

REPORT OF THE DIRECTORS

The directors submit herewith their annual report together with the audited accounts for the year ended 30 June 2001.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are manufacturing, retailing and distribution of apparel.

The analysis of the principal activities and geographical locations of the operations of the Company and its subsidiaries during the financial year are set out in note 3 on the accounts.

SUBSIDIARIES

Particulars of the Company's subsidiaries at 30 June 2001 are set out in note 14 on the accounts.

ACCOUNTS

The loss of the Group for the year ended 30 June 2001 and the state of the Company's and the Group's affairs as at that date are set out in the accounts on pages 17 to 51.

DIVIDENDS AND RESERVES

The directors do not recommend the payment of a dividend (2000: HK\$Nil) for the year ended 30 June 2001.

Movements in reserves during the year are set out in note 22 on the accounts.

MAJOR CUSTOMERS AND SUPPLIERS

The Group's five largest customers combined did not exceed 30 per cent of the Group's total turnover for the year ended 30 June 2001.

The Group's five largest suppliers combined did not exceed 30 per cent of the Group's total purchases for the year ended 30 June 2001.

CHARITABLE DONATIONS

No donation was made by the Group during the year (2000: HK\$Nil).

FIXED ASSETS

Additions to the Group's fixed assets for the year amounted to HK\$12,948,000 (2000: HK\$7,982,000). Details of additions to and other movements of fixed assets during the year are set out in note 11 on the accounts.

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BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at 30 June 2001 are set out in note 19 on the accounts.

SHARE CAPITAL

Details of the increase in share capital of the Company during the year are set out in note 21 on the accounts. Shares were issued during the year to raise funds for repayment of the Group's bank loans and general working capital of the Group.

DIRECTORS

The directors during the financial year and up to date of this report were:

Executive Directors

Tan Sim Chew, *Chairman*

Chen Miao Zhu, *Managing Director*

Lo King Fat, *Lawrence*

Fu Zi Cong

Non-executive Directors

Yeung Jason Chi Wai

Yu Chor Woon, *Carol*

In accordance with article 116 of the Company's articles of association, Yeung Jason Chi Wai and Yu Chor Woon, Carol shall retire from the board by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

The biographical details of directors are set out in pages 7 to 8.

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DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

The service contracts of the existing independent non-executive directors were renewed for a term of 3 years commencing on 22 March 2000. Their remuneration is determined by the board of directors on the anniversary of the date of their appointment.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

The directors of the Company who held office at 30 June 2001 had the following interests in the issued share capital of the Company (within the meaning of the Securities (Disclosure of Interests) Ordinance) at that date as recorded in the register of directors' share interests:

	Ordinary shares of HK\$0.10 each	
	Personal interest	Corporate interest
Tan Sim Chew	54,050,226	71,515,000 *
Chen Miao Zhu	6,500,000	71,515,000 *
Fu Zi Cong	574,000	—

* Tan Sim Chew and Chen Miao Zhu are beneficial shareholders of 60 per cent and 40 per cent respectively of the issued share capital of Crimson International Limited which owned 71,515,000 shares in the Company at 30 June 2001.

Pursuant to a written resolution passed on 5 May 1997, a Share Option Scheme for employees was approved and the directors may, at their discretion, invite any employees or directors of the Group, to take up options to subscribe for shares of the Company at a price to be determined by the Board which will not be less than 80 per cent of the average closing prices of the shares of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the five trading days immediately preceding the date of offer of the option or the nominal value of the shares, whichever is the higher. To comply with the relevant new rules of the Stock Exchange, which came into effect from 1 September 2001, options will be granted in the future at a price determined by the Board which will be the higher of

- (i) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet on the date of grant; and
- (ii) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant.

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DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES (continued)

The maximum number of shares in respect of which options may be granted (together with shares in respect of which any options remain outstanding) under the Share Option Scheme of the Company may not exceed 10 per cent of the issued share capital of the Company from time to time, excluding for this purpose shares issued on exercise of options granted pursuant to the Share Option Scheme.

