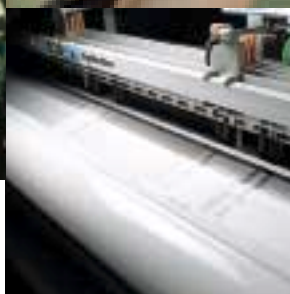


# High Fashion



THE WORLD'S  
PREMIER  
PRODUCER OF  
**SILK AND  
SILK**  
**BLENDED**  
APPAREL

## MANAGING

### DIRECTOR'S REPORT

I am pleased to report the annual results of High Fashion International Limited for the financial year ended 30 September 2000.

#### RESULTS

Turnover of the Group for the year under review increased to HK\$1,853 million, up 13% from 1999. Net profit attributable to shareholders amounted to HK\$133.88 million, up 30% from last year.

Basic earnings per share increased to 42 HK cents, up 39%.

#### DIVIDEND

An interim dividend of 7 HK cents was paid. The Board of Directors recommended a final dividend of 12.8 HK cents per share in the forthcoming Annual General Meeting, making a total dividend of 19.8 HK cents per share for the year, up 27% from last year.

#### REVIEW OF OPERATIONS

##### Marketing

The investments we made during the past few years on product design and development have begun to pay off. Our product development and design knowledge, strong technical and manufacturing know-how helped us to better understand our private label customers' positioning and specific market segments targeted. We are able to help our customers to

create exclusive products that will fit into their image at good profit margins to them.

We are expanding into additional European markets through our London marketing company, overseeing our agency operations in Italy, Germany and France.

We are striving for stronger brand building and design capabilities. About 45% of the turnover for the year derived from products marketed under our brand names of August Silk and Theme.

##### August Silk

Capitalizing on brand name recognition, ability to market new fashion products and the Group's vertical capabilities, August Silk, focusing on the better price market with diverse silk and silk blended apparel at retail, showed a strong retail performance throughout the year in the USA even though the economic climate for apparel had been erratic.

August Silk brand name was also established in UK by our subsidiary and in Northern European countries through a licensee. A plan is being implemented to expand August Silk label business to other European countries. It is intended to integrate August Silk's success in the USA with current European offer to create branded merchandise with volume potential.

## MANAGING

### DIRECTOR'S REPORT

Leveraging on August Silk's success and brand recognition in the USA and Europe, we began building our brand in Hong Kong and the People's Republic of China ("PRC") in 1997. By now, we have 4 shops in Hong Kong and 3 in the PRC.

#### Theme

The acquisition of Theme International Holdings Limited ("Theme") was completed on 31 August 2000. Theme was almost entirely free from bank debts. Theme's recognized brand name, expertise in retailing and sizeable retail network made an excellent synergy with our strength in product merchandising, production and finance. After we took over its management, Theme was re-engineered into a competitively efficient and cost effective retail company.

For the six months ended 30 September 2000, the net loss of Theme was HK\$6 million, down from HK\$17 million of the corresponding period last year. We are confident that Theme will quickly become a profit contributor of the Group.

Taking advantages of the expanding economy and growth cycle in the PRC, Theme is now in a position to capitalize on its brand name and sizeable retail network to rebuild and expand its business. Theme has plans to grow through strategic franchising shops on the mainland by

doubling its number of shops to about 100 within the next twelve months.

We consider the acquisition of Theme to be a profitable investment for our shareholders.

#### U-campus

"U-campus" is a life style fashion line, major in cotton, targeted at young consumers, to be marketed on the internet and at specialty shops. The internet portal, jointly developed with the Hong Kong Polytechnic University, will be launched in January 2001.

#### Manufacturing Operations

A new production line of advanced European machineries was installed in our weaving mill, which enhances our production efficiency and product development capability, thus maintaining our leadership in silk apparel.

#### PROSPECTS

Our commitment to "Total Customer Satisfaction" and "Total Employee Satisfaction", assures good customer and employee relationship, and continuous improvement. The practice of "Total Quality Management" will keep the Group competitive in the competitive environment.

The market environment ahead is expected to be soft. However, our orders on hand are more than what we had in the corresponding period

## MANAGING

### DIRECTOR'S REPORT

last year. We also believe Theme will soon provide earnings contribution to the Group. The strong PRC economy and a US tax cut will add to our confidence in this regard.

#### APPRECIATION

On behalf of the Board, I would like to take this opportunity to extend my sincere thanks to our customers, suppliers and shareholders for their continuous co-operation and support to the Group. I wish to thank the management and staff for their devotion and hard work. Their significant contribution to the year's results is fully appreciated.

**Lam Foo Wah**

*Managing Director*

Hong Kong, 10 January 2001