

## Chairman's Statement

The year ended 31 March 2005 was a difficult year for the Group's textile and clothing businesses resulting in a higher turnover but reduced profit. A lower profit was also reported by the investment activities, but a substantial gain on the disposal of a property in Hong Kong lifted the overall profit to exceed that of the previous year.

### BUSINESS REVIEW

The Group's overall turnover for the year ended 31 March 2005 was HK\$733.9 million, registering an increase of 9.7% over HK\$669.2 million for the previous year. Audited Group profit attributable to shareholders for the year amounted to HK\$117.7 million, an increase of 20.2% compared to HK\$97.9 million for the previous year. Earnings per share was HK\$0.45 compared to HK\$0.38.

#### Textiles and Clothing

Turnover of the Group's textile and clothing segment in the year under review was HK\$708.1 million, rising by 9.6% from HK\$645.9 million of the previous year which was suppressed by the SARS outbreak. The operating profit before interest of this segment for the year under review amounted to HK\$28.4 million, a decrease of 24.9% compared to HK\$37.8 million for the previous year.

The performance of individual divisions was mixed. The woven garment division reported a higher turnover but a lower profit on account of additional costs incurred to cope with disrupted orders, deliveries and customers' changing demands during the transition to the quota-free era. The wool knitting division reported improvement in both turnover and profit. Turnover of the wool spinning and finished fabric trading divisions were thinner and resulted in losses. The finished yarn trading division achieved a small profit over a reduced turnover.

In terms of markets, Group exports of woven garments and wool knitwear to North America and Europe both improved during the year under review. North America remained by far the Group's largest market. Sales of yarns and fabrics to local customers were maintained as a whole, but exports to Asian countries were reduced on account of weaker woollen yarn sales.

#### Investment

The turnover of this segment, comprising dividend income from both listed and unlisted investments, was HK\$22.6 million for the year ended 31 March 2005, more than doubled from HK\$10.9 million of the previous year. The increase was mainly due to a special dividend declared by one of the listed investments held. Including realized and unrealized gains on short-term trading

investments, the operating profit before interest of this segment was HK\$26.0 million, compared to HK\$53.7 million for the previous year. The comparable profit included gain on disposal of, and write back of provision for, investment securities in an aggregate sum of HK\$30.6 million which was not repeated in the year under review.

#### Others

This segment covers miscellaneous non-core businesses carried on by the Group in Hong Kong and Mainland China which are subject to fluctuations from year to year. After reporting satisfactory results for the previous year, the turnover of this segment was reduced to HK\$3.2 million and an operating loss of HK\$3.2 million was reported.

#### Major items not allocated to segments

In June 2004 the Group disposed of the entire building known as Winner Building, 9 Yuk Yat Street, To Kwa Wan, Kowloon, Hong Kong to an independent third party for a consideration of HK\$55 million. A profit before tax in the sum of HK\$47.6 million was realized, and another sum of HK\$5.5 million was transferred directly from land and buildings revaluation reserve to retained earnings. The 26.84% owned jointly controlled entity, Wuxi Nanyang Colour Printing & Packing Co., Ltd. was disposed of at a loss of HK\$0.5 million. Apart from the foregoing and the unallocated corporate expenses, there were no major items not allocated to segments in the year under review.

#### Interest Income and Finance Costs

During part of the year under review, the Group applied the proceeds from the sale of the Winner Building to repay bank borrowings. Therefore, despite the generally increased interest rate during the year and the higher bank borrowings of the Group as at 31 March 2005, the Group's finance costs were further reduced from HK\$2.4 million in the previous year to HK\$1.4 million in the current year. On the other hand, the Group's interest income was raised from HK\$5.9 million to HK\$10.7 million, due to interest income received from an enlarged portfolio of bonds and market linked deposits.

#### 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\$28.3 million before tax, compared to HK\$13.4 million for the previous year. The significant improvement was attributable to the turnaround of the results of the 50% owned National Garments Manufacturing Private Ltd. in Singapore. Contribution of the 50% owned Winsor Health Products Ltd. continued its steady growth.

## Chairman's Statement *(continued)*

Combined results of the Group's jointly controlled entities showed a loss before tax in the sum of HK\$4.1 million, against a profit of HK\$1.7 million for the previous year. Hampered by the macroeconomic control programme in Mainland China, profit of the 46% owned Suzhou Nan Xin Cement Co., Ltd. was halved.

