

REPORT OF THE DIRECTORS

The directors submit their report together with the audited accounts for the year ended 31st March, 2001.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The subsidiaries are principally engaged in the sourcing, subcontracting, marketing and selling of outerwear garments, developing software and providing technical support services for website development.

An analysis of the Group's turnover and contribution to operating (loss)/profit by principal activity and market is set out in note 2 to the accounts.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of sales and purchases for the year attributable to the Group's major customers and suppliers are as follows:

	2001	2000
	%	%
Sales		
– the largest customer	53	35
– five largest customers combined	93	88
Purchases		
– the largest supplier	21	31
– five largest suppliers combined	46	61

None of the directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major customers or suppliers as noted above.

ANALYSIS OF THE GROUP'S PERFORMANCE

An analysis of the Group's performance is shown in the Chairman's Statement on pages 2 to 5.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 16.

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

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 20 to the accounts.

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FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in note 13 to the accounts.

SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in share capital and share options of the Company are set out in note 19 to the accounts.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31st March, 2001 amounted to HK\$41,407,000 (2000: HK\$73,050,000).

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 45.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

SUBSIDIARIES

Details of the Company's subsidiaries as at 31st March, 2001 are set out in note 27 to the accounts.

ANALYSIS OF BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS

The Group's bank loans, overdrafts and other borrowings as at 31st March, 2001 are repayable over the following periods:

	Bank overdrafts <i>HK\$'000</i>	Trust receipt, export packing and other bank loans <i>HK\$'000</i>	Other borrowings <i>HK\$'000</i>
On demand or not exceeding one year	3,909	46,732	390
More than one year but not exceeding two years	–	17,500	390
More than two years but not exceeding five years	–	1,458	122
	<u>3,909</u>	<u>65,690</u>	<u>902</u>

DIRECTORS

The directors during the year were:

Mr. Wong Tek Sun, Takson

Ms. Pang Shu Yuk, Adeline Rita

Mr. Cheung Man Ki

(resigned on 1st December, 2000)

Mr. Lian Cheng Chi

Mr. Tsao Kwang Yung, Peter*

Mr. Lee Kwok Cheung*

** independent non-executive directors*

The directors of the Company, including independent non-executive directors but excluding the Chairman, are subject to retirement by rotation and re-election at the Annual General Meeting in accordance with clause 87 of the Company's Bye-laws.

In accordance with the Company's Bye-laws, Ms. Pang Shu Yuk, Adeline Rita retires by rotation and, being eligible, offers herself for re-election.

DIRECTORS' SERVICE CONTRACTS

Ms. Pang Shu Yuk, Adeline Rita, who is subject to retirement by rotation and re-election at the Annual General Meeting, has a service contract with the Company which is determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS AND SENIOR MANAGEMENT

Biographical details of directors and senior management of the Group are shown below:

EXECUTIVE DIRECTORS

Mr. Wong Tek Sun, Takson, age 50, is the Chairman and Chief Executive Officer of the Group. He received his tertiary education in the PRC before he co-founded the Group in 1972. Mr. Wong has over 25 years' experience in and in-depth knowledge of marketing in the US and European markets and of the manufacturing of outerwear garments in the PRC and Hong Kong. He is responsible for the development of corporate planning and strategy, sales and marketing and overall management of the Group.

Ms. Pang Shu Yuk, Adeline Rita, age 42, is the Deputy Chairman and Chief Operations Officer of the Group and oversees merchandising, production planning and control, and various operational and administrative matters of the Group. She holds a higher diploma in fashion and clothing technology from the Hong Kong Polytechnic University. Ms. Pang joined the Group in 1983 and is the wife of Mr. Wong Tek Sun, Takson.

Mr. Lian Cheng Chi, age 58, is responsible for the sale and marketing of the Group's products to China national product stores in Hong Kong and certain sourcing functions of the Group. He holds a degree in Chinese language from Fujian Hua Chiao University, the PRC. He joined the Group in 1974 and has extensive experience in the garment industry. He is a brother-in-law of Mr. Wong Tek Sun, Takson.

