

Chairman's Statement

The results of the Group's textile and clothing operations in the year ended 31 March 2003 have benefited considerably from improved sales to the US market and favourable exchange rates for European sales. Although the investment division reported a moderate loss and contribution from associated companies and jointly controlled entities showed a decline, the Group's overall results reported a satisfactory growth.

BUSINESS REVIEW

Audited Group profit attributable to shareholders for the year ended 31 March 2003 amounted to HK\$42,591,000, an increase of 13.2% as compared to HK\$37,641,000 for the previous year. Earnings per share was HK\$0.16 compared with HK\$0.14.

Textiles and Clothing

Turnover of the Group's textile and clothing segment in the year under review was HK\$741.6 million, a growth of 7.0% from HK\$693.4 million in the previous year. The operating profit before interest of this segment for the year under review amounted to HK\$52.4 million, an improvement of 88.5% compared to HK\$27.8 million for the previous year.

In terms of the performance of individual divisions, the woven garment divisions reported satisfactory growth in both turnover and profit. The wool knitting division reported marginal improvement on both counts. The wool spinning division and the finished yarn trading division each reported lower turnover but whilst the former managed to hold its profit, the latter's profit was slashed. The finished fabric trading division reported a higher turnover and narrowed its loss.

In terms of markets, exports to the US improved by 26.3% on account of a strong increase in woven garment sales. Exports to Europe were maintained. Local sales continued to decline against an increase in sales to Asian markets, the latter comprising mainly sales of yarns and fabrics to Mainland China.

Investment

This segment reported a loss before interest of HK\$1.6 million for the year under review, compared to a loss of HK\$1.8 million for the previous year. Lower dividend income and loss on securities dealing were reported but the substantial provision made against long term investments in the previous year was not repeated.

Others

This segment covers miscellaneous non-core businesses carried on by the Group in Hong Kong and Mainland China. Turnover for the year under review was HK\$11.0 million, compared with HK\$12.0 million for the previous year, whilst operating loss before interest has been reduced from HK\$4.6 million to HK\$1.7 million.

Major items not allocated to segments

A subsidiary in Malaysia, which discontinued its textile operation in 1996, sold part of its land and buildings in the year under review and also in the previous year. The assets sold have been fully written off in the year ended 31 March 1997 and their disposal resulted in profits of HK\$1.8 million and HK\$8.0 million for the year under review and the previous year respectively. These profits were excluded from the segment results and reported separately.

During the year under review, the Group disposed of a dormant associated company at a small loss.

Interest Income and Finance Costs

Under the continuing low interest rate environment, the Group's finance cost was reduced from HK\$7.5 million in the previous year to HK\$4.7 million in the year under review. Likewise, the Group's interest income was also reduced from HK\$9.4 million to HK\$5.1 million, excluding a one-time interest income in the sum of HK\$6.0 million received from a jointly controlled entity in the previous year.

Associated Companies and Jointly Controlled Entities

The Group's share of the results of associated companies for the year under review was a combined profit of HK\$2.8 million before tax, compared with HK\$16.4 million for the previous year. Contribution of the 50% owned Winsor Health Products Limited continued to improve. However, the overall result has been eroded by the operating and impairment losses of those associated companies engaged in the textile and clothing businesses. The 50% owned Textile Corporation (Malaysia) Sdn. Bhd., which ceased its textile finishing operation in November 2002, alone accounted for HK\$11.8 million of such losses.

Chairman's Statement *(continued)*

Aggregate contribution by the Group's jointly controlled entities amounted to HK\$2.1 million before tax in the year under review, compared with HK\$5.8 million for the previous year. A new jointly controlled entity engaging in garment manufacture and trading was formed in Hong Kong in May 2002 and reported a moderate profit for the year under review. The other jointly controlled entities are all operating in Mainland China. The satisfactory result of the 46% owned Suzhou Nan Xin Cement Co., Limited was offset by impairment losses assessed on the plant and machinery of the 46.83% owned Wuxi Zhong Cui Foods Company Limited.

GROUP STRUCTURE

There were no significant changes to the Group's structure during the year.

