

Chairman's Statement

The prolonged global economic slowdown has tied Hong Kong into recession and resulted in a drop in Hong Kong's domestic exports and re-exports in the year 2001. The decline has continued into the first five months of the current calendar year, and aggravated for the exports of clothing. Against this backdrop, results of the Group's textile and clothing operations in the year ended 31 March 2002 reported a substantial decline. The impact on the Group's overall results, however, has been mitigated by the reduction in investment losses and increased contribution from associated companies and jointly controlled entities.

BUSINESS REVIEW

Audited Group profit attributable to shareholders for the year ended 31 March 2002 amounted to HK\$37,641,000, a decrease of 8.6% compared to HK\$41,188,000 for the previous year. Earnings per share was HK\$0.14 compared to HK\$0.16 for the previous year.

Textiles and Clothing

Turnover of the Group's textile and clothing segment in the year under review was HK\$693.4 million, a decrease of 22.6% compared to HK\$895.6 million in the previous year. Orders were not in shortage but those affording a decent margin were scarce. Whereas the gross profit margin of this business segment of the Group was more or less maintained, further trimming of overhead has been difficult despite the decrease in turnover. The operating profit before interest of this segment for the year under review therefore decreased by 58.0% to HK\$27.8 million, compared to HK\$66.3 million for the previous year. Certain comparative figures have been restated as the result of adopting new or revised accounting standards in the year under review.

In terms of the performance of individual divisions, the woven garment, wool spinning and wool knitting divisions reported decreases in turnover and profit across the board, with the woven garment division being the hardest hit. The finished yarn trading division reported increases in both turnover and profit, but the finished fabric trading division reported a loss on a lower turnover.

In terms of markets, the increase in exports to Europe was contributed by the wool knitting division at a thinner margin. Sales to all other markets reported a decline.

Investment

This segment reported a loss before interest of HK\$1.8 million for the year under review, improving from a loss of HK\$17.6

million for the previous year. The improvement was due to profit on securities dealing and increased dividend income, although a higher provision was required.

Others

This segment covers miscellaneous non-core businesses carried on by the Group. Whereas this segment's turnover has improved to HK\$12.0 million from a small base, an operating loss of HK\$4.6 million before interest was reported. In May 2001, at an investment cost of HK\$0.75 million, the Group acquired a 60% equity interest in a joint venture engaged in professional broadcasting engineering system design and integration with a view to benefit from the global trend for television broadcasting to migrate from analogue to digital transmission. Due to the depressed local economy, the business of this joint venture has been slow.

Major items not allocated to segments

A subsidiary in Malaysia, which discontinued its textile operation in 1996, disposed of part of its land and buildings during the year under review. These assets have been fully written off in the year ended 31 March 1997 and their disposal resulted in a profit of HK\$8.0 million. Such non-recurring profit was excluded from the segment results, so was the profit of HK\$5.1 million on the sale of land and buildings in Hong Kong by the woven garment division in the previous year.

During the year under review, the Group disposed of two dormant subsidiaries and three associated companies. The disposals netted a loss of HK\$8.8 million, representing mainly the realisation of exchange reserve.

Interest Income and Finance Costs

Both the Group's interest income from bank deposits and finance costs were about halved to HK\$9.3 million and HK\$7.3 million respectively mainly as a result of the low interest rate environment prevailing during the year. A one-time interest income in the sum of HK\$6.0 million, being interest accrued in previous years on loans advanced to a jointly controlled entity, was booked during the year upon receipt.

Associated Companies and Jointly Controlled Entities

The Group's share of the results of associated companies for the year under review was a profit of HK\$16.4 million before tax, compared to HK\$8.5 million for the previous year. Whereas the 50% owned Winsor Health Products Limited has maintained its contribution, those associated companies

Chairman's Statement *(continued)*

engaged in the textile and clothing businesses have either reported a turnaround or reduced their losses.

The Group's jointly controlled entities are all operating in Mainland China. Improvement overall and for the 46% owned Suzhou Nan Xin Cement Co., Limited in particular were reported in the year under review. Their aggregate contribution before tax for the year under review was HK\$5.8 million, compared to HK\$1.3 million for the previous year.

BUSINESS CONDITIONS

The Group's textile and clothing businesses are heavily dependent on the economic health of the export markets, the US in particular. Whereas there have already been doubts on the sustainability of the economic upturn in the US, the falling stock market is beginning to undermine consumer confidence. The recent weakness of the US dollar on the contrary is a welcoming sign for exporters in Hong Kong. Interest rate may rise towards the end of the current financial year, but any increase is likely to be moderate and will not have a significant impact on the Group in view of the Group's financial position.

