

# Report of the Directors

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2000.

## Principal activities

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 14 to the financial statements. There were no changes in the nature of the Group's principal activities during the year.

## Segmental information

The Group's turnover and contribution to the profit from operating activities were all derived from the manufacture and sale of apparel to the People's Republic of China (the "PRC").

## Results and dividends

The Group's loss for the year ended 31 December 2000 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 16 to 49.

The directors do not recommend the payment of any dividend in respect of the year.

## Summary financial information

A summary of the consolidated/pro forma combined results and of the assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements, is set out below:

	Year ended 31 December				
	2000	1999	1998	1997	1996
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER	153,445	198,448	214,374	162,339	120,263
(LOSS)/PROFIT FROM OPERATING ACTIVITIES	(22,457)	26,289	49,414	39,475	31,936
Finance costs	(2,093)	(2,674)	(4,512)	(6,327)	(7,169)
(LOSS)/PROFIT BEFORE TAX	(24,550)	23,615	44,902	33,148	24,767
Tax	(730)	(3,227)	(5,014)	(4,052)	(2,996)
NET (LOSS)/PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	(25,280)	20,388	39,888	29,096	21,771

**Summary financial information** (continued)

## ASSETS AND LIABILITIES

	2000	1999	1998	1997
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
FIXED ASSETS	29,957	33,465	27,264	23,464
INVESTMENT PROPERTIES	4,000	4,020	4,700	7,241
CURRENT ASSETS	141,011	178,869	142,007	96,522
<b>TOTAL ASSETS</b>	<b>174,968</b>	<b>216,354</b>	<b>173,971</b>	<b>127,227</b>
CURRENT LIABILITIES	42,605	58,578	71,309	77,179
LONG TERM PORTION OF FINANCE LEASE PAYABLE	137	319	–	–
<b>TOTAL LIABILITIES</b>	<b>42,742</b>	<b>58,897</b>	<b>71,309</b>	<b>77,179</b>
<b>NET ASSETS</b>	<b>132,226</b>	<b>157,457</b>	<b>102,662</b>	<b>50,048</b>

*Notes:*

1. The summary of the pro forma combined results of the Group for the year ended 31 December 1997 has been extracted from the Company's prospectus dated 3 June 1998. The summaries were prepared from the audited financial statements of the companies now comprising the Group, after appropriate adjustments and reclassifications, as if the current structure of the Group had been in existence throughout these financial years. The results of the Group for the three years ended 31 December 2000 are extracted from the published audited financial statements of the Group.
2. To date, the only audited consolidated/pro forma combined balance sheets of the Group prepared are those as at 31 December 1997, 1998, 1999 and 2000. The Group's consolidated balance sheets as at 31 December 1999 and 2000 are those set out on page 18 of the financial statements.

**Fixed assets and investment property**

Details of movements in the fixed assets and investment property of the Group are set out in notes 12 and 13 to the financial statements, respectively.

**Subsidiaries**

Particulars of the Company's principal subsidiaries are set out in note 14 to the financial statements.

**Bank overdrafts, loans and other borrowings**

Details of the Group's borrowings at the balance sheet date are set out in notes 18, 20 and 21 to the financial statements.

**Share capital and share options**

Details of movements in the Company's share capital and details of the Company's share options during the year, together with the reasons therefor, are set out in note 22 to the financial statements.

**Reserves**

Details of movements in the reserves of the Company and the Group during the year are set out in note 23 to the financial statements.

**Distributable reserves**

At 31 December 2000, the Company's reserves available for cash distribution and/or distribution in specie amounted to approximately HK\$63,780,000 as computed in accordance with the Companies Act 1981 of Bermuda. In addition, under the laws of Bermuda, the Company's share premium account, with a balance of approximately HK\$41,771,000 as at 31 December 2000, may be distributed in the form of fully paid bonus shares.

**Pre-emptive rights**

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.

**Major customers and suppliers**

During the year, sales to the Group's five largest customers accounted for 52% of the total sales for the year and the sales to the largest customer included therein amounted to 12%.

Purchases from the Group's five largest suppliers accounted for 34% of the total purchases for the year and the purchases from the largest supplier included therein amounted to 9%.

None of the directors of the Company, any of their associates or any shareholders (which, to the best knowledge of the directors own more than 5% of the Company's issued share capital), had any beneficial interest in the Group's five largest customers or five largest suppliers.