BUSINESS CONDITIONS

The global economy has continued to be fraught with uncertainties. Increased consumer spending, made possible by low interest rates, has been supporting the otherwise sluggish U.S. economy and also the Group's exports to the U.S. market. Whereas the massive US\$330 billion tax cut passed into law in end May 2003 and the 13th round of interest rate cut by the Federal Reserve in June 2003 may help to keep consumer spending afloat, sustained economic growth in the U.S. will only be possible with simultaneous improvement in other sectors. The substantial weakening of the U.S. dollar against major currencies in the year 2003 to date has been beneficial to Hong Kong's export trade, but the Bush Administration reiterates that its strong dollar policy has not changed.

Whereas groundwork has started, the Group's strategy to cope with the changes in business environment arising from the abolition of all international textile quotas on 1 January 2005 cannot be formulated until the changes have become more tangible. However, it is considered that the Group's strategy and the working platform resulting therefrom will not take long to set up. In the event that the Group will have to focus more on trading, the Group will also benefit from the sale and sourcing networks available.

FIXED ASSETS

Acquisition of fixed assets during the year under review amounted to HK\$8.6 million, of which about HK\$3.3 million was incurred by the woven garment division and about HK\$4.0 million was incurred by the wool spinning division. Impairment of HK\$1.9 million was assessed and charged to the

profit and loss account in respect of a factory premises in Mainland China.

INVESTMENT PORTFOLIO

The Group's long-term listed investments comprise wholly of equity investments listed in Hong Kong. There was no change in the portfolio during the year other than provision of HK\$1.6 million made for individual stocks. At 31 March 2003, their net book value was HK\$44.5 million and their market value was HK\$324.6 million.

Disposal of long-term unlisted investments during the year resulted in a loss of HK\$2.2 million. At 31 March 2003, the carrying value of the Group's long-term unlisted investments was HK\$102.8 million. The Group's 18% interest in phase 2 of Shanghai East Ocean Centre, Shanghai accounted for the principal part of the portfolio, and repayment of shareholder's loan by the investee company in the sum of HK\$4.2 million was received by the Group during the year.

The Group's short-term listed investments comprising mainly US securities are carried at market value. Their carrying value as at 31 March 2003 was HK\$78.4 million. Realised gains and unrealised losses for the year under review were HK\$1.2 million and HK\$9.4 million respectively.

FINANCIAL REVIEW

As at 31 March 2003, the Group's cash and bank balances amounted to HK\$197.3 million, and bank borrowings amounted to HK\$165.6 million. With the exception of a long term loan of HK\$3.3 million, all other bank borrowings are short-term revolving loans. All the bank borrowings are unsecured, denominated in Hong Kong dollar and carry interest on a floating rate basis. Computed as the ratio of total bank borrowings to shareholders' funds, which amounted to HK\$781.5 million at 31 March 2003, the Group's gearing was 21.2% as at that date.

The Group's contingent liabilities as at 31 March 2003 amounted to HK\$50.6 million, of which HK\$45.9 million represented guarantees given in respect of banking facilities granted to associated companies, jointly controlled entities and investee companies. The balance of HK\$4.7 million was in respect of bills discounted with recourse.

At 31 March 2003 and at present, the Group does not have any material capital commitments.

EMPLOYEES

As at 31 March 2003 the Group employed a total of about 3,900 employees, of which about 3,200 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.

OUTLOOK

The signs of the world economy are still mixed although it is a general hope that the recovery will pick up momentum in the rest of the year 2003. Despite overall improvement in the year under review, outlook of the Group's textile and clothing businesses has turned for the worse as buyers seek to pass on retail markdowns to the suppliers. Whereas the unrealised loss of the Group's short-term listed investments has recovered substantially since 31 March 2003, performance of the investment portfolio will continue to affect the Group's profit and loss account in an unpredictable manner.

DIVIDENDS

An interim dividend of 5 cents per share was paid on 6 February 2003. The Directors have recommended a final dividend of 8 cents per share for the year ended 31 March 2003. Subject to the approval of the Annual General Meeting to be held on 21 August 2003, the final dividend will be payable on 3 September 2003 to all shareholders on register as at 21 August 2003.

CHOU Wen Hsien

Chairman

Hong Kong, 10 July 2003.