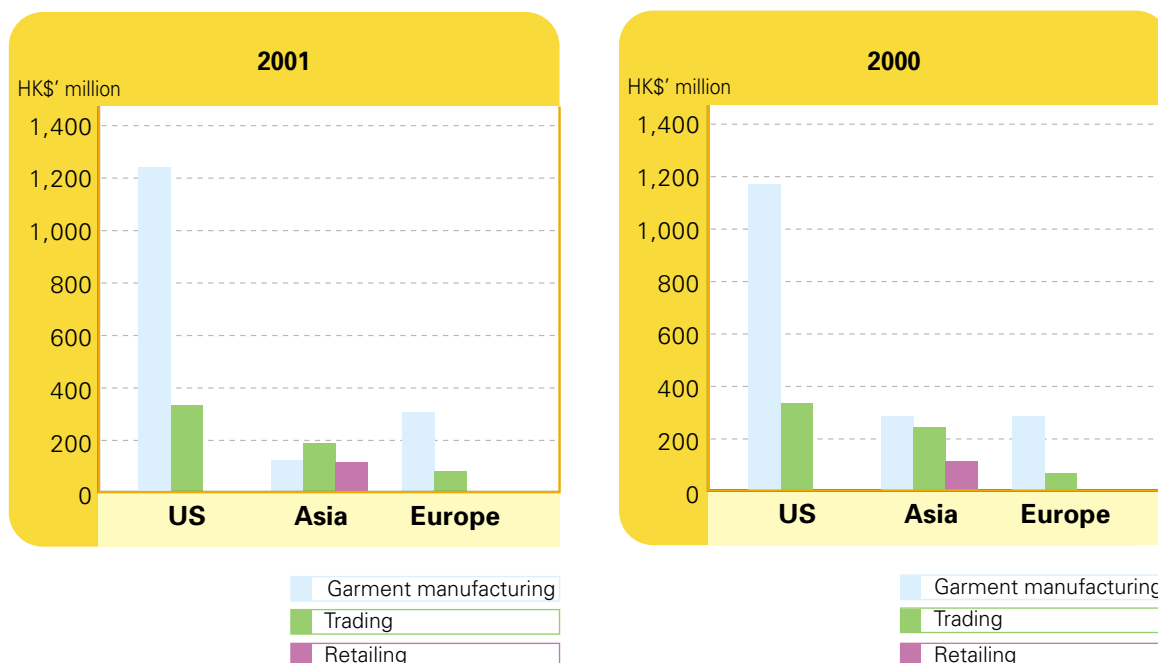
The Group produced about 12.6 million pieces of garments in 2001 (2000 - 13.9 million pieces) from 14 factories located in Hong Kong, the PRC, the Philippines, Taiwan and the Union of Myanmar. The Group has about 17,500 (2000 - 18,000) employees who are entitled to a string of benefits in addition to their basic salaries.

OPERATING RESULTS AND FINANCIAL POSITION

For the year ended December 31, 2001, total turnover was HK\$2,328,787,000 of which HK\$1,648,911,000 were derived from the manufacturing operations, and the balance from the trading and retailing operations.

The Group's turnover decreased from HK\$2,431,891,000 in 2000 to HK\$2,328,787,000 in 2001, representing a decrease of 4%. Export sales to US and Europe recorded a 5% and 11% growth respectively. Sales to Asia were down by 34%, mainly due to the tough economic condition across the region. US continues to be the dominant market for the Group accounting for 67% (2000 - 61%) of the total turnover.

The analysis of the Group's 2001 and 2000 turnover by principal activities and markets is as follows:



Gross profit amounted to HK\$524,593,000 in 2001 (2000 - HK\$557,890,000), representing a decrease of 6%. This was mainly attributable to the decrease in turnover resulting from strong customers' pressure on price and keen competition. Despite the discouraging market environment, the Group is able to maintain its gross profit margin at 23% (2000 - 23%). This was the direct result from the cost effective measures implemented by the Group through the business improvement program.