**Directors**

The directors of the Company during the year and up to the date of this report were as follows:

**Executive directors**

Mr. Tsoi Kwing Ming

Mr. Leung Kam Pui

Mr. Li Chak Hung

**Independent non-executive directors**

Mr. Sze Kin Sun

Mr. Wong Ming Yeung (appointed on 10 November 2000)

Mr. Sze Chi Ching (resigned on 23 April 2001)

Mr. Yuen Philip Pak Yiu (resigned on 21 April 2001)

Mr. Wang Ya Nan (resigned on 10 November 2000)

In accordance with clauses 86(2) and 87(1) of the Company's bye-laws, Mr. Leung Kam Pui and Mr. Wong Ming Yeung will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

Independent non-executive directors are not appointed for specific terms as all of the directors, without limitation to independent non-executive directors, are subject to retirement by rotation and re-election at the annual general meeting, in accordance with the Company's bye-laws.

**Remuneration of directors and the five highest paid employees**

Details of the directors' remuneration and that of the five highest paid employees in the Group are set out in notes 5 and 6 to the financial statements, respectively.

**Directors' service contracts**

Each of the executive directors has entered into a service contract with the Company for a term of three years commencing from 1 June 1998, which is subject to termination by the Company giving not less than three months' notice in writing.

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

**Directors' interests in shares**

At 31 December 2000, the interests of the director in the share capital of the Company or its associated corporation, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), were as follows:

**(a) Interest in the Company**

Name of director	Corporate interest
Mr. Tsoi Kwing Ming	1,800,000,000

*Note:* These shares are owned by Regal China Development Limited, a company incorporated in the British Virgin Islands. The entire issued share capital of Regal China Development Limited is owned by Mr. Tsoi Kwing Ming.

**(b) Interest in an associated corporation**

As mentioned above, Mr. Tsoi Kwing Ming beneficially owns all 150,000 ordinary shares of Regal China Development Limited, the Company's ultimate holding company.

Save as disclosed above, none of the directors, chief executives or their associates had any interest in the share capital of the Company or any of its associated corporations, as defined in the SDI Ordinance.

### Directors' rights to acquire shares

Pursuant to the Company's share option scheme, the following options were granted to the following directors during the year, at a cash consideration of HK\$1 per grantee, to subscribe for ordinary shares of the Company at a subscription price of HK\$0.133 per share. Such options have the following exercise periods and remained outstanding at the date of this report.

Director	Number of options	Exercise period
Mr. Tsoi Kwing Ming	14,000,000	2 March 2000 to 2 February 2003
Mr. Leung Kam Pui	10,000,000	2 March 2000 to 2 February 2003
Mr. Li Chak Hung	10,000,000	2 March 2000 to 2 February 2003

Save as disclosed above, at no time during the year was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the Company's directors, their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Further details of the Company's share option scheme are set out in note 22 to the financial statements.

### Directors' interests in contracts

No directors had a significant beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries was a party during the year.

### Biographical details of the directors of the Company and senior management of the Group

#### Executive directors

*Mr. Tsoi Kwing Ming*, aged 37, is the Chairman and Managing Director of the Company and the founder of the Group. Mr. Tsoi is a senior economist, a title granted by the Personnel Department of Fujian Province. He is responsible for the Group's overall strategic planning and formulation of corporate policies and also oversees the sales and marketing activities of the Group. Mr. Tsoi has more than 17 years of experience in the manufacturing and sale of apparel. Mr. Tsoi is presently the Vice-Chairman of the Shishi City Foreign Investors Association and is a member of the Shishi City Chinese People's Political Consultative Committee.

**Biographical details of the directors of the Company and senior management of the Group** (continued)**Executive directors** (continued)

*Mr. Leung Kam Pui*, aged 47, is the Deputy Chairman of the Company. He is responsible for the Group's production and marketing activities. He has more than 26 years of experience in the manufacturing and sale of apparel and joined the Group in August 1991. He received an intermediate technician certificate in garment production from The Hong Kong Polytechnic University in 1975.

*Mr. Li Chak Hung*, aged 36, is an Executive Director and the Company Secretary of the Company. He is responsible for the Group's corporate finance and accounting matters. He holds a bachelor's degree in business administration from The Chinese University of Hong Kong. He is also a fellow member of The Association of Chartered Certified Accountants and an associate member of The Hong Kong Society of Accountants.

