Chairman's Statement

The impacts of SARS, although temporary, have significantly and adversely affected the results of the Group's textile and clothing business both in terms of turnover and profit for the year ended 31 March 2004 as a whole, despite improvements in the latter part of the financial year. The Group's overall profit for the year under review, however, has more than doubled due to the good results of the Group's investment segment.

BUSINESS REVIEW

The Group's overall turnover for the year ended 31 March 2004 was HK$669.2 million, a decrease of 12.3% compared to HK$763.2 million for the previous year.

During the year the Group adopted Statement of Standard Accounting Practice 12 (revised) "Income Taxes" issued by the Hong Kong Society of Accountants and changed the Group's accounting policy for deferred taxation. As a result of this change in accounting policy, the Group's profits attributable to shareholders have been reduced by HK$932,000 and HK$1,527,000 for the years ended 31 March 2003 and 2004 respectively.

On the basis of the changed accounting policy, audited Group profit attributable to shareholders for the year ended 31 March 2004 amounted to HK$97,948,000, an increase of 135.1% as compared to HK$41,659,000 restated for the previous year. Earnings per share was HK$0.38 compared to HK$0.16.

Textiles and Clothing

As adversely affected by the SARS outbreak, turnover of the Group's textile and clothing segment in the year under review was HK$645.9 million, a decrease of 12.9% from HK$741.6 million in the previous year. The operating profit before interest of this segment for the year under review amounted to HK$37.8 million, a decrease of 27.8% compared to HK$52.4 million for the previous year.

In terms of the performance of individual divisions, the woven garment and the wool spinning divisions managed to increase their sales marginally, but the wool knitting, finished yarn trading and finished fabric trading divisions reported lower turnovers. Fierce competition and pressure on margin continued to be the order of the day, and additional costs were incurred to cope with much shortened delivery times after SARS subsided. As a result of all these adverse factors, profits of the woven garment and wool knitting divisions were reduced while losses were reported by the other divisions.

In terms of markets, Group exports to North America and Europe declined by 8.1% and 13.0% respectively due to a decrease in knitwear exports, whereas sale of woven garments to these markets have been maintained. Despite an increase in knitwear sales to Asian countries, the Group's overall exports to the region were reduced on account of weaker yarn and fabric sales to Mainland China. The Group's local sales have reversed a declining trend during the year under review with higher yarn sales.

Investment

This segment reported an operating profit before interest of HK$53.7 million for the year under review, compared to a loss of HK$1.6 million for the previous year. Dividend income reported a small growth and amounted to HK$10.9 million. An aggregate profit of HK$29.3 million was realized on the disposal of long-term as well as short-term investments. Provisions written back for unlisted investments and unrealized gain on short-term trading investments aggregated HK$12.3 million.

Others

This segment covers miscellaneous non-core businesses carried on by the Group in Hong Kong and Mainland China. On the strength of the television broadcasting systems engineering business, this segment reported a 11.7% increase in turnover and turned around its operating loss of HK$1.7 million in the previous year to an operating profit of HK$3.9 million.

Major items not allocated to segments

During the year under review, the Group disposed of a total of 5 inactive subsidiaries, including a subsidiary owning factory premises in Dongguan and another subsidiary engaged in decoration service in Guangxi, Mainaland China. The disposals in aggregate resulted in a small loss of HK$0.2 million. Apart from the foregoing and the unallocated corporate expenses, there were no major items not allocated to segments in the year under review.

Interest Income and Finance Costs

Under the continuing low interest rate environment and also because of lower borrowings, the Group's finance cost was further reduced from HK$4.7 million in the previous year to HK$2.4 million in the current year. On the other hand, the Group's interest income was lifted from HK$5.1 million to HK$5.9 million, due to interest income received from bonds and market linked deposits.

Associated Companies and Jointly Controlled Entities

The Group's share of the results of associated companies for the year under review was a combined profit of HK$13.4 million before tax, compared with HK$2.8 million for the previous year. Contribution of the 50% owned Winsor Health Products Limited continued its steady growth, but the significant improvement in the overall results of associated companies was due to the non-recurrence of a substantial loss by the 50% owned Textile Corporation (Malaysia) Sdn. Bhd. Impairment losses provided by associated companies and shared by the Group amounted to about HK$3.5 million.

Aggregate contribution by the Group's jointly controlled entities amounted to HK$1.7 million before tax in the year under review, compared with HK$2.1 million for the previous year. The jointly controlled entity engaging in garment manufacture and trading formed in Hong Kong in May 2002 set up a subsidiary in Shenzhen and reported an initial loss for the year under review. The other jointly controlled entities are all operating in Mainland China. The satisfactory result of the 46% owned Suzhou Nan Xin Cement Co., Limited was offset by impairment losses assessed on the assets of those operating in Wuxi.

