

report of the directors

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

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries comprise the design, manufacture and sale of a wide range of home and garden decorative products. Apart from the cessation of e-commerce solution service during the year, there were no changes in the nature of the Group's principal activities during the year.

SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution to profit from operating activities by principal activity and geographical area of operations for the year ended 31 December 2000 is as follows:

	Turnover		Contribution	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
By principal activity:				
Design, manufacture and sale of home decorative products	815,632	434,281	66,963	34,654
Design, manufacture and sale of garden decorative products	370,389	68,608	(7,267)	5,474
Sale of other products and raw materials	22,649	32,107	1,382	(2,523)
	1,208,670	534,996	61,078	37,605
By geographical area:				
United States of America	844,178	433,011	71,596	30,436
Europe	257,111	17,736	(18,653)	1,247
Asia	75,121	70,691	6,230	4,969
Australia	23,703	5,985	1,521	421
Others	8,557	7,573	384	532
	1,208,670	534,996	61,078	37,605

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RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2000 and the state of affairs of the Company and of the Group as at that date are set out in the financial statements on pages 34 to 68.

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

SUMMARY FINANCIAL INFORMATION

The following is a summary of the published results and assets and liabilities of the Group prepared on the basis set out in notes 1 and 2 below:

	Year ended 31 December				
	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000	1997 HK\$'000	1996 HK\$'000
RESULTS					
Turnover	1,208,670	534,996	325,016	367,622	342,985
Operating profit	39,055	33,175	28,214	42,810	29,551
Share of loss of an associate	—	(65)	(2)	—	—
Profit before tax	39,055	33,110	28,212	42,810	29,551
Tax	(3,189)	(3,048)	(4,143)	(4,271)	(5,312)
Profit before minority interests	35,866	30,062	24,069	38,539	24,239
Minority interests	524	—	—	—	—
Net profit attributable to shareholders	36,390	30,062	24,069	38,539	24,239

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SUMMARY FINANCIAL INFORMATION (continued)

	31 December			
	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000	1997 HK\$'000
ASSETS AND LIABILITIES				
Total assets	697,580	491,079	224,826	205,856
Total liabilities	(468,388)	(296,175)	(83,816)	(129,258)
Minority interests	(392)	(619)	—	—
Net assets	228,800	194,285	141,010	76,598

Notes:

1. The summary of the results of the Group for the year ended 31 December 1996 was extracted from the Company's prospectus dated 31 December 1997. Such summary was prepared based on the audited financial statements of the companies comprising the Group as at 31 December 1997, after appropriate adjustments and reclassifications, as if the structure of the Group as at that date had been in existence throughout the financial year. This summary is not part of the audited financial statements.
2. Because the Company was incorporated on 28 August 1997, the only audited consolidated balance sheets for the Group that have been prepared to date are those as at 31 December 1997, 1998, 1999 and 2000.

FIXED ASSETS AND INVESTMENT PROPERTY

Details of the movements in the fixed assets and investment property of the Group are set out in note 11 to the financial statements.

SUBSIDIARIES AND ASSOCIATES

Particulars of the Company's principal subsidiaries and the Group's principal associates are set out in notes 13 and 14 respectively, to the financial statements.

BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS

Details of the bank loans, overdrafts and other borrowings of the Group are set out in notes 18 to 20 to the financial statements.

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MAJOR CUSTOMERS AND SUPPLIERS

53% of the Group's turnover was attributable to the Group's five largest customers. Sales to the Group's largest customer accounted for 36% of the Group's turnover for the year.

12% of the Group's total purchases was attributable to the Group's five largest suppliers. Purchases from the Group's largest supplier accounted for 4% of the Group's total purchases for the year.

None of the directors or 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 any of the Group's five largest customers and five largest suppliers.