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DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Tsao Kwang Yung, Peter, CBE, CPM, age 67, was the former Secretary for Home Affairs of the Hong Kong Government. He graduated from National College of Food Technology in London in 1960. In 1977, Mr. Tsao was appointed as the special envoy to Geneva and became the head of the Trade and Industry Departments in 1979 and 1981 respectively. In 1983, Mr. Tsao headed the Government Information Services and in 1988 he was appointed as the Secretary for Home Affairs from which post he retired in February, 1992. He is currently the chairman of Prima Consultants Limited and a director of a number of companies in Hong Kong and the United Kingdom. He was appointed as an independent non-executive director of the Company in September, 1997.

Mr. Lee Kwok Cheung, age 52, is a director of Management Capital Limited, a company engaged in the business of direct investment and financial advisory. From 1994 to 1995, Mr. Lee was the chief executive of Polytec Holdings Limited, a textile and real estate group, and from 1991 to 1993, Giordano Holdings Limited. Mr. Lee has over eleven years' experience in banking. He was appointed as an independent non-executive director of the Company in September, 1997.

SENIOR MANAGEMENT

Mr. Lian Fai, Brian, age 31, is the Chief Technical Officer of the Group and is responsible for the planning and strategy in information technology of the Group. He holds a Bachelor of Science degree in computer science from the Washington State University, the USA. Prior to joining the Group in 1998, he had over two years' experience in the information technology industry. He is a son of Mr. Lian Cheng Chi.

Ms. Wan Choi Chun, Dorothy, age 30, is the Finance Director of the Group and is also the Company Secretary. She is responsible for the financial planning and management information system of the Group. She holds a degree in business administration from the Chinese University of Hong Kong. She is a member of the Hong Kong Society of Accountants and the Association of Chartered Certified Accountants. Prior to joining the Group in 1996, she had worked for an international accounting firm in Hong Kong for approximately four years.

Ms. Tang Ka Mei, Mary, age 40, is the General Merchandising Manager of the Group. She holds a higher diploma in fashion and clothing technology from the Hong Kong Polytechnic University. Prior to joining the Group in 1997, she had over fourteen years' experience in the garment industry and has worked for a multinational garment group for over seven years.

Mr. Kwok Chak Man, Bernard, age 34, is the General Merchandising Manager of the Group. He holds a diploma in clothing from the Kwun Tong Technical Institute and a higher certificate in fashion and clothing manufacturing from the Hong Kong Polytechnic University. Prior to joining the Group in 1991, he had over four years' experience in the garment industry.

Ms. Law Yu Yuk, Alexandra, age 35, is the General Merchandising Manager of the Group. She holds a diploma of marketing from the Marketing Confederation Australia. Prior to joining the Group in 1993, she had over five years' experience in the garment industry.

DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

SENIOR MANAGEMENT (continued)

Ms. Li Yuk Fong, Kerly, age 43, is the Operation Control Manager of the Group. She holds an international diploma in computer studies from NCC The National Centre for Information Technology, the United Kingdom and a diploma in management studies awarded jointly by the Hong Kong Polytechnic University and the Hong Kong Management Association. She is an associate member of the Hong Kong Institute of Human Resource Management. Prior to joining the Group in 1990, she had worked in the systems and control field for more than four years.

Ms. Tang Yuen Ping, Gloria, age 42, is the shipping manager of the Group. Prior to joining the Group in 1990, she has worked in the shipping field for over twelve years.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company, its holding companies, its fellow subsidiaries, or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' AND CHIEF EXECUTIVES' BENEFITS FROM RIGHTS TO ACQUIRE SHARES OR DEBENTURES

On 23rd September, 1997, a share option scheme was approved by the shareholders of the Company under which its directors may, at their discretion, invite executive directors and employees of the Company and its subsidiaries to take up options to subscribe for shares in the Company subject to the terms and conditions stipulated therein. During the year, share options exercised by the Company's directors were as follows:

