

# Chairman's Statement

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 2002.

## RESULTS

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During the year ended 31 March 2002, the Group's turnover increased by 19% to HK\$170.5 million (2001: HK\$143.6 million) as compared to that of last year. The increase in turnover was largely due to (i) the commencement of sales of properties located in Tianjin, PRC; and (ii) the consolidation of the results of new business acquired during the year. The cumulative effect of the two factors more than set off the decrease in turnover for the existing garments business which shifted from retail to wholesale operations during the year.

Gross profit for the year ended 31 March 2002 decreased by 30% to HK\$37.5 million (2001: HK\$53.9 million) as compared to that of last year. The decrease in gross profit was due to lower gross profit margin for properties trading business and the new business acquired during the year. It was also due to the lower gross profit margin with the wholesale customers as compared to the retail customers for garments business. However, total selling and distribution cost for the year ended 31 March 2002 was reduced by 69% to HK\$20.9 million (2001: HK\$66.4 million) as compared to that of last year.

As a result, the net loss attributable to shareholders decreased by 10% to HK\$37.6 million (2001: HK\$41.8 million). Basic loss per share for the year decreased by 50% to HK0.2 cent per share (2001: HK0.4 cent per share).

## DIVIDENDS

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The directors do not recommend the payment of any dividend for the year ended 31 March 2002.

## BUSINESS REVIEW

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### Garments and leatherware businesses

The Group continues to market its leather and non-leather garments with its two major brands, the high-end "GIOVANNI VALENTINO (Italy)" brand and the mid-end "DENNY" brand.

To improve sales management and operational efficiency, the Group segregated the PRC markets into different regions and appointed an authorized distributor in each region during the second quarter of 2001. The authorized distributor in each region manages its sales outlets within the region.

As a result of the shifting from retail to wholesale operation, both gross profit margin and selling and distribution costs were decreased in the garments business during the year.

The leatherware products was new business acquired during the year, which started to contribute to the results of the Group in the second half of the year.

# Chairman's Statement

## **BUSINESS REVIEW** (Continued)

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### **Properties trading**

The construction of the property located in Tianjin, PRC was completed. Sale of property units has been started with a revenue of HK\$50 million during the year.

### **Leather materials**

The leather materials business was acquired during the year and was involved in the trading and processing of raw leather materials.

## **LIQUIDITY AND FINANCIAL RESOURCES**

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During the year under review, there is no significant change in the capital and loan structure of the Group.

The Group generally finances its operations with internally generated cashflows during the year under review. As disclosed in note 19 to the financial statements, the outstanding secured bank loan of a subsidiary at the beginning of the year was disposed of as a result of disposal of that subsidiary.

The Group's gearing ratio as at 31 March 2002 was nil (2001: 2.1 %) based on the total secured bank loan of nil amount (2001: HK\$3.2 million) and the shareholders' fund of HK\$112.6 million (2001: HK\$ 150.2 million).

The operating cash flows of the Group is mainly denominated in HK\$, RMB and US\$. The directors consider these currencies relatively stable and therefore the Group's exposure to fluctuations in exchange rates is minimal.

## **CONTINGENT LIABILITIES**

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As at 31 March 2002, the Group had no significant contingent liabilities (2001: Nil).

## **PROSPECTS**

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The directors believe that the shift from retail to a wholesale operation in the garments business will help improve the Group's operational efficiency and reduce the inventory exposure in over-stocking and obsolescence, and will therefore improve the results of this business in the long run. The acquisition of the leatherware products business and leather materials business will complement the existing business activities and provides synergy and economies of scale effects to the Group.

The sale of properties located in Tianjin, PRC will continue to generate cash inflow for the Group in the forthcoming year. The directors believe that the experience with this project will help evaluating other prospective property projects in future.

# Chairman's Statement

## PROSPECTS (Continued)

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As further set out in note 26 to the financial statements, the Group acquired the entire issued share capital of Cheuk Yiu Investment Limited ("Cheuk Yiu") subsequent to 31 March 2002 for a total consideration of HK\$36 million. The funds required for the acquisition will be sourced from internal financial resources of the Group.

Cheuk Yiu's only asset is its 60% interest in Chang Yang Resources Limited, a company incorporated in Hong Kong with its principal activities consisting of iron ore trading and investment holding. The directors consider that the acquisition represents a good opportunity for the Group to acquire a well-established business in an iron ore trading business. It also allows the Group to expand its business into another line of business and to broaden the earnings base of the Group.

## EMPLOYEES AND REMUNERATION POLICIES

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As at 31 March 2002, the Group employed approximately 250 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 medical schemes and performance related bonuses. In addition, share options may be granted to eligible employees in accordance to the terms of the Company's share option scheme.

## CONCLUSION

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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  
26 July 2002