At 30 June 2001, the directors and a senior executive had the following personal interests in options to subscribe for shares of the Company granted at nominal consideration. Each share option entitles the holder to subscribe for one share of HK\$0.10 each in the Company.

	No. of options outstanding at the year end	Date granted	Period during which options exercisable	Subscription price per share
Directors				
Tan Sim Chew	6,611,000	23 February 2000	23 August 2000 to 23 August 2003	0.4496
	2,700,000	31 January 2001	31 July 2001 to 30 June 2004	0.16
Chen Miao Zhu	6,611,000	23 February 2000	23 August 2000 to 23 August 2003	0.4496
	2,700,000	31 January 2001	31 July 2001 to 30 June 2004	0.16
Lo King Fat, Lawrence	1,900,000	31 January 2001	31 July 2001 to 30 June 2004	0.16
Fu Zi Cong	6,611,000	23 February 2000	23 August 2000 to 23 August 2003	0.4496
	2,500,000	31 January 2001	31 July 2001 to 30 June 2004	0.16
Senior Executive				
Chan Yiu Kuen, Holfred	1,400,000	31 January 2001	31 July 2001 to 30 June 2004	0.16

No share options have been exercised during the year.

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DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES *(continued)*

Save as disclosed herein and for shares in subsidiaries held by directors in trust for their immediate holding companies, as at 30 June 2001, none of the directors or chief executive of the Company had any interest in the equity or debt securities of the Company or any of its associated corporations (within the meaning of the SDI Ordinance) as recorded in the register required to be kept under section 29 of the SDI Ordinance.

Apart from the foregoing, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors or chief executive of the Company or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 30 June 2001, according to the register of interests kept by the Company under section 16(1) of the SDI Ordinance, the shareholders who were interested in 10 per cent or more of the share capital of the Company are as follows:

	Ordinary shares held	Percentage of total issued shares
Tan Sim Chew <i>(note)</i>	125,565,276	15.66

Note: Tan Sim Chew is beneficial shareholder of 60 per cent of the issued share capital of Crimson International Limited which owned 71,515,000 shares in the Company at 30 June 2001.

DIRECTORS' INTERESTS IN CONTRACTS

As at 30 June 2001, the Group had bank loans totalling HK\$3,774,000 (2000: HK\$3,774,000) secured by the personal properties in Mainland China owned by Chen Miao Zhu and the land use rights in respect of a piece of land in Mainland China owned by Tan Sim Chew.

Except for the above, no other contracts of significance, to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

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PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor its subsidiaries repurchased, sold or redeemed any of the Company's listed securities during the year.

FIVE YEAR 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 52 of the annual report.

PRE-EMPTIVE RIGHTS

There are no provision for pre-emptive rights under the Company's articles of association although there are no restrictions against such rights under Companies Law in the Cayman Islands.

PENSION SCHEMES

With effect from 1 December 2000, the Group implements the Mandatory Provident Fund schemes for its employees in Hong Kong, under which the Group is required to make contributions at 5 per cent of the relevant Hong Kong employees' salaries to the scheme.

Contributions during the year totalled approximately HK\$32,000 (2000: HK\$Nil).

All PRC employees of the Group were recruited via the Xiamen Labour Services Company ("XLSC"). According to the terms of contracts, the Group is required to pay approximately HK\$28 per month for each employee to XLSC. In return, XLSC undertakes the responsibility of the retirement benefits payable to these employees. The Group does not have any liability to retirement benefits of PRC employees other than the monthly payment to XLSC. Contributions paid to XLSC in respect of retirement benefits of Mainland China employees during the year ended 30 June 2001 totalled approximately HK\$269,000 (2000: HK\$269,000).

COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Company has complied throughout the year with the Code of Best Practice as set out by The Stock Exchange of Hong Kong Limited in Appendix 14 to the Listing Rules.

AUDIT COMMITTEE

To comply with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited, the Company set up an audit committee ("Committee") with written terms of reference, for the purpose of reviewing and providing supervision on the financial reporting process and internal control of the Group. The Committee comprises two independent non-executive directors.

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AUDITORS

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming annual general meeting.

By order of the Board

Tan Sim Chew

Chairman

Hong Kong, 5 October, 2001