**Independent non-executive directors**

*Mr. Sze Kin Sun*, aged 35, is an independent Non-Executive Director. Mr. Sze is the Chairman of Kin Sun Holdings Limited, President of Kin Len Holdings (Fu Jian) Limited, and a member of the Fujian committee of the Chinese People Political Consultative Conference.

*Mr. Wong Ming Yeung*, aged 44 is an independent Non-Executive Director. He was appointed as the independent Non-Executive Director of the Company on 10 November 2000. Mr. Wong is the Chairman of Wang Jen Sen Co. Group, the Vice-Chairman of Shishi City Commerce Association and is a member of Shishi City Chinese People's Political Consultative Committee.

*Mr. Sze Chi Ching*, aged 61, is an independent Non-Executive Director of the Company. Mr. Sze is the Chairman of Hang Tung Resources Holding Limited, a member of the National Committee of the Chinese People's Political Consultative Conference, and an executive member of the Fujian Committee of the Chinese People's Political Consultative Conference. Mr. Sze resigned as the independent Non-Executive Director of the Company on 23 April 2001.

*Mr. Yuen Philip Pak Yiu*, aged 65, is an independent non-executive director of the Company. He graduated from the Law School of London, England in 1961 and became a legal practitioner in Hong Kong in 1962. Mr. Yuen has more than 33 years of experience in the legal field and has been a director of a number of listed companies. He is a director of the Association of China-appointed Attesting Officers Limited in Hong Kong, a standing committee member of The Chinese General Chamber of Commerce of Hong Kong, a member of The National Committee of the Chinese People's Political Consultative Conference, and an arbitrator of the China International Economic & Trade Arbitration Commission. Mr. Yuen resigned as the independent Non-Executive Director of the Company on 21 April 2001.

**Biographical details of the directors of the Company and senior management of the Group** (continued)**Independent non-executive directors** (continued)

*Mr. Wang Ya Nan*, aged 43, is an independent Non-Executive Director of the Company. He is the Chairman of Tong Da General Holdings (Hong Kong) Limited, Managing Director of China Pharmaceutical Group (Hong Kong) Limited, and a member of the Fujian Quanzhou Committee of the Chinese People Political Consultative Conference. On 10 November 2000, he resigned as an independent Non-Executive Director of the Company.

**Senior management**

*Mr. Cai Tian Bao*, aged 56, is the General Manager of Explorer Enterprises Garment Co., Ltd., in Shishi City and is responsible for the administration of the Company. Mr Cai has more than 15 years of experience in administration. He joined the Group in 1988.

*Madam Sen Jian Wen*, aged 44, is the Planning Manager of the Group. She primarily assists Mr. Leung Kam Pui in the planning of the Group's production and marketing activities. She joined the Group in July 1995.

*Mr. Zhong Jia Qi*, aged 33, is the Marketing Manager of the Group and is responsible for the marketing activities of the Group's products. He joined the Group in August 1993.

*Ms. Liu Chun Yen*, aged 40, is the Marketing Manager of the Group and is responsible for the marketing activities of the products under the brand names of Shitelan and Nibbio. Ms. Liu has more than 20 years of experience in garment manufacturing. Ms Liu left the Group in April 2001.

*Mr. Wang An Min*, aged 49, is the Financial Manager of the Group. He assists in the accounting and financial control functions of the Group in the PRC. He graduated from the Fujian Economic Officers Administration Institute and joined the Group in June 1992. Mr. Wang has more than 28 years of accounting and financial control experience.



### Substantial shareholders

At 31 December 2000, the following interest of 10% or more of the share capital of the Company was recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	Number of shares held	Percentage of holding
Regal China Development Limited	1,800,000,000	72%

Save as disclosed above, no persons, other than the directors of the Company, whose interests are set out above, had registered an interest in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

### Purchase, redemption or sale of listed securities

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

### Code of Best Practice

In the opinion of the directors, the Company complied with the Code of Best Practices (the "Code"), as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, throughout the accounting period covered by the annual report, except that the independent non-executive directors of the Company are not appointed for specific terms. The Company established an audit committee in 1999 in accordance with the Code.

### Auditors

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

**Tsoi Kwing Ming**

*Chairman*

Hong Kong

25 April 2001