GROUP STRUCTURE

Apart from the disposal of five inactive subsidiaries reported in the foregoing, and the re-activation of a wool knitting subsidiary in Macau to engage anew in woven garment business, there were no other significant changes to the Group's structure during the year.

BUSINESS CONDITIONS

Hong Kong's economy has improved considerably in the year past. Being export oriented, the Group's textile and clothing business is more reliant on the economies of the major markets which have also shown signs of sustained recovery although economic data are fluctuating from month to month. To guard against inflation, the US has raised its interest rate by a quarter percent in June 2004 and further increases are expected. Oil price remains an international concern.

As for the Group's textile and clothing business, orders are not lacking in the market but prices are dictated by buyers taking advantage of the fierce competition amongst suppliers on a global scale. Cost management remains the key to survival. While the abolition of all international textile quotas on 1 January 2005 is just 5 months away, the direction of global textile and clothing trade after the abolition remains obscure. As an intermediary measure before any long term business plan can be drawn, the Group's woven garment division has set out a production base in Macau in November 2003.

FIXED ASSETS

Acquisition of fixed assets during the year under review amounted to HK$11.7 million, mainly incurred by the woven garment division. A factory premises in Dongguan, Mainland China was sold by way of the sale of the inactive subsidiary holding the same. There were also minor sale of industrial spaces in Macau during the year.

In June 2004, the Group sold the entire industrial building known as Winner Building at 9 Yuk Yat Street, To Kwa Wan, Kowloon, Hong Kong to an independent third party. The building has a gross floor area of about 108,000 square feet and has been vacant for some time. The consideration for the disposal in the sum of HK$55 million payable in cash has been received in full. The profit from the disposal attributable to shareholders is expected to be about HK$50 million.

INVESTMENT PORTFOLIO

The Group's long-term listed investments comprise wholly of equity investments listed in Hong Kong. The Group's entire holding in one listed company was sold during the year at a profit of HK$21.3 million. At 31 March 2004, the net book value of the remaining portfolio was HK$36.2 million and their market value was HK$465.4 million.

Disposal of long-term unlisted investments during the year also resulted in a gain of HK$4.5 million. At 31 March 2004, the carrying value of the Group's long-term unlisted investments was HK$100.0 million. The Group's 18% interest in phase 2 of Shanghai East Ocean Centre, Shanghai continued to account for the principal part of the portfolio, and repayment of shareholder's loan by the investee company amounted to HK$4.2 million, the same as in the previous year.

The Group's short-term listed investments comprising mainly US securities are carried at market value. Their carrying value as at 31 March 2004 was HK$108.0 million. Realized and unrealized gains for the year under review were HK$3.6 million and HK$7.5 million respectively.

FINANCIAL REVIEW

As at 31 March 2004, the Group's cash and bank balances amounted to HK$201.0 million, and bank borrowings amounted to HK$115.9 million. All bank borrowings are short-term revolving loans. The balance of HK$3.3 million of a long term bank loan was repaid ahead of maturity during the year. All the bank borrowings are unsecured, denominated in Hong Kong dollar and carry interest on a floating rate basis. Computed as the ratio of total bank borrowings to shareholders' funds, which amounted to HK$853.5 million at 31 March 2004, the Group's gearing was 13.6% as at that date.

The Group's contingent liabilities as at 31 March 2004 amounted to HK$50.0 million, of which HK$47.9 million represented proportionate guarantees given in respect of banking facilities granted to associated companies, jointly controlled entities and investee companies. The balance of HK$2.1 million was in respect of bills discounted with recourse.

At 31 March 2004 and at present, the Group does not have any material capital commitments.

EMPLOYEES

As at 31 March 2004 the Group employed a total of about 3,900 employees, of which about 3,300 were employed in Mainland China. Remuneration level is normally reviewed annually. Retirement benefits are provided in accordance with local government requirements. Other benefits are awarded at the discretion of the Group. Staff training is provided as and when required.

OUTLOOK

Orders on hand for the Group's textile and clothing business are satisfactory but there is no end to the erosion on margin. It is hoped that the framework of international trade in textile and clothing under the quota-free regime could soon be established. The good results of the Group's investment division arising from the sale of securities during the year under review are unlikely to be repeated on the same scale. Interest rate movements will also add volatility to the investment market. While the Group's profit and financial position have both benefited from the disposal of the Winner Building in June 2004, the rest of the year ahead will be tough for the Group.

DIVIDENDS

An interim dividend of 5 cents per share was paid on 5 February 2004. The Directors have recommended a final dividend of 8 cents per share for the year ended 31 March 2004. In view of the profit for the year, the Directors have also recommended a special dividend of 10 cents per share for the year ended 31 March 2004. Subject to the approval of the Annual General Meeting to be held on 26 August 2004, the final dividend and the special dividend will be payable on 8 September 2004 to all shareholders on register as at 26 August 2004.

CHOU Wen Hsien
Chairman

Hong Kong, 15 July 2004.