
Report of the Directors

The directors herein present their report and the audited financial statements of the Company for the period from 2 February 2000 (date of incorporation) to 31 December 2000 and the financial statements of the Group for the year ended 31 December 2000.

GROUP REORGANISATION AND BASIS OF PRESENTATION

The Company was incorporated in Bermuda on 2 February 2000 as an exempted company with limited liability under the Companies Act 1981 of Bermuda. Pursuant to a Group reorganisation scheme to rationalise the Group structure in preparation for the public listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company acquired Rhys Trading Ltd., the then holding company of the principal subsidiaries listed in note 28 to the financial statements, on 16 November 2000 and became the holding company of the Group. Further details of the Group reorganisation are set out in notes 1 and 20 to the financial statements and in the Company's prospectus dated 28 November 2000.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 28 to the financial statement.

SEGMENTAL INFORMATION

The Group's turnover and contribution to operating profit are derived predominantly from the manufacture and sales of headwear products.

An analysis of the Group's turnover by geographical market for the year ended 31 December 2000 is as follows:

| | <i>HK\$'000</i> |
|-----------|-----------------|
| US | 212,313 |
| Europe | 20,572 |
| Hong Kong | 882 |
| Others | 8,815 |
| | 242,582 |

An analysis of contribution to profit from ordinary activities before taxation by geographical market has not been presented as the ratio of contribution to profit from ordinary activities before taxation to turnover for each individual geographical market is substantially in line with the overall group ratio.

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MAJORS CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 74% of the total sales for the year and sales to the Group's largest customer accounted for approximately 34% of the Group's sales for the year.



Customer's Inspection

Purchases from the Group's five largest suppliers accounted for approximately 74% of the total purchases for the year and purchases from the Group's largest supplier accounted for approximately 29% of the Group's purchases for the year.

RESULTS AND DIVIDENDS



Blocking Unit

The results of the Group for the year ended 31 December 2000 are set out in the consolidated income statement on page 21.

As stated in the Company's prospectus dated 28 November 2000, a special dividend of HK\$8,000,000 were paid by a subsidiary of the Group to its then shareholders prior to the Group reorganisation described in note 1 to the financial statements.

The directors recommend the payment of a final dividend of HK4.5 cents per share in respect of the year to shareholders whose names appear on the register of members of the Company on 4 May 2001, amounting to HK\$10,800,000.

FINANCIAL SUMMARY

A summary of the results of the Group for the past financial years ended 31 December 2000 is set out on page 48 of the annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of significant changes in the Group's property, plant and equipment during the year are set out in note 12 to the financial statements.



Cap Assembly

Report of the Directors



Digitizing Embroidery

SUBSIDIARIES AND ASSOCIATES

Particulars of the Company's principal subsidiaries and associates are set out in note 28 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 20 to the financial statements.

RESERVES

Details of movements during the year in the reserves for the Group and the Company are set out in note 22 to the financial statements.

DONATIONS

Charitable and other donations made by the Group during the year amounted to HK\$500,000.

DIRECTORS

The directors who held office during the year and up to the date of this report were:

Executive directors:

| | |
|-----------------------|------------------------------|
| Ngan Hei Keung | (appointed on 6 March 2000) |
| Ngan Po Ling, Pauline | (appointed on 6 March 2000) |
| Chau King Nui, Helen | (appointed on 14 March 2000) |
| Lai Man Sing | (appointed on 14 March 2000) |

Independent non-executive directors:

| | |
|------------------------|------------------------------|
| Gordon Ng | (appointed on 14 March 2000) |
| Leung Shu Yin, William | (appointed on 14 March 2000) |

In accordance with Clauses 87 of the Company's Bye-laws, Mr. Lai Man Sing retires at the forthcoming annual general meeting and, being eligible, offers himself for re-election at the forthcoming annual general meeting of the Company. All other remaining directors continue in office.

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DIRECTORS' SERVICE CONTRACTS



*Team work with Ms Pam Volner,
Nike's Certified Auditor for
technical skill exchange*

Each of the executive directors has entered into a service contract with the Company for an initial fixed term of three years commencing from 1 June 2000, which will continue thereafter until terminated in accordance with the relevant clause of the service contract.

Save as disclosed above, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 27 to the financial statements and in the section "Connected transactions" below, no director had any direct or indirect 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 during the year.

