

RESULTS OF OPERATIONS

The Group's turnover HK\$1,238 million for the year ended 31st March, 2003 compared with HK\$1,160 million for the year ended 31st March, 2002. Group's profit from ordinary activities after share of profits less losses of associates, taxation and minority interest was HK\$33 million compared with last year's profit of HK\$28 million.

GARMENT BUSINESS

We operate our woven clothing business under the name of Yangtzekiang Garment Mfg. Co., Ltd. and knitted business under the name of Hong Kong Knitters Ltd. Our products include men's and women's suits, shirts, trousers, shorts, polo shirts, T-shirts and fleece. Our head office in Hong Kong is the sales and management office for the whole Group. In Hong Kong, we concentrate on the role of garment trading as well as on the overall control of our production facilities in China, Macau, Malaysia, Myanmar, Bangladesh, Sri Lanka, Cambodia and Lesotho in Africa.

Exquisite Knitters (Guangzhou) Ltd. in Panyu, China operates a vertical setup factory from knitting, dyeing and finishing of fabrics to the manufacturing of garments – mainly high quality mercerized knitted polo shirts. Although the company has achieved another year of satisfactory results, we expect the year to come will be more difficult due to the continuous increase of manufacturing costs in Southern China and the decrease of selling prices.

Whampoa Garment Mfg. (Guangzhou) Co., Ltd. also in Panyu, China was set up in November, 2002 mainly for the manufacture of high quality men's and ladies woven shirts. As this factory is still in its establishment stage, the company does not expect it to be profitable in the coming year.

Our factory in Macau – Tac Cheong Lda., has been in operation for over 30 years and has been profitable until recently. Due to the continuous decline in selling prices, the factory could no longer produce a profit and its operation has been trimmed down drastically.

Our Malaysian factory – Yangtzekiang Industries Sdn. Bhd. has already closed several manufacturing plants and will continue to scale down its operation due to the high costs of manufacturing in Malaysia.

Our factory in Myanmar – Yangtzekiang Industries (Myanmar) Ltd. with over 180,000 sq. ft. of production space is one of the largest factories we have under one compound. It produces woven and knitted shirts mainly for export to Europe. The Myanmar operation has been profitable for the past few years. However we do anticipate a big drop in business from both Europe and the U.S.A. due to recent political events there which might lead to trade sanction against Myanmar.

Bangladesh remains an important area for us in woven shirts production. We have over a dozen factories that we have production agreements with. We have over 30 staffs in our Bangladesh office overseeing all this production and our products are mainly for the European market.

Hongkong Knitters Lanka (PVT) Ltd. in Sri Lanka incurred losses this year because of significantly lower prices orders received. We expect Sri Lanka will continue to make a loss this coming year due to the current high U.S. quota prices purchased from open market. Ironically we do expect our Lanka factory to be able to survive after 2005 when it will be quota free for shipments to the U.S.A. as the manufacturing costs in Sri Lanka are relatively lower than our other manufacturing facilities and we will no longer need to pay high premium on quota. In May, 2003 we acquired the rest of the shareholding in order to reorganize the company.

GARMENT BUSINESS (Continued)

Our factory in Cambodia – YGM (Cambodia) Ltd. started production in the year 2000 manufacturing woven bottoms as well as some polo shirts. We have shifted our production to produce more on high quality polo shirts for the U.S.A. market with higher profit margin than the woven bottoms that we were first set up for. We have not been profitable in Cambodia since beginning due to the country's high costs of manufacturing and continuous labour unrest.

H.K. International Knitters (Proprietary) Ltd. in Lesotho Africa was set up in 2002 to take advantage of its quota free status for garment export to the U.S.A. and import duties concession granted by the U.S. Government to Lesotho. However the productivity there is relatively lower and currently it is in a breakeven situation.

OTHER BUSINESS

As mentioned in the Chairman's Statement, all our investments have been profitable during the year.

