

# President's Statement and Management Discussion



The directors announce the audited consolidated results of the Group for the year ended 31 March 2002 with the comparative figures for the previous financial year.

## Financial Results

For the year ended 31 March 2002, the audited consolidated loss attributable to shareholders of the Group was approximately HK\$9,399,000 (2001: Profit attributable to shareholders HK\$143,311,000). Basic loss per share was HK\$0.009, representing a decrease of 104.2% when compared to basic earnings per share of HK\$0.212 last year.

During the year under review, the Group recorded an unrealised loss on other investments of HK\$28,418,000. The sum represents the unrealised loss on revaluation of investments in 21 CN CyberNet Corporation Limited ("21CN"), to fair value at the reporting date. As a result of the revaluation, though turnover was higher than last year, the Group recorded net loss of HK\$9,399,000 for the year.

## Business Review

The year under review was challenging for the Group. The 911 terrorist attacks in the United States ("the US") and the global economic downturn have directly affected the Group's principal operation in the garment sourcing and export business. However, with the Group's dedicated effort in boosting sales and marketing campaigns, turnover for the year increased approximately 5.2% and amounted to HK\$694,262,000 (2001: HK\$659,887,000). The recorded sales volume was satisfactory amid the worsening operating environment. The garment sourcing and export business segment contributes approximately 96.3% of the Group's total turnover and amounted to HK\$668,580,000. Among the different geographical segments, the US contributed the major portion of the garment operations. Turnover of garment exported to the US was HK\$633,616,000, up by approximately 5.8% compare to last year, and represented around 91.3% of the Group's total turnover. During the year under review, due to the concentration in the expansion of the US market, the Group has set up a regional headquarter in New York to handle the operation in the US. This facilitated the provision of comprehensive services to the valued overseas customers. On the other hand, the establishment could enlarge the Group's customer base and to capitalise on a larger market coverage.

The continued stagnant property market in Hong Kong has affected the Group's property investment business. The turnover of the year was HK\$17,865,000, and slightly down 9.4% from prior year.

## Prospects

Although the deteriorating global economy and the 911 incident have directly affected the business, the Group is committed to execute strategic solutions to overcome the external factors. These include effective cost control, market expansion and reallocation of resources to profitable operations.

The Group believes that the successful accession of the People's Republic of China ("PRC") to the World Trade Organization ("WTO"), especially the relief of the quota limit for good exports and the hosting of 2008 Olympic Games represent substantial growth momentum and business opportunity for the Group. The management will strive to expand the market coverage in the US and explore other potential markets in order to boost further the garment business. Moreover, the Group is determined to improve the profit margin in order to capture a larger amount of profit with minimised cost.

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With the setting up of the regional headquarter in New York, the U.S., the Group is confident that a more comprehensive and efficient service could be offered to overseas customers. The Group will strive to enhance its competitiveness in the U.S. so as to capture a larger market share.

The Group plans to expand the dyeing factory in Dongguan, the PRC, in order to increase the capacity of the factory. Since the garment operation will be the Group's continuing focus, the expansion of the dyeing factory will facilitate to overall performance of the garment business.

### Significant Corporate Events

On 15 May 2001, the Company has entered into the agreement to dispose of 211,579,420 shares of 21CN held by its wholly-owned subsidiary, representing approximately 6.92% of the issued share capital of 21CN. The consideration for the disposal is HK\$88.86 million subject to the terms of the payment as set out in the agreement. Upon the date of completion scheduled on 15 May 2002, the purchaser failed to pay the balance. On 22 May, 2002, the Company entered into an agreement to acquire Best Quarter Investments Limited which in turn owned all the 211,579,420 shares of 21CN.

In August 2001, the Company raised net proceeds of approximately HK\$53.6 million from a rights issue ("Rights Issue I") and at the time of the prospectus for that issue, the proceeds were intended to be used as to HK\$30 million for repayment of bank borrowings, as to HK\$20 million to finance the redevelopment of a commercial/residential property in Hong Kong ("Project") and the balance as working capital. It later transpired that the requirement for payments in relation to the Project would be delayed, and the Company subsequently applied approximately HK\$11.5 million of such designated funds to repay bank borrowings in order to save on interest expense and reduce debt ("Early Bank Repayment"). The Early Bank Repayment was made on 18 January 2002.

On 18 October 2001, the Group has entered into a Debt Restructuring Agreement (the "Agreement") of HK\$366.4 million. The Agreement comprised of two parts: tranche A — HK\$166.6 million will be repayable on or before 18 October 2002, tranche B — HK\$199.8 million will be repayable within 5 years. Also, HK\$40 million trade facilities will be made available to the Group as at 31 March 2002. HK\$96.6 million has been repaid to the bankers and the Group has negotiated with the banks that upon the retirement of the outstanding tranche A loan amounted to HK\$70 million, the Debt Restructuring Agreement will be terminated and released.

On 4 January 2002, the Company announced its intention of raising, through another rights issue ("Rights Issue II"), net proceeds of approximately HK\$86.2 million, which proceeds at the time would be used as to HK\$45 million for the Project, as to HK\$35 million to repay bank borrowings and the balance as working capital. In view of the Early Bank Repayment, which was a prudent alternative use of funds in the circumstances, HK\$11.5 million out of the HK\$35 million raised in Rights Issue II originally designated for repayment of bank borrowings was subsequently designated towards the Project.

Out of the aggregate net proceeds of HK\$139.8 million from Rights Issue I and Rights Issue II, HK\$65 million has been/will be used for the Project, HK\$65 million was used for repayment of borrowings and the balance was used as working capital. The Directors are therefore of the view that the application of proceeds from Rights Issue I and Rights Issue II, when taken as a whole, is consistent with their intended uses as described in the prospectuses, albeit in a chronological order not originally intended.

## **Liquidity and Financial Resources**

As at 31 March 2002, the Group's bank deposits amounted to HK\$55,770,000 (2001: HK\$43,059,000).

After the Completion of Debt Restructuring in October 2001, the financial position of the Group has been greatly improved.

The Group's gearing ratio at the year ended was 0.6 time (2001: 1.1 times), which was calculated based on the total borrowings (but excluding obligations under finance leases) of HK\$293,770,000 (2001: HK\$366,154,000) and shareholders' funds of HK\$472,147,000 (2001: HK\$346,014,000).

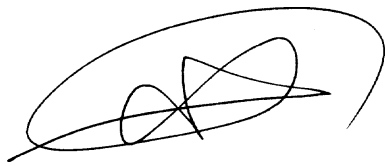
## **Employment, training, development and remuneration policy**

As at 31 March 2002, the number of staff of the Group in the Mainland and Hong Kong was about 220. The Group remunerates its employees based on their performance, experience and prevailing industry practice. The remuneration policy and package is adjusted according to the human resources market environment. The Group has set up provided retirement benefits, in the form of Mandatory Provident Fund entitlement to Hong Kong's employees.

## **Appreciation**

On behalf of the board, I would like to extend my sincere gratitude to our staffs and fellow directors for their contribution to the Group's development and cordial thanks to the continuing support of our customers, suppliers, business associates and shareholders.

By Order of the Board



**Koon Wing Yee**

*President and Chief Executive Officer*

Hong Kong, 23 July 2002