Director	Date of grant	Subscription price per share option	Outstanding number of share options as at 31st March, 2000	Number of share options exercised during the year	Outstanding number of share options as at 31st March, 2001
Wong Tek Sun, Takson	15th April, 1998	HK\$0.30	9,000,000	9,000,000	–
Pang Shu Yuk, Adeline Rita	15th April, 1998	HK\$0.30	9,000,000	9,000,000	–
Lian Cheng Chi	15th April, 1998	HK\$0.30	1,000,000	1,000,000	–
Cheung Man Ki	15th April, 1998	HK\$0.30	2,400,000	2,400,000	–
			<u>21,400,000</u>	<u>21,400,000</u>	<u>–</u>

The options are exercisable from 15th October, 1998 up to 14th October, 2000.

Apart from the aforesaid, at no time during the year was the Company, its holding companies, its fellow subsidiaries or its subsidiaries a party to any arrangement to enable the directors and chief executives or their spouse or children under 18 years of age of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

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DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES OF THE COMPANY AND ASSOCIATED CORPORATIONS

As at 31st March, 2001, the interests of directors, chief executives and their associates of the Company in the shares of the Company or any associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")) as recorded in the register maintained by the Company under Section 29 of the SDI Ordinance or as notified to the Company were as follows:

Name of director	Number of ordinary shares in the Company beneficially held				Total interests
	Personal interests	Family interests	Corporate interests	Other interests	
Wong Tek Sun, Takson	10,018,000	9,000,000	237,600,000 (Note 1)	–	256,618,000
Pang Shu Yuk, Adeline Rita	9,000,000	237,600,000 (Note 1)	–	–	246,600,000
Lian Cheng Chi	9,000,000	10,018,000	–	–	10,018,000
		–	–	–	9,000,000

Note:

- The references to 237,600,000 shares relate to the same block of shares in the Company. Such shares are held by Takson International Holdings Limited, the entire issued share capital of which are held by Wangkin Investments Inc. ("WII") as trustee of the Wangkin Investments Unit Trust (the "Unit Trust"). All issued and outstanding units in the Unit Trust are beneficially held by Guardian Trustee Limited as trustee of the Wang & Kin Family Trust (the "Family Trust"). The discretionary beneficiaries of the Family Trust are, inter alia, Ms. Pang Shu Yuk, Adeline Rita, Mr. Wong Chi Wang, Calvin, and Mr. Wong Chi Kin, Christopher.

Mr. Wong Tek Sun, Takson owns more than one-third of the issued share capital of WII and his children as, inter alia, discretionary beneficiaries of the Family Trust have interests in the share capital of the Company. Accordingly, he is taken to be interested in the 237,600,000 shares in the Company under the SDI Ordinance.

Ms. Pang Shu Yuk, Adeline Rita, by virtue of her husband's interest in the share capital of the Company and her and her children's interests in the share capital of the Company as, inter alia, discretionary beneficiaries of the Family Trust, is deemed to be interested in the 237,600,000 shares in the Company under the SDI Ordinance.

Save as disclosed above, as at 31st March, 2001, none of the directors and chief executives (including their spouse and children under 18 years of age) had any other interests in the shares in or debentures of the Company or of any of its associated corporations (within the meaning of the SDI Ordinance) which had been entered in the register kept by the Company pursuant to Section 29 of the SDI Ordinance.

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that as at 31st March, 2001, the Company had been notified of the following substantial shareholders' interests, being 10% or more of the Company's issued share capital.

Name of substantial shareholders	Number of ordinary shares held
Wangkin Investments Inc. (Note 1)	237,600,000
Takson International Holdings Limited (Note 1)	237,600,000
China Sci-Tech Holdings Limited (Note 2)	71,848,000
Vigor Online Offshore Limited (Note 2)	71,848,000
China Online (Bermuda) Limited (Note 2)	71,848,000
Besford International Limited (Note 2)	71,848,000
Taskwell Limited (Note 2)	71,848,000

Notes:

1. Takson International Holdings Limited is a wholly-owned subsidiary of Wangkin Investments Inc. Therefore, all of these shares are entirely duplicated.
2. Taskwell Limited is a wholly-owned subsidiary of Besford International Limited, which is a company wholly-owned by China Online (Bermuda) Limited. China Sci-Tech Holdings Limited through two of its wholly owned subsidiaries, one of which being Vigor Online Offshore Limited, held more than one-third of the shares in China Online (Bermuda) Limited. Therefore, all of these shares are entirely duplicated.

