

The directors present their report and the audited financial statements of the Company and the Group for the period from 1 April 2000 to 30 September 2001.

CHANGE OF FINANCIAL YEAR END DATE

The Group changed its financial year end date from 31 March to 30 September with effect from 1 April 2000. The current accounting period covers a period of eighteen months from 1 April 2000 to 30 September 2001.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the Group's principal subsidiaries and associates are set out in notes 17 and 19 to the financial statements, respectively.

There were no significant changes in the nature of the Group's principal activities during the period.

FINANCIAL RESULTS

The Group's net loss from ordinary activities attributable to shareholders for the period from 1 April 2000 to 30 September 2001 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 22 to 66.

FINANCIAL INFORMATION SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial period/years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 67. This summary is not part of the audited financial statements.

SEGMENT INFORMATION

Details of the Group's turnover and contribution to loss from operating activities are set out in note 5 to the financial statements.

FIXED ASSETS

Details of movements in the fixed assets of the Company and the Group are set out in note 16 to the financial statements.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in note 17 to the financial statements.

ASSOCIATES

Particulars of the Group's interests in its associates are set out in note 19 to the financial statements.

BANK LOANS, OVERDRAFTS AND OTHER LOANS

Details of the Group's borrowings are set out in notes 24 and 26 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the period, together with reasons therefor, are set out in note 30 to the financial statements.

CONVERTIBLE NOTES

Details of the convertible notes of the Company and the Group are set out in note 32 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to its existing shareholders.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

The Company did not redeem any of its listed securities during the period. Neither the Company, nor any of its subsidiaries purchased or sold any of its listed securities during the period and up to the date of this report.

RESERVES

Details of movements in the reserves of the Company and the Group during the period are set out in note 31 to the financial statements.

DISTRIBUTABLE RESERVES

At 30 September 2001, the Company did not have any reserves available for distribution, as calculated in accordance with the provisions of the Companies Act 1981 of Bermuda (as amended). However, the Company's share premium account, in the amount of HK\$798,599,000, may be distributed in the form of fully paid bonus shares under certain circumstances.

MAJOR CUSTOMERS AND SUPPLIERS

For the financial period from 1 April 2000 to 30 September 2001, the five largest customers of the Group accounted for less than 30% of the Group's turnover. Purchases from the Group's five largest suppliers accounted for 31% of the total purchases for the period and purchases from the largest supplier included therein amounted to 10%.

None of the directors of the Company or any of their associates or any shareholders (which to the best knowledge of the directors own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers.

Report of the Directors

DIRECTORS

The directors of the Company during the period and up to the date of this report were:

Executive directors:

Lam Foo Wah	
Hui Yip Wing, David	(appointed on 27 July 2000)
Wong Shing Loong, Raymond	(appointed on 27 July 2000)
Choi Yat Ling, Charing	
Lai Ngan Long, Kenneth	(resigned on 13 December 2000)

Non-executive directors:

He Ling	(appointed on 31 August 2001)
Ying Yuming	(resigned on 31 August 2001)
Ip Weng Kun	(appointed on 27 July 2000 and resigned on 31 August 2001)
So Siu Hang, Patricia	(appointed on 27 July 2000 and resigned on 31 August 2001)
Shao Zhengkang	(resigned on 31 August 2001)

Independent non-executive directors:

Yeung Kwok Wing	
Mak Kam Sing, Simon	(appointed on 3 October 2000)
Gerald Clive Dobby	(resigned on 3 October 2000)

Alternate directors:

Ying Yuming	(alternate director to He Ling, appointed on 31 August 2001)
Choi Yat Fan, Yildiz	(alternate director to Choi Yat Ling, Charing, resigned on 31 August 2001)
Lau Chung Man, Louis	(alternate director to Shao Zhengkang, resigned on 31 August 2001)

The non-executive directors are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's bye-laws. In accordance with the Company's bye-laws, Messrs. Wong Shing Loong Raymond, Hui Yip Wing David, Mak Kam Sing Simon and Ms He Ling will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 8 to 9.

EMOLUMENTS OF DIRECTORS AND OF THE FIVE HIGHEST PAID EMPLOYEES

Details of the directors' emoluments and of the five highest paid employees in the Group are set out in notes 10 and 11 to the financial statements, respectively.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 37 to the financial statements, no director had a material interest in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party at the balance sheet date or at any time during the period.

