

## Financial Review

Turnover for the year ended 31 March 2001 increased by 23.7% from HK\$487,758,000 to HK\$603,468,000, mainly due to increase in the Group's production capacity and number of new customers obtained during the year. Total volume of fabric produced by the Xinhui factory was 20% more than the previous year. And the keen effort of the sales teams has brought more than 50 new customers to the Group.

Gross profit margin decreased from 16.9% in 2000 to 14.9% in 2001 as a result of continuous sale price cut, rapid increase in oil price and additional depreciation of new fixed assets acquired.

Operating profit before finance costs as a ratio to turnover was 6% compared to 6.8% in 2000.

## Liquidity and Financial Resources

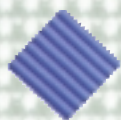
At 31 March 2001, the Group had total assets of HK\$600,164,000 (2000: HK\$540,339,000) which were financed by current liabilities of HK\$216,509,000 (2000: HK\$196,595,000), long term liabilities of HK\$35,690,000 (2000: HK\$30,295,000) and shareholder's equity of HK\$346,991,000 (2000: HK\$312,310,000). The current ratio was approximately 1.6 (2000: 1.6) and gearing of the Group was 38.9% (2000: 34.8%). The Directors are comfortable to maintain the ratios at this level.

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.

## Capital Expenditure

During the year, the Group invested approximately HK\$49 million in fixed assets, of which 43% was used for purchase of plant and machinery and 47% for acquisition of property and construction of new warehouse and coal-fired facility for producing steam and electricity.

At 31 March 2001, the Group had capital commitments of approximately HK\$40 million in respect of construction of the coal-fired facility as above-mentioned and new factory building, which are financed by long-term bank borrowings.



**MANAGEMENT  
DISCUSSION  
AND  
ANALYSIS**

*(Continued)*

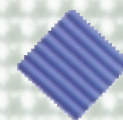
**Placements, Reduction of Issued Share Capital, Subdivision of Unissued Share Capital and Bonus Issue of Shares**

Pursuant to a placing agreement dated 4 September 2000, an aggregate of 11,520,000 ordinary shares of HK\$1.00 each in the Company were placed by Pearl Garden Pacific Limited (“Pearl Garden”) and Madian Star Limited (“Madian Star”), two controlling shareholders of the Company, to independent investors at the price of HK\$1.00 per share. On completion of placing, Pearl Garden and Madian Star together subscribed for an aggregate of 11,520,000 new shares in the Company at the price of HK\$1.00 each. The net proceeds from the subscription of approximately HK\$11.5 million were used by the Group for general working capital purposes.

At the special general meeting of the Company held on 16 January 2001, ordinary resolutions for the approval of capital reduction and share subdivision to reduce the issued share capital from HK\$1.00 each to HK\$0.01 each by cancelling the issued capital to the extent of HK\$0.99 paid up on each of the issued shares and to subdivide every unissued shares into 100 unissued adjusted shares of HK\$0.01 each were duly passed. The existing amount of paid-up share capital of the Company was reduced from HK\$69,120,000 to approximately HK\$691,000 upon the capital reduction. The credit of approximately HK\$68,429,000 arising from the capital reduction was transferred to the contributed surplus account of the Company.

At the special general meeting of the Company held on 16 January 2001, an ordinary resolution was duly passed to approve the bonus issue to the shareholders on the basis of three bonus shares for every adjusted shares at HK\$0.01 each by way of capitalisation of an amount of approximately HK\$2,074,000 of the share premium account of the Company. 207,360,000 bonus shares were accordingly allotted and issued.

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 were placed by Pearl Garden and Madian Star, two controlling shareholders of the Company, to independent investors at the price of HK\$0.25 per share. On completion of placing, Pearl Garden and Madian Star subscribed together for an aggregate of 55,296,000 new shares in the Company at the price of HK\$0.25 each. The net proceeds from the subscription of approximately HK\$13.5 million will be used by the Group for general working capital purposes.



## MANAGEMENT DISCUSSION AND ANALYSIS

*(Continued)*

### **Charges on Assets**

At 31 March 2001, investment properties and certain property, equipment, plant and machinery of the Group with net book value of approximately HK\$39 million were pledged to banks to secure banking facilities granted.

### **Contingent Liabilities**

At 31 March 2001, 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\$130 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**

At 31 March 2001, total number of employees of the Group were approximately 50 in Hong Kong (2000: 48), approximately 5 (2000: 5) in the United States and approximately 1,280 in the PRC (2000: 1,100). 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 with an appropriate incentive interest in the growth of the Group.

### **Major Customers and Suppliers**

In the year under review, sales to the five largest customers accounted for 37.7% of the total sales for the year and sales to the largest customer included therein accounted for 13.6%.

Purchase from the five largest suppliers accounted for 22.0% of the total purchases for the year and purchase from the largest supplier included therein accounted for 6.1%.

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 period under review.