

Chairman's Statement

I am pleased to present the 2000 annual report and the audited consolidated results of Gemzboh Holdings Limited (the "Company") together with its subsidiaries (the "Group") for the year ended 31 December 2000.

Results for the Year

The Group's turnover for the year ended 31 December 2000 were approximately HK\$153.4 million. Net loss from ordinary activities attributable to shareholders for the year 2000 amounted to approximately HK\$25.3 million. Loss per share amounted to HK1.0 cent.

Business Review

During the year ended 31 December 2000, the decrease in the Group's turnover by 23% from previous year was mainly due to the continuous and keen competition in the casual wear retail market in the People's Republic of China (the "PRC"). During the year, the Group has to reduce the selling prices of the Group's products in order to remain competitive in the market, hence the gross profit margin of the Group's products decreased substantially from 25% to 5%. In addition, provisions for bad and doubtful debts of approximately HK\$8.8 million during the year contributed a considerable part of the Group's net loss for the year.

In September 2000, the Company ceased the negotiations with Chinese parties on the setting up of a joint venture in the PRC for the development and manufacturing of nano-structural ceramic products for industrial use as the parties to the proposed joint venture could not reach an agreement on certain principal terms.

Liquidity and Financial Resources

The Group maintains a healthy financial position. At 31 December 2000, the Group had a current ratio of 3.3 (1999: 3.1) with cash and cash equivalents totalling HK\$31.7 million (1999: HK\$56.2 million).

At 31 December 2000, the Group's leasehold land and buildings with carrying values of approximately HK\$2.7 million (1999: HK\$2.7 million) and HK\$12.9 million (1999: HK\$13.2 million) held in Hong Kong and the PRC, respectively, were pledged to secure certain banking facilities granted to the Group.

The Company has given guarantees in favour of certain banks to the extent of HK\$7.7 million (1999: HK\$7.7 million) in respect of banking facilities granted to certain subsidiaries of the Company. At 31 December 2000, the subsidiaries did not utilise any banking facilities (1999: HK\$0.6 million).

Outlook

The directors believes that the competition in the PRC's casual wear market for the year 2001 will continue to be severe, both from local and foreign brand products. Joining the WTO, the PRC government will continue its policies to open the market for foreign products progressively. It is expected that new foreign brand products will render significant challenge to the existing brand products in the PRC.

The Group will review its marketing strategy carefully and frequently according to the market changes. Additional resources will be placed on the product design and promotion activities in order to maintain the competitiveness of the Group's products.

Application of Proceeds

Applications of Proceeds of New Issue

The Group raised approximately HK\$31.5 million, net of related expenses, from the issue of 40 million new shares at HK\$1.00 per share in connection with the listing of the Company's shares on the Stock Exchange on 17 June 1998. At 31 December 2000, the net proceeds have been applied as follows:

- as to approximately HK\$12 million, to set up 12 outlets in 8 provinces in the PRC;
- as to approximately HK\$5 million, to expand the Group's product range including sport apparel and ladies' apparel; and
- as to approximately HK\$6.5 million, for the general working capital requirements of the Group.

The balance of the proceeds of approximately HK\$8 million, which has been placed in bank accounts, will be applied to set up 8 outlets in the PRC.

Applications of Proceeds of Placement and Subscription of New Shares

The Group also raised approximately HK\$34.9 million, net of related expenses, from the issue of 100 million new shares of the Company at HK\$0.36 per share under a subscription and placement arrangement in December 1999.

HK\$16.1 million of the net proceeds have been applied for general working capital of the Group in 1999. The balance of the proceeds of approximately HK\$18.8 million is intended to be applied to the Group's contribution to the registered capital of a proposed joint venture (the "Proposed JV") in the PRC for the development and manufacturing of nano-structural ceramic products. In September 2000, as the parties to the Proposed JV could not reach an agreement on certain principal terms of the Proposed JV, negotiations on the setting up of the Proposed JV ceased. Approximately HK\$1.8 million of the proceeds has been incurred by the Company in relation to the setting up of the Proposed JV. The remaining balance of the proceeds of approximately HK\$17 million has been applied as the general working capital of the Group.

Appreciation

I would like to take this opportunity to express my sincere appreciation to the dedication of the management and staff and to all shareholders, suppliers, customers and bankers for their continuing support to the Group in the past year.

Tsoi Kwing Ming

Chairman

Hong Kong, 25 April 2001