

CHAIRMAN'S STATEMENT

GROUP RESULTS

The Group recorded a profit attributable to shareholders of HK\$16,697,000 for the year under review, representing an 18.8% decrease compared with the previous year. The Group's turnover amounted to HK\$240,000,000 which was 56.9% higher than previous year's figure.

Basic earnings per share for the financial year are HK1.3 cents.

An interim dividend of HK0.5 cent per share amounting to HK\$6,253,000 was paid to the shareholders during the year. The directors do not recommend the payment of a final dividend and propose that the remaining profit for the year of HK\$10,444,000 be retained.

BUSINESS REVIEW AND PROSPECTS

In the year under review, revenue from the Group's traditional core business of garment trading reported a drop of 21% when compared with the previous year. Sales in the first half-year was particularly hit by weak market conditions which saw a decrease of 38% compared with corresponding period in the previous year. Nevertheless, sales in the second half-year recorded a growth of 42% over the first half-year due to increasing consumer awareness of the Group's own brand "IXESSE" in the China market which was a result of the Group's sustained advertising and promotional efforts.

The Group has every confidence that China's accession to the WTO will foster free trade, create more wealth, raise the living standard and stimulate the demand for high quality upmarket fashion garments including knitwear in the country. In order to capitalise on the opportunities offered by the China market, the Group has made a strategic move by relocating its garment trading operation to China during the year. This, coupled with its own manufacturing facilities in China, enables the Group to sell its locally made products, which are much more price competitive than the Group's previously imported products, directly to customers all over China. Although the Group incurred certain one-off costs in the current year, the move will bring long-term benefits to the Group via a reduction in operating costs. In addition, the rapid evolution and the segmentation of the apparels market in China in the last few years created both threats and opportunities to those in the market. Those who adapted quickly to the changes thrived while those who lagged behind lost. The Group considered that the relocation of its product development team to China would be the most cost effective way to gain access to the most up-to-dated market information on fashion trend, consumer behaviour, competitors' move etc. and thus enables it to better respond to the market changes. The proximity to the market will also facilitate direct contact and communication with the customers with a view to provide better service to them and thus generate higher sales for the Group. The customers' feedback will enhance the effectiveness of the Group's advertising and promotional efforts due to better focusing on the target group of consumers.

CHAIRMAN'S STATEMENT

In order to meet the demand for high quality upmarket knitwear in China, the Group has taken another strategic move in March 2001 for the setting up in Guangzhou of its own production facility of such products which only a small number of manufacturers in the world has the necessary equipment and capacity to produce. With the command of such facilities, the Group will benefit from, among other things, the right to sell its upmarket products in China; lower cost of production when compared with similar imported products; total quality management and more flexibilities in responding to market changes. As at the balance sheet date, the Group has the necessary factory and office premises in place. The necessary advanced machineries and equipment have been ordered for delivery in the near future. The factory will commence production in the last quarter of this year. The Group has also earmarked HK\$50 million for expanding this facility in the next few years.

The Group will strongly promote its brandname "IXESSE" in the China market to make it a household name for top quality garments. Advertising and promotional programme with special appeal to the target group of consumers will be launched to stimulate their desire to buy products under "IXESSE" brand. The distribution system in China will be reorganised and streamlined in the coming season. Instead of going through a few tiers of distributors, the Group will adopt a new concept of distributing directly at the retail level with the aim of passing the savings to the retailers and the consumers. All retail customers, besides having attractive margins, will enjoy minimal start-up and ongoing operating costs as the Group will provide them with the necessary support. The concept was well received by retail customers and the Group is actively setting up the necessary logistic support to make it a success.

The Group's securities broking business was plagued by extremely poor market sentiment and the substantial decline in market participation by retail investors. In light of the weak market conditions, the Group has acted very prudently in the control of its risk exposure. Hence, the Group did not experience any bad debts from this business. With the reduction in interest rates in the United States in the last few months, the Directors are hopeful that the U.S. economy would start to pick up again in 2002 and provide the momentum for a rebound of the stock market in Hong Kong and other countries.

The Group's proprietary trading in securities achieved a small profit despite a volatile market in the first half-year and a generally dull market in the second half year. The Group will regularly review its investment portfolio and make the necessary switch in the light of changing market conditions.

CHAIRMAN'S STATEMENT

The Group has resumed the development of herbal and health food products in collaboration with leading academic and research institutes, and aims to develop and market health foods derived from Chinese herbs for the treatment and improvement of a variety of ailments and conditions. A few herbal products with broad appeal to different sectors have been under intensive studies that include the quality assurance and the efficacy evaluation in clinical trial. Once these investigations confirm the safety and the efficacy of the products, the Group will commence their commercial distribution. A specialist in this field has recently joined the Group to take charge of the development of the project.

With the groundwork being laid on the above business and the Group's sound financial position, the Directors are optimistic of the future of the Group.

LAU TUNG HOI

Chairman

Hong Kong, 5th October, 2001