DIRECTORS

The directors of the Company during the year were:

Executive directors

Mr. Lin Chun Kuei	<i>(Chairman and Chief Executive Officer)</i>
Dr. Gunter M. Denk	<i>(Co-Vice Chairman)</i>
Mr. Kam Wing Leung	<i>(Co-Vice Chairman)</i>
Mr. Lin Chun Fu	
Mr. Li Chien Kuan	
Mr. He Jing Guang	<i>(appointed on 2 May 2000)</i>
Mr. Graeme Stanley Pope	<i>(appointed on 24 May 2000)</i>
Mr. Wan Tak Wing, Gary	<i>(appointed on 24 May 2000)</i>

Non-executive director

Mr. Andree Halim	<i>(appointed on 15 May 2000)</i>
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Independent non-executive directors

Hon. Bernard Charnwut Chan	
Mr. Goh Gen Cheung	
Mr. Guo Yah Taur (alias Peter Ya Tao Kuo)	<i>(appointed on 24 May 2000)</i>

Subsequent to the balance sheet date, on 30 March 2001, the position of Mr. Guo Yah Taur (alias Peter Ya Tao Kuo) had been changed from independent non-executive director to executive director.

In accordance with bye-law 111 of the Company's bye-laws, Mr. Lin Chun Fu, Mr. Li Chien Kuan and Hon. Bernard Charnwut Chan will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

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DIRECTORS (continued)

The directors of the Company, including the non-executive directors but excluding the Chairman, the Managing Director and the Vice Chairman, are subject to retirement by rotation and shall be eligible for re-election at the annual general meeting of the Company in accordance with the provisions of the Company's bye-laws.

DIRECTORS' SERVICE CONTRACTS

Messrs. Lin Chun Kuei, Lin Chun Fu, Kam Wing Leung and Li Chien Kuan, each entered into a service agreement with the Company for a term of three years commencing from 1 December 1997, renewable automatically for successive terms of one year, until terminated by not less than six months' notice in writing served by either party on the other.

Dr. Gunter M. Denk, has entered into a service agreement with the Company for a term of four years and five months commencing from 23 December 1999, renewable automatically for successive terms of one year, until terminated by not less than six months' notice in writing served by either party on the other.

Mr. He Jing Guang, has entered into a service agreement with the Company for a term of one year commencing from 1 May 2000, renewable automatically for successive terms of one year, until terminated by not less than three months' notice in writing served by either party on the other.

Mr. Graeme Stanley Pope, has entered into a service agreement with the Company, through a service company beneficially owned by him, for a term of one year commencing from 22 May 2000, renewable automatically for successive terms of one year, until terminated by not less than three months' notice in writing served by either party on the other.

Subsequent to the balance sheet date, Mr. Guo Yah Taur (alias Peter Ya Tao Kuo), has entered into a service agreement with the Company for a term of three years commencing from 30 March 2001, renewable automatically for successive terms of one year, until terminated by not less than six months' notice in writing served by either party on the other.

Apart from the foregoing, 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 obligations.

DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

Details of the remuneration of directors of the Company are set out in note 5 to the financial statements.

SHARE CAPITAL, SHARE OPTIONS AND WARRANTS

Details of movements in the Company's share capital, share options and warrants during the year, together with the reasons therefor, are set out in notes 24 to the financial statements.

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RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 25 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2000, the Company's reserves available for cash distribution and/or distribution in specie amounted to HK\$101,140,000, as computed in accordance with the Companies Act 1981 of Bermuda. In addition, the Company's share premium account, in the amount of HK\$50,177,000, may be distributed in the form of fully paid bonus shares.

DIRECTORS' INTERESTS IN SHARES AND WARRANTS

As at 31 December 2000, the interests of the directors and their associates in the share capital and warrants of the Company or its associated corporations within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance, were as follows:

Directors	Number of ordinary shares in which interested			Number of warrants in which interested	
	Personal	Family	Corporate	Personal	Corporate
Mr. Andree Halim (<i>Note</i>)	—	—	93,000,000	—	18,600,000
Dr. Gunter M. Denk	29,760,000	3,968,000	—	—	—
Mr. He Jing Guang	7,285,200	—	—	—	—
Mr. Lin Chun Kuei	32,612,000	—	—	10,490,400	—
Mr. Lin Chun Fu	30,628,000	—	—	8,109,600	—
Mr. Wan Tak Wing, Gary	12,000	—	—	2,400	—

Note: The 93,000,000 shares and the 18,600,000 warrants are owned by KMP Atlantic Limited, 90% of the issued capital of which is owned by KMP Equities Holding Ltd.. The issued share capital of KMP Equities Holding Ltd. is owned as to 50% by Mr. Andree Halim. Mr. Andree Halim was therefore deemed to be interested in the 93,000,000 shares and the 18,600,000 warrants of the Company.

