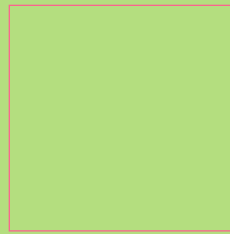


The world's
premier producer of
Silk and
Silk Blended apparel





MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

Turnover for the year amounted to HK\$2.3 billion, up 26%. Gross profit percentage was up 1.5% mainly due to consolidating the higher gross profit margin of Theme International Holdings Limited ("Theme").

Profit attributable to you, our shareholders, was HK\$102 million, down 24%, after the consolidation of the loss of HK\$21 million of our retail business and web business development expenses plus a specific provision of HK\$14 million for phasing out a less cost-efficient 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%.

REVIEW OF OPERATIONS

Branded Labels

August Silk

Despite the economic slowdown in the US, the turnover of August Silk leveled that of last year. August Silk performed well as a result of sharply focused products and customer service provided by us. However, the terrorist attacks of 11 September and the economic downdraft in the US dampened consumer confidence. We are strategically leveraging the design and merchandising human resources of our US and European marketing companies and our technical resources in China to capture fleeting shifts of fashion and to create profitable business opportunities.

Theme

Since our acquisition of Theme in August 2000, we made drastic changes to improve every aspect of its operations, from business strategies, supply chain operations to logistics. The retail environment in Hong Kong and Taiwan remained weak. We focused our expansion on the fast growing, but competitive, Mainland China market.

U-campus

U-campus, a fashion line originally to be marketed on the internet, was introduced in January 2001. Due to the generally difficult web business environment in Hong Kong, the web business was put on halt and the operation was being transformed into shop retailing operation.

Private Labels and Manufacturing Operations

Despite fierce competition and price pressure from customers, our private label business grew significantly.

The strategic investments we made on acquiring modern weaving machinery and the printing and dyeing plant in Hangzhou began to provide us cost-efficient technological edge.



MANAGEMENT DISCUSSION AND ANALYSIS

The acquisition of the state-owned minority of our weaving mill and our Hangzhou garment operations allowed us to freely and deeply re-rationalize and delayer the supply chain in our vertically integrated production base.

The economic shocks of the terrorist attacks of 11 September, which tipped the United States into outright recession and rippled the European market, made our business even more challenging. We anticipate the marketplace will remain challenging for the entire year of 2002.

We are making the quickest pace of moving our production in South China to the now more cost-efficient vertically integrated base in Hangzhou to position us competitively to meet any new challenges.

Segmental Information

	2001		2000		Change %	
	Turnover HK\$'000	Contribution HK\$'000	Turnover HK\$'000	Contribution HK\$'000	Turnover	Contribution
USA	1,798,954	137,831	1,632,976	126,969	10	9
Europe	169,015	7,997	160,831	9,655	5	(17)
Greater China	322,072	7,881	41,082	20,097	684	(61)
Others	35,625	4,195	18,018	2,334	98	80
	2,325,666	157,904	1,852,907	159,055	26	(1)
Manufacturing and trading	2,110,344	179,081	1,828,003	162,173	15	10
Retailing	215,322	(21,177)	24,904	(3,118)	765	(579)
	2,325,666	157,904	1,852,907	159,055	26	(1)

The Group's turnover grew by 26% to about HK\$2.3 billion, of which 15% from our core business and 11% from our retail business. Profit contribution from the core business was up 10%. A full year's turnover of Theme was consolidated, compared to only one month's turnover consolidated last year.

Loss from retail business included the operating loss of HK\$7 million of Theme and the balance included principally the operating loss incurred by U-campus for developing its web business.

Liquidity and Financial Resources

Hangzhou Westlake High Fashion Industry Co., Ltd. ("HZHF") & Zhejiang Xinchang High Fashion Silk Co., Ltd. ("XCHF") had about HK\$158 million Renminbi bank loans at 30 September 2001. These bank borrowings were used entirely for the Group to finance material purchases and subcontracting charges. The Group's total outstanding bank borrowings were approximately HK\$328 million on the same date.

MANAGEMENT DISCUSSION AND ANALYSIS

To take advantage of the prevailing low interest rate, the Group secured medium term banking facilities of about HK\$200 million. The facilities will be used to replace a portion of the Group's existing trading facilities. HK\$30 million was drawn as of 30 September 2001.

As of 30 September 2001, the Group had bank deposits and balances of HK\$273 million and a listed corporate bond investment of HK\$23 million. The Group had strong liquidity to meet its financial needs.

Gearing ratio of non-current liabilities to shareholders' funds was 4% and the current ratio was 1.4 at 30 September 2001.

The Group's receivables were mainly denominated in US dollars. Bank borrowings were denominated in US dollars or Hong Kong dollars or Renminbi. Since the Hong Kong dollar is pegged to the US dollar, the Group considers that its foreign exchange risk is minimal.

Other than trade bills discounted in the ordinary course of business, the Group had no material contingent liabilities. Barring the pledge of trade receivables of certain subsidiaries of HK\$95 million, the pledge of machinery of a subsidiary of HK\$17.8 million and a subsidiary's mortgage loan of HK\$2.3 million, there are no other charges on the Group's assets.

Capital Expenditure & Accounting Impact of Acquisition of Companies

The Group completed its acquisition of Theme in August 2000. The Group also acquired the entire 40% minority interest of HZHF and the entire 30% minority interest of XCHF for a total consideration of about HK\$23 million, making them our wholly owned subsidiaries. As a result of the consolidation of the accounts of Theme, HZHF and XCHF, the base for comparison with that of last year has changed. The following notes are prepared for comparison purposes.

	Selling and distribution expenses	Administrative expenses	Finance costs
	HK\$'000	HK\$'000	HK\$'000
Per accounts	229,035	312,276	37,604
Less: Theme's portion	(90,593)	(36,219)	(2,658)
HZHF's portion	(3,806)	(25,498)	(7,645)
XCHF's portion	(87)	(604)	(300)
2000/2001	134,549	249,955	27,001
Per accounts	130,365	241,019	27,560
Less: Theme's portion	(8,783)	(6,529)	(282)
1999/2000	121,582	234,490	27,278

MANAGEMENT DISCUSSION AND ANALYSIS

	Fixed assets HK\$'000	Inventories HK\$'000	Bank loans and overdraft (current) HK\$'000
Per accounts	266,606	302,478	306,284
Less: Theme's portion	(14,372)	(27,890)	(8,219)
HZHF's portion	(60,918)	(58,971)	(134,906)
XCHF's portion	(54,891)	(32,772)	(22,642)
At 30 September 2001	136,425	182,845	140,517
Per accounts	125,581	197,623	89,238
Less: Theme's portion	(17,474)	(31,637)	(3,175)
At 30 September 2000	108,107	165,986	86,063

In June 2001, the Group acquired the largest silk printing and dyeing plant in China (High Fashion Kaidi) for about HK\$80 million to support our growth. As mentioned in our previous report, this acquisition will be funded entirely from our internal reserves.

The Group completed the acquisition of the remaining portion of the property of its Headquarters in Hong Kong for HK\$46 million in November 2000, fully funded with its internal reserves.

General

The total number of employees of the Group including jointly-controlled entities and associates was about 14,000, down 7% from that of last year.