Chairman's Statement

The Group's audited consolidated loss after taxation for the year ended 31st March, 2001 amounted to HK$69.8 million, as compared to last year's profit of HK$50.4 million, and represented a basic loss per share of 18.2 cents. The significant loss has arisen from a provision made of HK$35.6 million for the diminution in value of the Group's office premises as well as provisions of HK$16.6 million and HK$18.8 million for the loss on down materials and textile quota respectively.

DIVIDENDS

After careful consideration of the future working capital and development needs of the Group, the directors do not recommend the payment of a dividend in respect of the year ended 31st March, 2001.

REVIEW OF OPERATIONS

Core business

The U.S. market remained to be the dominant contribution to the Group's sales and represented 92% of the Group's turnover, as compared with 84% last year.

During the year under review, the Group expanded its market share in the U.S. market to prepare itself for the change upon China's accession to the World Trade Organisation. This business move has subjected the Group to a substantial downward price pressure, together with the average unit cost of garments remaining almost the same as that of last year, resulting in a 41% drop in gross profit despite a 7% increase in turnover. The Group's operating overhead was still high in Hong Kong.

As there was a diminution in value of the Group's office premises in Harbour Centre, Hunghom, a provision of HK$35.6 million was made to write down the asset to its recoverable amount.

Moreover, following the change of the textile labelling requirement on down products in the U.S. in September 2000, no further orders

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have been obtained from customers on outerwear garments which could utilise certain down materials purchased in early 2000 and the usability of such materials is considered to be low, a provision of HK$16.6 million was accordingly made on such down materials.

Besides, a provision of HK$18.8 million was made for certain categories of textile quota as customers' orders are much fewer than those projected for such quota categories.

Application of proceeds of the new issue

Among the total proceeds of HK$35 million brought down from the Company's 1997 new issue of shares, approximately HK$30 million originally set aside for investment opportunities related to core business has not yet been utilised. Of the remaining HK$5 million reserved for funding the development of the Group's textile and garment portal website, approximately HK$2 million has been spent and the other HK$3 million will be put into use in the coming year.

Technology-related joint venture

Given the less than favourable prevailing industry and market conditions, the Group and its joint venture partner have re-assessed the business prospects of the technology-related joint venture in Beijing. On 2nd January, 2001, both parties signed an agreement to terminate the joint venture agreement and agreed to apply to the relevant government authorities for the liquidation of the joint venture. The Group's earlier capital contribution which is now mainly in the form of a bank deposit of HK$13.8 million is expected to be returned to the Group upon the completion of liquidation of the joint venture that is expected to be before the end of year 2001. The Group has taken up all the losses of the joint venture and any further costs are not expected to be significant.

PROSPECTS

Outerwear garment business

U.S. customers have placed fewer orders to the Group for the first half of the year 2001/2002 owing to the slow-down of the U.S. economy.

Orders on hand for the year 2001/2002 up to the middle of July, 2001 amounted to about HK$255 million. However the Group is putting more effort in negotiating with its customers for orders in the second half of the year 2001/2002.

In the coming year, the Group will place more emphasis on producing outerwear garments that demand higher labour skills and yield higher margin, using the advantage of its PRC based subcontractors which has low labour costs and high skills.

The Group's Shanghai office, being located at the hub of its production network, was opened in October, 2000 and has taken up some of the functions performed by its Hong Kong head office. The Group will also streamline its operations in Hong Kong so as to be more productive.

As the U.S. and European economies appear to be sluggish, the Group plans to divert some of its resources to the distribution of garments to the PRC where higher growth is expected so that enormous business opportunities there can be capitalised on.

B2B textile and garment portal

As the information technology infrastructure available to the Group is not sufficient at the moment, the launch of our B2B textile and garment portal will be postponed to a later stage when a strategic partner is sought to provide an extensive network of suppliers and buyers. However the Group has benefited from e-commerce and increased its efficiency by linking closely with some major customers through electronic data interchange.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with its own working capital, and import-related and other banking facilities provided by its principal bankers in Hong Kong.

Total surplus funds generated from operating activities amounted to approximately HK$20 million for the year ended 31st March, 2001.

The ratio of current assets to current liabilities of the Group was 2.2 at 31st March, 2001 compared to 1.6 at 31st March, 2000. The Group's gearing ratio at 31st March, 2001 was 0.8 (2000: 0.9) which is calculated based on the Group's total liabilities of HK$82,750,000 (2000: HK$146,087,000) and the shareholders' funds of HK$103,533,000 (2000: HK$166,900,000).

As at 31st March, 2001, the Group's cash and bank balances amounted to HK$42,889,000 including pledged time deposits of HK$24,650,000 compared to HK$87,676,000 including pledged

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time deposits of HK$27,737,000 at 31st March, 2000. The cash and bank balances together with the available banking facilities are considered sufficient to provide adequate liquidity and capital resources for the Group's ongoing operating requirements.

The Group's earnings and borrowings are primarily denominated in United States dollars in order to minimise exposure on foreign exchange fluctuations, except that the bank loan of HK$35 million for financing the investment in the joint venture in Beijing is denominated in Hong Kong dollars. So the Group has no significant exposure to foreign exchange rate fluctuations.

EMPLOYEES

As of 31st March, 2001, the Group had a total of 91 employees. This compares to 111 employees as of 31st March, 2000.

The Group remunerates its employees primarily based on industry practices, including contributory provident funds, insurance and medical benefits. The Group has also adopted a discretionary bonus programme and a share option scheme for management and staff with awards determined annually based upon the performance of the Group and individual employees.

APPRECIATION

On behalf of the Directors, I would like to take this opportunity to thank all managers and staff as well as our business partners and shareholders of the Group for their continued efforts and support towards the business of the Group.

Wong Tek Sun, Takson
Chairman

Hong Kong, 24th July, 2001