We have increased our investment in spinning and weaving mill in Wuxi China. Wuxi Changxin Textile Co., Ltd. has recorded another year of good results. A new company by the name of Wuxi YGM Textile Co., Ltd. of which we own 70% has been established in Wuxi. This new company also has a spinning and weaving mill concentrating on the production of compact yarn for woven fabrics which the old joint venture company does not produce. We might consider in the next stage to establish a garment division there in anticipation of the quota free access after 2005. At the time of writing, our joint venture shareholder from local government is undergoing restructuring and as a result we might face some uncertainties in the change of shareholdings. However we will seek the best solution that is beneficial to our investment.

Qinghai Changqing Aluminium Corporation in Qinghai, China – an aluminium smelter has seen another profitable year. However in the coming year, we expect a slight decrease of profits due to the problem of power shortage and high raw material costs. Another problem that the company may confront is a probable litigation brought about by one of the joint venture partners who has defaulted in his loan in which the company has a bank cross guarantee. We shall closely monitor the case and hopefully our loss, if any, will be cut down to the minimum.

As reported previously, our Group now owns 87% of YangtzeKiang S.A. from 43% previously. YangtzeKiang S.A. had turned profitable this year mainly due to the surge of Euro currency exchange rate and the re-organization of the company that had resulted in the reduction of operating costs. In April, 2003, YangtzeKiang S.A. has acquired the label "JIL" – an old established underwear brand in France. We expect "JIL" to bring in further development for the company.

W. Haking Enterprises Ltd. – an optical instruments manufacturing company in Hong Kong and China reported a slight operational profit for the year. The company is currently developing a few optical products which, if all go as planned, will be out for sale in the open market in the coming year and operational profit is expected to come for the year 2004/2005. However the company has a negative goodwill of HK\$45 million which is to be dispensed in a period of 6 years, and thus the company will show a non-operational profit of HK\$7.5 million per year starting from the current year.

LIQUIDITY AND FINANCIAL POSITION

During the year, the Group continued to finance its operations and capital expenditure through internally generated cash flow, bank borrowings and import and export-related banking facilities.

As at 31st March, 2003, the Group had cash and bank balances and bank borrowings of HK\$45 million (2002: HK\$50 million) and HK\$370 million respectively (2002: HK\$166 million). Gearing ratio of the Group which is expressed as a percentage of total bank borrowings to shareholders' funds was 102% (2002: 47%).

The Group's total bank borrowings increased by HK\$204 million and amounted to HK\$370 million as at 31st March, 2003. During the year under review, short term loans of RMB200 million were raised by a joint venture in PRC, Wuxi YGM Textile Co., Ltd., for financing its business development and plant and machinery under construction. The joint venture will refinance the loans into medium or long term bank borrowings, though it is currently benefited from low borrowing costs of short term loans. These loans are provided by PRC banks in Wuxi and guaranteed by an associate of the Group, Wuxi Changxin Textile Co., Ltd. The management believes that the joint venture can obtain sufficient bank facilities and financial resources for its future expansion. Other than the guarantee provided by Wuxi Changxin Textile Co., Ltd., the Group does not provided any further guarantee for the mentioned loans. The maximum potential liability to the Group is the net assets of this associate attributable to the Group.

The increase of Group's trade and other receivables and trade and other payables was mainly due to the consolidation of a subsidiary called Yangtzekiang S.A. after the increase of shareholdings from 43% to 87% during the period under review.

The Group adopts a prudent policy to hedge the fluctuation of exchange rates. Most of the operating activities are denominated in Hong Kong dollars or United States dollars. For those denominated in other currency, the Group has entered into some forward contracts to hedge its receivable denominated in foreign currency against the exchange rate fluctuation.

EMPLOYMENT AND REMUNERATION POLICIES

As at 31st March, 2003, the Group, including its subsidiaries but excluding associates, employed approximately of 9,000 employees. Remuneration package is determined with reference to their performance and the prevailing salary levels in the market. In addition, the Group provides year end double pay, provident fund scheme, medical insurance and training to staff.