### GROUP STRUCTURE

During the year the Group acquired 52% interest in a newly formed jointly controlled entity in the name of Wuxi New Pacific Garment Company Ltd., Wuxi, Mainland China, the principal activity of which is garment manufacture. Apart from this acquisition and the disposal of Wuxi Nanyang Colour Printing & Packing Co., Ltd. reported in the preceding, there were no other changes to the Group's structure during the year.

### FIXED ASSETS

During the year under review, the Group reclassified one of its properties in Hong Kong as an investment property. A valuation was carried out at 31 March 2005 and the resulting revaluation surplus in the sum of HK\$18.9 million was credited to investment properties revaluation reserve. Acquisitions of fixed assets during the year amounted to HK\$13.0 million and were mainly incurred by the woven garment division, including the purchase of a land parcel in Panyu, Mainland China. The major disposal during the year was the sale of the Winner Building reported in the preceding.

### INVESTMENT PORTFOLIO

The Group's long-term listed investments comprise wholly of equity investments listed in Hong Kong. Acquisitions during the year aggregated HK\$36 million and there were no disposals. At 31 March 2005, their aggregate net book value was HK\$72.2 million and their aggregate market value was HK\$458.6 million.

Disposal of long-term unlisted investments during the year resulted in a small loss of HK\$0.2 million. At 31 March 2005, the carrying value of the Group's long-term unlisted investments was HK\$86.1 million. The Group's 18% interest in phase 2 of Shanghai East Ocean Centre, Shanghai continued to account for the principal part of the portfolio, and repayment of shareholder's loan by the investee company amounted to HK\$7.7 million during the year.

The Group's short-term investments comprise listed equity and debt securities, equity linked notes and managed funds. They are carried at market value which stood at HK\$174.2 million as at 31 March 2005. Realised and unrealised gains for the year under review aggregated HK\$2.6 million.

### FINANCIAL REVIEW

As at 31 March 2005, the Group's cash and bank balances amounted to HK\$178.7 million, and bank borrowings amounted to HK\$152.8 million. All bank borrowings were short-term revolving loans, unsecured, denominated in Hong Kong dollars and carried interest on a floating rate basis. Computed as the ratio of total bank borrowings to shareholders' funds, which amounted to HK\$930.9 million at 31 March 2005, the Group's gearing was 16.4% as at that date.

The Group's contingent liabilities as at 31 March 2005 amounted to HK\$38.2 million, of which HK\$33.9 million represented guarantees given in respect of banking facilities granted to associated companies and a jointly controlled entity. The balance of HK\$4.3 million was in respect of bills discounted with recourse.

At 31 March 2005 the Group did not have any material capital commitments.

### EMPLOYEES

As at 31 March 2005 the Group employed a total of about 4,000 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.

### BUSINESS CONDITIONS

U.S. economic growth forecasts have been raised, and as a result it is expected that the Federal Reserve will lift its interest rate target further to prevent inflation from flaring. Rising home prices and improvement in the job market are giving U.S. consumers the added wealth and willingness to spend despite record oil prices. The economic scene in Europe is quite different with stagnant consumer confidence and high unemployment. Costs in Hong Kong are expected to be stable, but in the Pearl River Delta costs are increasing and there is a general shortage of labour.

The abolition of international textile quotas at the beginning of the year 2005 was followed by a dramatic jump in shipments from Mainland China to the U.S. and the European Union. Both markets have imposed "safeguard" quotas on the import of certain categories of textiles and clothing from the Mainland, but it is most likely that all these quotas will soon be filled. Whereas it is expected that some orders will return to Hong Kong for the sake of prudence on the part of the buyers, continuing uncertainties and disruption in the trade are expected.

## **OUTLOOK**

The year ahead will continue to be uncertain and tough for the Group's textile and clothing business. Keen price competition on a global scale will continue against a background of rising regional costs. Returns of the Group's investment activities will also be subject to the performance of the investment markets in relation to interest rate movements.

## **DIVIDENDS**

An interim dividend of 6 cents per share was paid on 3 February 2005. The Directors have recommended a final dividend of 8 cents per share for the year ended 31 March 2005. In view of the profit for the year, the Directors have also recommended a special dividend of 12 cents per share for the year ended 31 March 2005. Subject to the approval of the Annual General Meeting to be held on 25 August 2005, the final dividend and the special dividend will be payable on 7 September 2005 to all shareholders on register as at 25 August 2005.

**CHOU Wen Hsien**

*Chairman*

Hong Kong, 14 July 2005.