

FINANCIAL REVIEW

Total turnover for the year ended 31 March 2002 increased by 44.6% from HK\$603,468,000 to HK\$872,572,000, mainly due to the consolidation of the result of the 51%-owned garment trading subsidiary, Ford Glory International Limited ("Ford Glory"). Ford Glory, acquired by the Group in April 2001, achieved a turnover of HK\$292 million, representing approximately 33.4% of the Group's total turnover.

Gross profit margin, as a whole, increased from 14.9% in 2001 to 16.3% in 2002. In fact, gross profit margin for the core business, production and sale of knitted fabric, was 20.3% whereas the garment trading business was 8.6%. The substantial increase in gross profit margin was the efforts of all staff on improvement of production efficiency and product quality, reduction of production costs and expansion of new markets. In addition, the drop of material costs during the year together with commencement of the new coal-fired facility for producing steam and electricity reduced the overall product costs.

Continual expansion of business together with capital expenditure in plant and machinery led to the increase in the Group's total borrowings. Despite such increase, the fall in interest rates since early 2001 reduced the interest expenses of the Group. This also gave contribution to the increase in net profit for the year.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2002, the Group had total assets of HK\$803,180,000 (2001: HK\$600,164,000) which were financed by current liabilities of HK\$354,336,000 (2001: HK\$216,509,000), long term liabilities of HK\$39,847,000 (2001: HK\$35,690,000) and shareholders' equity of HK\$402,010,000 (2001: HK\$346,991,000). The current ratio was approximately 1.4 (2001: 1.6) and the gearing ratio, being the ratio of total borrowings (net of bank balances and cash) to shareholders funds was 32.1% (2001: 35.7%). All of the Group's borrowings were at floating rate basis.

The Group services its debts primarily through cash earned from its operations. The Directors believe that the Group has maintained sufficient working capital for its operation and future expansion. Should other opportunities arise requiring additional funding, the Directors believe that the Group is in a good position to obtain financing on favourable terms.

EXPOSURE TO FLUCTUATION IN FOREIGN EXCHANGE

The Group's monetary assets and liabilities were principally denominated in Hong Kong dollars, Chinese Renminbi and US dollars. Inasmuch as the Hong Kong dollars is pegged to the US dollars, and that there has been minimal fluctuation in exchange rate between Hong Kong dollars and Chinese Renminbi, the Group's exposure to currency exchange risk was minimal.

CAPITAL EXPENDITURE

During the year, the Group invested approximately HK\$83 million in fixed assets, of which 63% was used for purchase of plant and machinery and construction of the coal-fired facility for producing steam and electricity and 33% for acquisition of property and construction of new factory plant.

At 31 March 2002, the Group had capital commitments of approximately HK\$16 million in respect of acquisition of new machinery and construction of new factory plant, which are financed by long-term bank borrowings.

PLACEMENTS OF SHARES

Pursuant to a placing agreement dated 24 May 2001, an aggregate of 55,296,000 ordinary shares of HK\$0.01 each in the Company was placed by Pearl Garden Pacific Limited and Madian Star Limited, two controlling shareholders of the Company, to independent investors at the price of HK\$0.25 per share. On completion of placing, Pearl Garden Pacific Limited and Madian Star Limited together subscribed for an aggregate of 55,296,000 new shares in the Company at the price of HK\$0.25 each. These shares ranked pari passu with the then existing shares in all respects. The net proceeds from the subscription of approximately HK\$13.5 million, were used by the Group for general working capital purposes.

Pursuant to a placing agreement dated 12 December 2001, an aggregate of 18,000,000 ordinary shares of HK\$0.01 each in the Company was placed by Pearl Garden Pacific Limited and Madian Star Limited, two controlling shareholders of the Company, to independent investors at the price of HK\$0.275 per share. On completion of placing, Pearl Garden Pacific Limited and Madian Star Limited together subscribed for an aggregate of 28,000,000 new shares in the Company at the price of HK\$0.275 each. These shares ranked pari passu with the then existing shares in all respects. The net proceeds from the subscription of approximately HK\$7.5 million, were used by the Group for general working capital purposes.

CHARGES ON ASSETS

At 31 March 2002, investment properties and certain property, equipment, plant and machinery of the Group with net book value of approximately HK\$34 million were pledged to banks to secure banking facilities granted.

CONTINGENT LIABILITIES

At 31 March 2002, the Company had contingent liabilities in relation to guarantees given to banks and other financial institutions to secure credit facilities granted to certain subsidiaries amounting to approximately HK\$306 million. The Company also gave guarantee to a financial institution to secure factoring financing facilities granted to a subsidiary amounting to approximately HK\$15.5 million.

EMPLOYEE INFORMATION

As at 31 March 2002, total number of employees of the Group were approximately 100 in Hong Kong (2001: 50), approximately 7 (2001: 5) in the United States and Canada and approximately 1,800 in the People's Republic of China (2001: 1,280). Remuneration packages are generally structured by reference to market terms and individual qualifications. Salaries and wages are normally reviewed on an annual basis based on performance appraisals and other relevant factors. Bonuses are normally paid to management staff based on individuals' merits as well as the results of the Group. Other benefits to the staff include a provident fund scheme as well as medical insurance.

The Company maintains a share option scheme, pursuant to which share options are granted to selected eligible executives, with a view to provide senior management an appropriate incentive interest for the growth of the Group.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the five largest customers accounted for 35.4% of the total sales for the year and sales to the largest customer included therein accounted for 8.6%.

Purchase from the five largest suppliers accounted for 27.7% of the total purchases for the year and purchase from the largest supplier included therein accounted for 10%.

None of the Directors, their respective associates (as defined in The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) or shareholders of the Company who own more than five percent of the issued share capital of the Company has any interest in the Group's five largest customers during the year under review.