In addition to the above, certain directors hold shares in certain subsidiaries, in a non-beneficial capacity, solely for the purpose of complying with minimum company membership requirements.

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other beneficial interest in the equity of the Company or any of its associated corporations at 31 December 2000, as recorded in the register required to be kept under Section 29 of the SDI Ordinance or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

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DIRECTORS' RIGHTS TO ACQUIRE SHARES

Under the terms of a share option scheme (the "Scheme") adopted by the Company on 20 December 1997, the directors may, at their absolute discretion, grant options to employees and directors of the Company or any of its subsidiaries to subscribe for shares in the Company.

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Details of the Company's share option scheme are set out in note 24 to the financial statements.

Details of the directors' interests in the Company's warrants are set out in the section "Directors' interests in shares and warrants".

DIRECTORS' INTERESTS IN CONTRACTS

Apart from the service agreement entered between the Company and a service company beneficially held by an executive director as mentioned in the section "Directors' service contracts" above, no director had a beneficial interest, either direct or indirect, 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.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2000, the following interests of 10% or more in the issued 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:

Name	Number of ordinary shares in which interested	Percentage of total issued ordinary share capital
KMP Atlantic Limited (<i>Note 1</i>)	93,000,000	29.50%
KMP Equities Holding Ltd. (<i>Note 1</i>)	93,000,000	29.50%
Mr. Anthony Salim (<i>Note 1</i>)	93,000,000	29.50%
Mr. Andree Halim (<i>Note 1</i>)	93,000,000	29.50%
Dr. Gunter M. Denk (<i>Note 2</i>)	33,728,000	10.70%
Mr. Lin Chun Kuei	32,612,000	10.34%

Note 1: The issued share capital of KMP Atlantic Limited is owned as to 90% by KMP Equities Holding Ltd.. The issued share capital of KMP Equities Holding Ltd. is owned as to 50% by each of Messrs. Anthony Salim and Andree Halim. Accordingly, the interests disclosed by these parties are in respect of the same shareholding.

Note 2: 2,976,000 shares and 992,000 shares are held by Miss Corinna Denk and Ms Angelika Denk, daughter under 18 years of age and wife of Dr. Gunter M. Denk respectively.

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SUBSTANTIAL SHAREHOLDERS (continued)

Save as disclosed above, the directors are not aware of any person (except those directors as disclosed under the paragraph “Directors’ interests in shares and warrants” above) who was, directly or indirectly, interested in 10% or more of the issued share capital of the Company as at 31 December 2000 that was required to be recorded under Section 16(1) of the SDI Ordinance.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

Pre-emptive rights

There are no provisions for pre-emptive rights under the Company’s bye-laws or the laws of Bermuda, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice, as set out in Appendix 14 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited, throughout the year covered by the annual report, except that the non-executive directors of the Company are not appointed for specific terms but are subject to retirement by rotation in accordance with the Company’s bye-laws. The Company established an audit committee in accordance with paragraph 14 of the Code of Best Practice throughout the accounting period covered by the annual report.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 30 to the financial statements.

RETIREMENT SCHEME

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the “Scheme”) under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the Scheme. The Scheme became effective on 1 December 2000. Contributions are made based on a percentage of the employees’ basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group’s employer contributions vest fully with the employees when contributed into the Scheme except for the Group’s employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the Scheme. Prior to the Scheme being effective, the Group did not operate a pension scheme for its employees in Hong Kong.

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RETIREMENT SCHEME (continued)

Pursuant to the relevant regulations of the PRC government, subsidiaries of the Group operating in the PRC participate in a retirement funds scheme managed by a local social security bureau. Contributions made are based on a percentage of the eligible employees' salaries and are charged to the profit and loss account as they become payable, in accordance with the rules of the Schemes. The obligation of the Group with respect to the PRC retirement funds scheme is to pay these ongoing required contributions.

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

Lin Chun Kuei

Chairman

Hong Kong, 28 May 2001