I am pleased to present the annual report of China Elegance International Fashion Limited ("the Company") and its subsidiaries ("the Group") for the year ended 31 March 2001. With continuing efforts and hard work, the Group was able to increase its turnover and gross profit for the year ended 31 March 2001 as compared to last year. The Group has also been able to diversify into properties investment during the year through acquisition of interests in two property projects located in Mainland China.

RESULTS

During the year ended 31 March 2001, the Group's performance improved as compared to last year with turnover increased by 21% to HK$143.6 million (2000: HK$118.7 million) and gross profit increased by 191% to HK$53.9 million (2000: HK$18.5 million). As a result, the net loss attributable to shareholders decreased by 37% to HK$41.8 million (2000: HK$66.4 million). Basic loss per share for the year decreased by 33% to HK0.4 cent per share (2000: HK0.6 cent per share).

DIVIDENDS

The directors do not recommend the payment of any dividend for the year ended 31 March 2001.

BUSINESS REVIEW

Market and market conditions

The Group has two major brands with "GIOVANNI VALENTINO (Italy)" in the high-end market and "DENNY" in the mid-end market. The garment market in China continued to be competitive with a lot of new brands entering into the market during the year under review.

With the saturation of leather garment market in China as well as severe competition, the Group's turnover for leather garments continued to shrink during the year.

In order to remain competitive, the Group continued to invest to upgrade the image of our brands by renovating the retail outlets and advertising on selected magazines. As a result of these efforts, the turnover for non-leather garments increased during the year, which more than offset the decline of turnover for leather garments, resulting in an increase in the Group's total turnover.

Business strategies

Business consolidation

The Group will continue to review and consolidate its operation with particular emphasis on product design, quality and inventory control.

Sales network consolidation

With hard work over the last few years, the Group's sales network now covers most of the coastal cities and northern China. Our emphasis in future will be to manage and consolidate the existing network and strives to control cost and increase turnover of each outlet.

BUSINESS REVIEW (continued)

Consumer oriented products

To ensure that the Group's products are accepted by the consumers, sales people are directly involved in product design. The involvement of these frontline workers will provide valuable information of consumer preference and taste and will help to increase product acceptance.

LIQUIDITY AND FINANCIAL RESOURCES

During the year, the Group acquired interest in a property project located in Tianjin, PRC by way of acquisition of Shun Tai Development Ltd. ("Shun Tai"). The total consideration of HK$52 million was satisfied by HK$25 million in cash with the remaining HK$27 million being satisfied by the issue of convertible redeemable debentures ("Debentures"). The Debentures were redeemed at HK$25 million prior to maturity with a discount of HK$2 million and Shun Tai was subsequently disposed of for a consideration of HK$56.5 million during the year. Details of which are set out in notes 20 and 23(e) to the financial statements.

During the year, the Company increased its authorized share capital from HK$200,000,000 to HK$500,000,000 and issued 10,599,561,600 new shares of HK$0.01 each at a subscription price of HK$0.01 per share pursuant to an open offer of new shares to existing shareholders completed on 3 November 2000 ("Open Offer"). Details of the changes in the Company's share capital are set out in note 21 to the financial statements.

The net proceeds of approximately HK$102 million from the Open Offer were applied as follows:

(1) HK$25 million for early redemption of the Debentures as mentioned above;

(2) HK$20 million for acquisition of Legend World Group Limited, which held a 30% interest in Cyberchain Limited, a company with its subsidiaries engaged in direct sales and brand management and sub-licensing operations;

(3) HK$40 million for acquisition of the entire issued share capital of, and the shareholder loan to, Timesway Limited, a company with interest in a property project located in Tianjin, PRC; and

(4) the balance of HK$17 million as general working capital.

PROSPECTS

Our continuing and relentless efforts in promoting the "GIOVANNI VALENTINO (Italy)" brand in the PRC market is bearing fruit and the business of this brand is growing steadily. Price competition for mid-end and low-end fashion wear market in PRC remains keen. This coupled with the shrinking and saturation of leather garment market in PRC will continue to affect the performance of the "DENNY" brand in the near future.

In order to improve sales management and operational efficiency, the Group has segregated the PRC market into six regions and appointed an authorized distributor in each region during the second quarter of 2001. The authorized distributor in each region will be responsible to manage the sales outlets within its region. The Directors believe that combining strong local sales network with the Group's experience of brand management and product design will enhance the Group's performance in garment business in the long run.

During the year, the Group has diversified into properties investment and acquired interests in two property projects located in Tianjin, PRC. One of the property projects was disposed of during the year with profit. The Group will continue to evaluate other business opportunities and the Directors believe such diversification will balance the Group's present dependence on garment business.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 March 2001, the Group employed approximately 315 full time managerial, and skilled staff, principally in Hong Kong and the PRC.

The Group remunerates and provides benefits for its employees based on current industry practice. In the PRC, the Group provides staff welfare and bonuses for its employees in accordance with prevailing labour legislation. In Hong Kong, it provides staff benefits including mandatory provident fund, medical schemes and performance related bonuses. In addition, share options may be granted to eligible employees in accordance with the terms of the Company's share option scheme.

CONCLUSION

On behalf of the Board, I would like to thank shareholders for their continued support and I would also wish to take this opportunity to express my appreciation to my colleagues in the Board and all employees of the Group for their dedication and efforts in the past year.

By order of the Board
Cheung Ngan
Chairman

Hong Kong
25 July 2001