Save as disclosed herein, as at 31st March, 2001, no other person is recorded in the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance as having an interest in 10% or more of the issued share capital of the Company.

AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Society of Accountants.

The Audit Committee provides an important link between the directors and the Company's auditors in matters coming within the scope of the group audit. It also reviews the effectiveness both of the external audit and of internal controls and risk evaluation. The Committee comprises two independent non-executive directors, namely Mr. Tsao Kwang Yung, Peter and Mr. Lee Kwok Cheung. Two meetings were held during the current financial year.

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PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws and there are no restrictions against such rights under the laws of Bermuda.

MANAGEMENT CONTRACTS

No contracts, other than contracts of service with person engaged in the full-time employment of the Company, concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

PRACTICE NOTE 19 OF THE LISTING RULES

As at 31st March, 2001, the Group had provided advances in an aggregate sum of HK\$1,179,000 to a jointly controlled entity. The financial assistance given to the jointly controlled entity during the year or as at 31st March, 2001, in aggregate, represented less than 25% of the consolidated net assets of the Group at the balance sheet date. Accordingly, no separate disclosure in accordance with the requirements under Practice Note 19 of the Listing Rules is provided.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the year ended 31st March, 2001, except that the independent non-executive directors of the Company are not appointed for specific terms but are subject to retirement by rotation and re-election at the Annual General Meeting in accordance with the Company's Bye-laws.

MAINTENANCE OF PUBLIC FLOAT

The public float of the Company has remained below 25% of the shares in issue since the first announcement dated 10th June, 2000. As at 24th July, 2001, 14.78% of the shares of the Company are held by the public. The controlling shareholder of the Company, Takson International Holdings Limited, is holding 60.00% of the total issued shares of the Company. Another substantial shareholder, China Online (Bermuda) Limited which is holding 18.14% of the total issued shares of the Company is independent of the Company, the directors, chief executives, substantial shareholders of the Company or any of its subsidiaries or an associate of any of them and is not a director, of the Company or any of its subsidiaries or an associate of any of them. The remaining 7.08% of the total issued shares of the Company is held by the directors of the Company. Rule 8.08 of the Listing Rules provides that The Stock Exchange of Hong Kong Limited ("the Stock Exchange") may suspend the trading of shares of the Company if the public float of the shares of the Company falls below the prescribed minimum percentage.

MAINTENANCE OF PUBLIC FLOAT (CONTINUED)

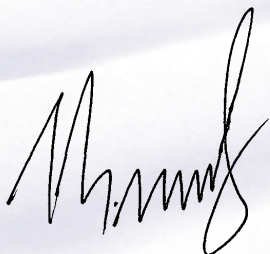
The directors of the Company and its single largest controlling shareholder are taking steps to restore the prescribed public float of the Company. In order to restore the prescribed public float, the Company is still continuing with its negotiations with the two state-owned enterprises in the PRC in respect of possible joint ventures with them which may involve the issue of shares by the Company as acquisition consideration. The parties are still in the negotiation process and no concrete terms have been agreed. It is anticipated that more time is needed for negotiation before the parties enter into any agreement. In addition, the Company had approached a few placing agents and they are of the view that a top-up placing is the most efficient and practicable way to place out shares of the Company in the present market conditions.

The Stock Exchange has granted to the Company an extension of time until 31st July, 2001 to comply with Rule 8.08 of the Listing Rules. The Stock Exchange indicated that based on the present circumstances, no further extension will be granted after 31st July, 2001. The trading of the shares of the Company may have the possibility of being suspended and possibly delisted by the Stock Exchange after the end of July, 2001 in the event that no actual action is taken to restore the public float of the Company on or before then.

AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board



Wong Tek Sun, Takson
Chairman

Hong Kong, 24th July, 2001