



The Group's turnover and loss attributable to shareholders for the year ended 31st March, 2002 amounted to HK\$238.6 million and HK\$33.9 million, as compared to HK\$514.4 million and HK\$69.8 million respectively last year. The basic loss per share for the year was HK\$8.6 cents.

## Dividends

After due 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, 2002.

## Review of Operations

### Core business

Year 2001/02 was a difficult year for the Group. As a result of the slow-down of the economy of the United States ("US"), the Group experienced significant reduction in turnover together with a slightly thinner profit margin. Sales to the US market accounted for 84% of the Group's turnover, as compared with 92% last year. Meanwhile, efforts put by the Group in controlling the operating expenses have mitigated the effects of the unfavourable trading results.

In order to control production costs and to ensure a constant supply of textile quota, textile quota deposits are paid by the Group in advance each year to the textile quota suppliers. However, the sudden and significant reduction in the Group's turnover has resulted in some of those deposits remaining unutilised up to the expiry date and such deposits have been forfeited by the textile quota suppliers. In the year 2000/01, based on the management's best estimate with reference to the confirmed and potential sales orders at that time, an amount of HK\$18,756,000 was provided for and which was forfeited subsequently. Due to the no-show of substantial potential sales orders after the 11th September event in the US, quota deposits amounting to HK\$18,896,000 were forfeited during the year and recognised as loss in the



# Chairman's Statement

accounts in the year 2001/02. No further provision or write-off of textile quota in this regard is expected in the forthcoming year.

Moreover, exposure to the risk of inadequate textile quota supply is reducing due to the gradual abolishment of the US textile quota on Mainland China's exports to the US after the admission of Mainland China to the World Trade Organisation. Such abolishment is



conducting by phases and will be accomplished by the year 2005. By 1st January, 2002, two essential categories of textile quota used by the Group for export of down-filled jackets to the US have already been cancelled.

## **Technology-related joint venture**

The Group's earlier capital contribution to the joint venture together with the interest income amounting to approximately HK\$14.1 million was

returned to the Group in November, 2001. The liquidation of the joint venture was completed in January, 2002. The remaining assets have been wholly returned to the Group.

## **Application of proceeds of the new issue**

Out of the remaining net proceeds of HK\$33 million brought forward from the Company's new issue of shares in the year 1997, approximately HK\$3 million has been spent for e-business and the remaining HK\$30 million will continue to be used for investment opportunities related to core business.

## **Prospects**

### **Export outerwear business**

Fall/Winter orders for the year 2002/03 are better than those for the previous year as US customers have cleared most of their inventories on hand and are replenishing the stock level by making more purchases. Fall/Winter orders on hand for the year 2002/03 up to the middle of July, 2002 amounted to HK\$246 million, representing an increase of 14% from the same Fall/Winter orders of HK\$216 million received up to July, 2001. Regarding Spring orders for the year 2002/03, only small amount of orders has been received to date from customers, compared to Spring orders for the year 2001/02 of HK\$39 million received up to July, 2001.

## HEAD's licensee business

In December, 2001, a trademark license agreement was entered into with HEAD Sport AG ("HEAD") under which the Group is granted exclusive rights to use HEAD's brand and the rights to design,



manufacture and distribute HEAD's apparel in Greater China including Hong Kong, Macau and Taiwan. The agreement lasts for a term of 5 years and is extendable for another five years upon fulfilment of certain criteria.

The Group is now designing series of new collections for HEAD's apparel exclusively for the Mainland China market. In order to take advantage of the Group's experience in the manufacturing of down-filled jackets and skiwear, the new

products will be focused on these two types of outerwear. Another line of focus is the sport and leisure. Management believe that enthusiasm of people in Greater China towards sport will gradually increase as the Year 2008 Olympic Games, which will be held in Beijing, is approaching. Focusing on designing sports and casual wear will therefore be a main strategy of the Group in the next few years. Furthermore, in order to maintain an international image and high qualities of the licensed products, a high but affordable price will be offered for sales.

In May, 2002, the Group entered into an agreement with a third party to form a Sino-foreign equity joint venture enterprise in Wuhan which formed the distribution arm for sales of the licensed



products in Mainland China. The joint venture enterprise plans to open a total of eight specialty outlets, respectively four each in Wuhan and Harbin, by the end of 2002. Formal sales activities are expected

to be launched by that time and the management believe that the licensee business will generate rewarding contributions to the Group's results for the year 2002/03.



Two years later and upon the success of its specialty outlets, the Group may penetrate the market by franchising its business in Mainland China.

## 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\$19 million for the year ended 31st March, 2002.

# Chairman's Statement

The Group's net borrowings representing bank loans and overdrafts and obligations under finance leases at 31st March, 2002 amounted to approximately HK\$39,148,000 (2001: HK\$70,501,000). Of the total amounts of bank loans and overdrafts and obligations under finance leases outstanding as at the year end, 62.2% (2001: 72.4%) are repayable within the next year, 26.1% (2001: 25.4%) are repayable within the second year with the remaining balance repayable in the third to fifth year, inclusive. The Group's bank loans and overdrafts are subject to floating interest rates while obligations under finance leases are at fixed interest rates.

The ratio of current assets to current liabilities of the Group remained at 2.2 at 31st March, 2002 and 31st March, 2001. The Group's gearing ratio at 31st March, 2002 was 0.8 (2001: 0.8) which is calculated based on the Group's total liabilities of HK\$50,376,000 (2001: HK\$82,750,000) and the shareholders' funds of HK\$64,939,000

(2001: HK\$103,533,000). As at 31st March, 2002, the Group's cash and bank balances amounted to HK\$34,682,000 compared to HK\$42,889,000 at 31st March, 2001. The cash and bank balances together with available banking facilities are considered sufficient to provide adequate liquidity and capital resources for the Group's ongoing operating requirements.



The Group's revenues and borrowings, except for a bank loan of HK\$23 million which is denominated in Hong Kong dollars, are primarily denominated in United States dollars in order to minimise exposure on foreign exchange fluctuations. So the Group has no significant exposure to foreign exchange rate fluctuations.

## Employees

As of 31st March, 2002, the Group had a total of 73 employees. This compares to 91 employees as of 31st March, 2001.

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 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 thank our business partners and shareholders for their continued support and to extend my appreciation to all managers and staff for their dedicated hard work towards the business of the Group.

**Wong Tek Sun, Takson**

*Chairman*

Hong Kong, 17th July, 2002