

*Zhejiang Xinchang  
High Fashion  
Silk Co., Ltd.*



*Zhejiang High Fashion  
Kaidi Silk Co., Ltd.*

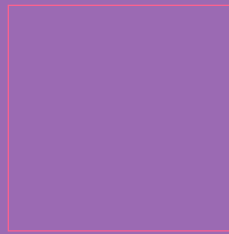


*Hangzhou Dalifu  
Silk Finishing  
Co., Ltd.*



*High Fashion  
Product  
Testing Center  
ISO 9001*





## MANAGING DIRECTOR'S REPORT

I am pleased to report that turnover for the year amounted to HK\$2.3 billion, up 26%. Net profit attributable to you, our shareholders, was HK\$102 million, down 24%, due to HK\$21 million loss of our retail business and a specific provision of HK\$14 million made for phasing out a joint venture garment operation in South China. Basic earnings per share were 32.7 HK cents. The net asset value per share was HK\$1.85, up 12%.

The Board of Directors recommends a final dividend in the form of a scrip dividend of 1 new share for every 20 shares with a conditional cash option of 8 HK cents per share.

### PRIVATE LABEL AND MANUFACTURING OPERATION

We faced fierce competition and price pressure from our customers. Silk yarn price hiked, putting additional strain on our profit margin. Nevertheless, our private label business grew significantly.

We completed the acquisition of a silk printing and dyeing mill in Hangzhou, which is the largest of its kind in China, to support our production and future growth.

Combining the forces of this new mill with our technologically advanced weaving mill and our huge garment production base uniquely positions us as the forerunner in our industry to meet new challenges ahead.

### BRANDED LABELS

August Silk performed well despite the slowdown of US economy.

Theme was radically changed, but it took longer than we expected. We continued to focus our expansion in China, the fastest growing of the world's major economies.

In November 2001, we entered into a joint venture agreement with the Wahaha Group to manufacture and retail Wahaha children and casual wear in China. Wahaha is a well-known Chinese icon for drinks and beverages, with very strong retail network sprawling across China.

### PROSPECTS

2002 will be a very challenging year for the Group. The tough economic conditions in our major markets are expected to prevail for the entire year. Within China, vigorous new private companies are emerging to compete for the already competitive export markets.

We continue to strongly invest in product and technical research to keep us stay ahead, not only quickly meeting demand, but also anticipating it. We have a great team of experts and supporting staff in China who fully understand the intricacies of the fashion business in the US and Europe.

The initiatives we took will enable us to stay competitive and position us well to take advantage of any economic upturn in our markets. We are confident in our long-term growth prospects.

### ACKNOWLEDGEMENT

I would like to take this opportunity to express my sincere appreciation of the support from our customers, suppliers and shareholders. I would also thank my fellow directors for their valuable contribution and all the staff members of our Group for their hard and dedicated work throughout the year.

**Lam Foo Wah**

*Managing Director*

Hong Kong, 14 January 2002