CONNECTED TRANSACTIONS

- (a) On 15 February 2000, the Group entered into a tenancy agreement with Mainland Sewing Mills Company Limited, a company indirectly and beneficially owned by Mr. Ngan Hei Keung ("Mr. Ngan") and controlled by Mr. Ngan and Mrs. Ngan Po Ling, Pauline ("Mrs. Ngan"), to lease an office space situated in Kowloon Bay, Hong Kong for an initial term of three years commencing from 1 January 2000 to 31 December 2002 at a monthly rent of \$110,000 (exclusive of government rent, rates and management fees) with an option thereafter to renew for a further term of three years at market rent to be determined by an independent property valuer. The office space has a saleable area of approximately 443.1 sq.m.. The rental has been confirmed by LCH (Asia-Pacific) Surveyors Limited, an independent property valuer, as representing the prevailing market rental of such premises in similar location as at 31 March 2000.
- (b) On 15 February 2000, the Group entered into a tenancy agreement with Mr. Ngan and Mrs. Ngan to lease the warehouses situated in Kowloon Bay, Hong Kong for an initial term of three years commencing from 1 January 2000 at a monthly rent of \$25,000 (exclusive of government rent, rates and management fees). The leased warehouses have a total saleable area of approximately 230.5 sq.m.. The rental has been confirmed by LCH (Asia-Pacific) Surveyors Limited, an independent property valuer, as representing the prevailing market rental of such premises in similar location as at 31 March 2000.

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DIRECTORS' INTERESTS IN SHARES

As at 31 December 2000, the directors, chief executives and their associates had the following interests in the share capital of the Company or any of its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) which require notification pursuant to Section 28 of the SDI Ordinance or the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") or as recorded in the register maintained pursuant to Section 29 of the SDI Ordinance:—



The newly established knitted hat assembly

| | Number of shares beneficially held | | | |
|---------------------------------------|------------------------------------|---------------------|------------------|-----------------|
| | Personal interests | Corporate interests | Family interests | Other Interests |
| Ngan Hei Keung (<i>note</i>) | — | — | — | 180,000,000 |
| Ngan Po Ling, Pauline (<i>note</i>) | — | — | — | 180,000,000 |

Note: The shares are legally and beneficially owned by Successful Years International Co., Ltd., a company ultimately and beneficially owned by NHK Trust and NPL Trust as to 40% and 60% respectively. These two trusts are discretionary family trusts settled by Mr. Ngan Hei Keung and the discretionary beneficiaries include Mr. Ngan Hei Keung, Mrs. Ngan Po Ling, Pauline and their family members.

DIRECTORS' RIGHTS TO ACQUIRE SHARE OR DEBENTURE

Apart from the terms in connection with the Group Reorganisation in preparation for the Company's initial public offering, at no time during the period was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.



Digitized Embroidery Unit

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SUBSTANTIAL SHAREHOLDERS

At the date of this report, the following interests of 10% or more of the 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.

| | Number of shares | Percentage of holding |
|---|------------------|-----------------------|
| Successful Years International Co., Ltd. (note) | 180,000,000 | 75% |

Note: Successful Years International Co., Ltd. is owned by NHK Trust and NPL Trust as to 40% and 60% respectively. These two trusts are discretionary family trusts settled by Mr. Ngan Hei Keung and the discretionary beneficiaries include Mr. Ngan Hei Kueng, Mrs. Ngan Po Ling, Pauline and their family members.

PRE-EMPTIVE RIGHTS



Digitizing Unit

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 existing shareholders.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the period.

YEAR 2000 ISSUE

The Group has completed a comprehensive review of the implications of the Year 2000 issue for the Group and is satisfied that all computer applications and office equipment used by the Group are Year 2000 compliant.



Management Team

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AUDIT COMMITTEE

The Company has established an audit committee in accordance with paragraph 14 of the Code of Best Practice. The audit committee was established on 16 November 2000 and, accordingly was not established for the entire accounting year ended 31 December 2000.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

Throughout the period, the Company was in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange.

USE OF PROCEEDS

The net proceeds raised from the initial public offering of 60,000,000 shares of the Company, after deduction of related expenses, amounted to HK\$47,000,000 and have been applied as follows:

| | Original planned <i>HK\$ million</i> | Amount utilised up to 31 December 2000 <i>HK\$ million</i> |
|---|--|--|
| – Acquisition of plant and machinery for the expansion of the Group's production facilities | 25 | 11 |
| – Acquisition of digitised embroidery machinery | 10 | 10 |
| – Additional working capital | 12 | 12 |
| | 47 | 33 |

The balance of unused proceeds was placed as short term Hong Kong Dollar fixed deposits as at the end of the year and will be used to finance the Group's future purchase of plant and machinery, as and when required; and as additional working capital for the Group.

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AUDITORS

Messrs. Moores Rowland, *Chartered Accountants, Certified Public Accountants*, have acted as auditors of the Company since its incorporation.

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Moores Rowland, *Chartered Accountants, Certified Public Accountants*, as auditors of the Company.

On behalf of the Board

Ngan Hei Keung
Chairman

Hong Kong
2 April 2001