The scheduled phasing out of all quantitative restrictions on international trade of textiles and clothing under the Agreement on Textiles and Clothing is on target. With mainland China's accession to the WTO and the removal of quota restrictions, the gravity of the northern and inland provinces of mainland China as a low-cost producer and competitor has been gathering momentum, and might overshadow the benefits that Hong Kong producers have been deriving from outward processing arrangements in the Pearl River Delta area.

FIXED ASSETS

Acquisition of fixed assets during the year under review amounted to HK\$13.7 million, of which HK\$8.9 million was incurred by the Group's finished yarn trading operation and the balance was mainly for replacement purpose. Impairment in value aggregating HK\$3.1 million was assessed and charged to the profit and loss account in respect of a factory premises in Hong Kong and a piece of land held in mainland China.

INVESTMENT PORTFOLIO

At 31 March 2002, the net book value of the Group's long-term listed investments was HK\$46.0 million and their market value was HK\$314.5 million as at that date. During the year, there were no additions, a profit of HK\$0.8 million was

realised on disposals, and a provision of HK\$7.3 million was made for individual stocks.

The Group's short-term listed investments comprising mostly US securities are carried at market value. Their carrying value as at 31 March 2002 was HK\$60.1 million. Realised gains and unrealised losses for the year under review were HK\$7.6 million and HK\$9.4 million respectively.

At 31 March 2002, the carrying value of the Group's long-term unlisted investments was HK\$114.8 million, with the Group's 18% interest in phase 2 of Shanghai East Ocean Centre, Shanghai accounting for the principal part of the portfolio. Phase 2 of Shanghai East Ocean Centre is wholly financed by investors' loans and a repayment thereof in the sum of HK\$6.3 million was received by the Group during the year. Occupancy of the office space in the building is about 80%.

FINANCIAL REVIEW

As at 31 March 2002, the Group's cash and bank balances amounted to HK\$174.9 million, and bank borrowings amounted to HK\$158.7 million. All the bank borrowings are short-term unsecured loans denominated in Hong Kong dollar with interest on a floating rate basis. Computed as the ratio of total bank borrowings to shareholders' funds, which amounted to HK\$773.2 million at 31 March 2002, the Group's gearing was 20.5% as at that date.

The Group's contingent liabilities as at 31 March 2002 amounted to HK\$43.5 million, of which HK\$35.9 million represent guarantees given in respect of banking facilities granted to associated companies and investee companies. The balance of HK\$7.6 million was in respect of bills discounted with recourse.

At 31 March 2002 and at present, the Group does not have any material capital commitments.

EMPLOYEES

As at 31 March 2002 the total number of the Group's employees was maintained at about 3,400, of which about 2,500 were employed in mainland China. Remuneration level is normally reviewed annually. Retirement benefits are provided in accordance with local government requirements. Other benefits are awarded at the discretion of the Group. Staff training is provided as and when required. During the year no option has been granted from the employee share option scheme adopted on 15 August 2001.

OUTLOOK

Many economic analysts are finding it difficult to follow, let alone predict, trends in the global economy. The net effect on the Group's textile and clothing businesses of the recent weaknesses of the US dollar, and the exposure of consumer confidence to falling values of global stocks and assets remains to be seen. Volatility in the US and Hong Kong stock markets will also directly affect the performance of the Group's portfolio of listed investments. The current financial year will continue to be difficult and the Group's focus will be placed on the strengthening of its core operations and the balance sheet.

DIVIDENDS

An interim dividend of 5 cents per share and a one-time special dividend of 65 cents per share were paid on 7 February 2002, the latter being declared in view of the surplus cash position of the Group in relation to its funding requirements. In view of the profit for the year under review and the prospects of the current financial year and having regard to the balance sheet, the Directors have recommended a final dividend of 8 cents per share for the year ended 31 March 2002. Subject to the approval of the Annual General Meeting to be held on 28 August 2002, the final dividend will be payable on 4 September 2002 to all shareholders on register as at 28 August 2002.

CHANGE IN DIRECTORATE

For personal reasons, Mr. Kazuaki TAKAGI resigned on 1 September 2001 and Mr. CHOW Pai Ying will not stand for re-election at the forthcoming Annual General Meeting of the Company at which he is due to retire by rotation. The Board wishes to record a vote of thanks to both of them for their invaluable service and wise counsel throughout the years.

CHOU Wen Hsien

Chairman

Hong Kong, 24 July 2002.