Profit from operations was HK\$100,607,000 in 2001 (2000 - HK\$134,848,000), representing a decrease of 25%. Profit of the manufacturing operation decreased from HK\$90,853,000 in 2000 to HK\$65,652,000 in 2001. The decrease is largely due to the cost in engaging external consultants for the business improvement programs and the reduction in exchange gain. Although the strategic investment in consultancy work increased the operating cost for the year, the methodologies and process improvement tools we learnt from the consultants will enable us to meet the challenges in the future. Profit of the trading business decreased slightly from HK\$38,671,000 in 2000 to HK\$36,684,000 in 2001. As for the retailing business, it had incurred a loss of HK\$1,729,000 in 2001 (2000 - a profit of HK\$5,323,000) due to the highly competitive and tough environment in Hong Kong.

Profit attributable to shareholders decreased by 19% from HK\$112,663,000 in 2000 to HK\$91,022,000 in 2001 mainly due to the decrease in turnover, significant investment in the business improvement program and reduction in exchange gain.

There were no material acquisitions and disposals of subsidiaries and associates during the year.

WORKING CAPITAL AND LIQUIDITY

In the current year, the Group continues to have good working capital and a strong liquidity position. Receivable turnover improves slightly to 41 days (2000 - 43 days) which is a result of continuous effort on collection of receivables. Inventory turnover maintains at around 33 days (2000 - 33 days).

Current ratio improves from last year's 1.45 to 1.85 while quick ratio improves from last year's 1.07 to 1.34. These indicated that the Group had a sound liquidity position.

CAPITAL AND DEBT STRUCTURE

During the year, the Company issued additional 5,345,000 shares in respect of the exercise of share options. As at December 31, 2001, there was no requirement or plan to raise fund through the issuance of equity or debt securities. The Group is able to finance its peak season activity by internally generated fund and short-term bank financing.

Total short-term bank loans and overdrafts of the Group decreased from HK\$55,601,000 as at December 31, 2000 to HK\$5,850,000 as at December 31, 2001, representing a decrease of 89%. Such bank borrowings were short-term in nature and were mainly used to facilitate the settlement of fabric purchases for production. The decrease was mainly attributable to the Group's strategy to reduce its bank borrowings and therefore, repayment of bank loans of HK\$51,374,000 was made in the current year. In addition, the Group was able to finance itself through internally generated funds. As at December 31, 2001, cash and bank balances amounted to HK\$83,635,000 (2000 - HK\$106,546,000), representing a decrease of HK\$22,911,000 when compared with 2000.

As a result of the significant reduction in bank borrowings, gearing ratio improves significantly to 1% as at December 31, 2001 (2000 - 9%). 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 HK\$918,000,000 as at December 31, 2001 (2000 - HK\$838,000,000). 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 investment in associated companies, Hua Thai Manufacturing Public Company Limited and its subsidiaries (the "Hua Thai Group"), amounted to HK\$99,318,000 as at December 31, 2001 (2000 - HK\$96,709,000). 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 increased from HK\$6,980,000 in 2000 to HK\$7,336,000 in 2001.

As at December 31, 2001, the Group had other long-term investments of HK\$5,350,000 (2000 - HK\$3,791,000). It also held investment properties of HK\$7,100,000 (2000 - HK\$7,600,000). These investments are not considered as significant investments to the Group as the return on these investments does not have any significant impact to the Group's operating results.

CONTINGENT LIABILITIES

In settlement of most of its accounts receivable, the Group received bills of exchange from customers. Some of the bills of exchange might be discounted to banks in order to finance the operations. As at December 31, 2001, the Group did not have any outstanding discounted bills with recourse to the banks (2000 - HK\$1,563,000).

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.

There were no material capital commitments as at December 31, 2001 which would require a substantial use of the Group's present cash resources or external funding.

HUMAN RESOURCES

Human resources is always an important asset of the Group. Fair remuneration packages and fringe benefits are offered to competent staff. Discretionary bonus will be granted to eligible employees with outstanding performance. In addition, share options have also been granted to certain employees allowing them to subscribe for shares of the Company since 1998.

FUTURE PROSPECTS

As one of the major garment manufacturers in Asia, the Group will continue to concentrate on its core business. Improvement on sales process management, supply chain management and people development will be our focuses. With these key enhancement programs, the Group will be able to meet the challenges under the current severe competitive environment.