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## MANAGEMENT DISCUSSION AND ANALYSIS

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### RESULTS OF OPERATIONS

The Group's turnover decreased by 7% to HK\$1,160 million for the year ended 31st March, 2002 compared with HK\$1,244 million for the year ended 31st March, 2001. Group's profit from ordinary activities after share of profits less losses of associates, taxation and minority interest was HK\$28 million compared with last year's profit of HK\$48 million.

### WOVEN BUSINESS

Our woven department manufactures men's and women's shirts, pants and shorts. Our head office in Hong Kong is the sales and management office for the whole Group. In Hong Kong, we concentrate in the role of garment trading and have production facilities in China, Macau, Malaysia, Myanmar, Bangladesh, Cambodia, and Lesotho in Africa.

Our factory in Macau, Tac Cheong Lda. has been operating for over 30 years. Currently restructuring of this factory is underway. The size of the factory will be drastically cut down and will eventually assemble only outward processing garment parts made from our factory in China where manufacturing costs are considerably lower.

Our factory in Myanmar, Yangtzekiang Industries (Myanmar) Ltd. with over 180,000 sq.ft. of production space is the largest factory we have under one compound. It produces woven and knit shirts mainly for export to Europe. The Myanmar operation has been profitable for the past few years. Myanmar has lower manufacturing costs and even with the current low order prices, we can still maintain a small profit. Result of the coming year should improve if Euro can maintain its current high exchange rate.

Our factory in Cambodia, YGM (Cambodia) Ltd. started production late in the year 2000 manufacturing woven bottoms as well as some polo shirts. It continues to face tremendous problems in efficiency and relatively high costs. However capacity is fully booked and we are paying all attention to improve its production efficiency.

Bangladesh remains an important area for us in woven shirts production. We have over a dozen factories which we have production agreements with. We have over 30 staffs in our office in Bangladesh overseeing this production which are all exported to Europe.

### KNIT BUSINESS

We manufacture polo knit shirts under the company name – Hong Kong Knitters Ltd. Manufacturing locations are: Panyu China Exquisite Knitters (Guangzhou) Ltd.; Hong Kong Easeley Knitwear Ltd., Sri Lanka Hongkong Knitters Lanka (PVT) Ltd.; Cambodia YGM (Cambodia) Ltd. and Myanmar Yangtzekiang Ind. (Myanmar) Ltd..

Exquisite Knitters (Guangzhou) Ltd. in Panyu, China also operates a knitting and dyeing factory. It manufactures both double-mercerized knit fabrics and polo knit shirts which achieved another year of good results although profit has dropped compared with previous year.

Hongkong Knitters Lanka (PVT) Ltd. in Sri Lanka incurred losses this year because of significantly lower order prices received. We expect Sri Lanka will continue to make a loss this coming year due to current high U.S. quota prices purchased from open market.

### **OTHER BUSINESS**

The two investments in China are both profitable during the current year. They are Wuxi Changxin Textile Co., Ltd., a spinning and weaving textile factory in Wuxi, and Qinghai Changqing Aluminium Corporation in Qinghai, an aluminium smelter. As mentioned in the Chairman's Statement, we have increased our investment in Wuxi because we believe in its future potential. The Chairman's Statement also mentioned our new investment in W. Haking Enterprises Ltd. of which we have a 26.53% shareholding. We have sold our shareholding in Trendairo Ltd., U.K. thus stopped all future losses from this investment. YangtzeKiang S.A., our associated sales import company in France will be reorganized in both management and shareholding. With the strength of Euro at the current level, this company should return to profitability in the coming year.

### **LIQUIDITY AND FINANCIAL POSITION**

The Group generally finances its working capital requirements and capital commitments with internally generated cashflow and banking facilities provided by its bankers in Hong Kong.

As at 31st March, 2002, the Group maintained a cash and bank deposit of HK\$50 million (2001: HK\$29 million). The bank borrowings were trade finance related and short to medium in nature, amounted to HK\$197 million as at 31st March, 2002 (2001: HK\$126 million). This represents a net debt to equity ratio of 42% (2001: 34%). The increase in bank borrowings was mainly because certain medium term bank loans have been drawn down to finance the current investment activities and refinance the short term bank loans. Borrowings are closely monitored by the Group to maintain gearing at a reasonable level.

The Group adopts a prudent policy to hedge the fluctuation of exchange rates. As most of the operating activities are mainly denominated in Hong Kong dollars and United States dollars, the Group has entered into some forward contracts to hedge its receivable and payable denominated in foreign currency against the exchange fluctuation.

### **EMPLOYEES**

The Group employs a total of 16,000 employees. In addition to receiving salaries and bonuses, employees are also entitled to other benefits, including medical subsidies and a retirement scheme contribution.