Report of the Directors

DIRECTORS' INTERESTS IN SHARES

At 30 September 2001, the interests of the directors in the share capital of the Company, its subsidiaries and associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

Name of director	Nature of interest	Number of ordinary shares held
Lam Foo Wah	Corporate	*1,881,247,050
Choi Yat Ling, Charing	Personal	50,000

* Mr Lam Foo Wah has a corporate interest in 1,881,247,050 ordinary shares pursuant to the Practice Note 5 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as a result of his shareholding in High Fashion International Limited. These 1,881,247,050 ordinary shares are registered in name of Navigation Limited, a wholly-owned subsidiary of High Fashion International Limited (a company listed on The Stock Exchange of Hong Kong Limited).

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company, its subsidiaries or any of its associated corporation as recorded in the register required to be kept under Section 29 of the SDI Ordinance as at 30 September 2001.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Pursuant to the Company's share option scheme, the Company has granted options on the Company's ordinary shares in favour of certain directors, the details of which are as follows:

Name of director	Outstanding at 31 March 2000	Number of share options granted during the period	Lapsed during the period	Outstanding at 30 September 2001	Exercisable period	Exercise price per share <i>HK\$</i>
Lai Ngan Long, Kenneth	300,000	–	300,000	–	4 December 1997 to 3 December 2000	2.125
Choi Yat Ling, Charing	600,000	–	600,000	–	14 November 1997 to 13 November 2000	2.125

Save as disclosed above, at no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Further details of the Company's share option scheme are set out in note 30 to the financial statements.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS

At 30 September 2001, the following interests of 10% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance.

Name of shareholder	Number of ordinary shares held	%
Navigation Limited	1,881,247,050*	about 75
High Fashion International Limited	1,881,247,050*	about 75
Lam Foo Wah	1,881,247,050*	about 75

* Mr Lam Foo Wah has a corporate interest in 1,881,247,050 ordinary shares pursuant to the Practice Note 5 to the Rules Governing the Listing of the Securities on The Stock Exchange of Hong Kong Limited as a result of his shareholding in High Fashion International Limited. These 1,881,247,050 ordinary shares are registered in the name of Navigation Limited, a wholly-owned subsidiary of High Fashion International Limited (a company listed on The Stock Exchange of Hong Kong Limited). These 1,881,247,050 ordinary shares represent the same interests, and are therefore duplicated amongst the three substantial shareholders.

This interest has also been disclosed as an interest of Mr Lam Foo Wah in the “Directors’ interests in shares” above.

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out in the section “Directors’ interests in shares”, had registered an interest in the share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 38 to the financial statements.

CONNECTED TRANSACTIONS

- (a) The Company entered into a restructuring agreement on 5 June 2000 and a supplemental agreement on 15 June 2000 with Navigation Limited, a wholly-owned subsidiary of High Fashion International Limited (“High Fashion”), to restructure the capital and the indebtedness of the Company. The debt restructuring involves the extension of an unsecured new loan. At the balance sheet date, the outstanding loan balance, which amounted to HK\$28,000,000, was unsecured, bears interest at Hong Kong dollar prime rate. A total interest expense of HK\$2,046,000 was paid to Navigation Limited during the period.

High Fashion is the ultimate holding company of the Company.

- (b) During the period between October 2000 and March 2001, Dong Guan Sanyue Fashions Ltd. (“Dongguan Sanyue”), a 92% owned subsidiary of the Company, accepted subcontracting orders for production of garments from Dongguan Daliwai Fashion Co., Ltd., Dongguan High Fashion (Feng Gang) Garments Factory and High Fashion Garments (Zhong Shan) Limited, which are respectively a wholly-owned subsidiary, the processing operation in the PRC controlled by, and a 51% jointly-controlled entity, of High Fashion. Subcontracting charges totalling HK\$2,185,000 were received by Dongguan Sanyue in respect of the above services.

The independent non-executive directors of the Company have reviewed and confirmed that the above connected transactions were: (i) entered into in the ordinary and usual course of the Group’s business; (ii) carried out in accordance with the terms of the respective agreements governing such transactions; (iii) entered into on terms that were fair and reasonable so far as the independent shareholders of the Company are concerned and in the interest of the Group as a whole; and (iv) within the maximum expected extent of HK\$10 million.

A comfort letter on connected transactions had also been received from the auditors of the Company.

RETIREMENT BENEFITS SCHEME

Details of the retirement benefits scheme of the Group and the employer’s retirement benefits costs charged to the profit and loss account for the period are set out in notes 4 and 7 to the financial statements, respectively.

AUDIT COMMITTEE

The audit committee has reviewed with the auditors the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters, including a review of the audited final results.

Report of the Directors

CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the accounting period covered by the annual report.

AUDITORS

During the period, KPMG retired at the last annual general meeting and Ernst & Young were appointed as auditors of the Company. There have been no other changes of auditors in the past three years. A resolution for the reappointment of Ernst & Young as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Lam Foo Wah

Executive Chairman

Hong Kong, 14 January 2002