

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 2001.

GROUP REORGANISATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands on 21 November 2000. Pursuant to a reorganisation scheme (the "Group Reorganisation") to rationalise the Group structure in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the Group on 19 December 2000. Further details of the Group Reorganisation as well as the basis of presentation of the financial statements, are set out in notes 1 and 27 to the financial statements.

The Company's shares were listed on the Stock Exchange on 22 January 2001.

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 17 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to results by principal activity and geographical area of operations for the year ended 31 December 2001 is set out in note 5 to the financial statements.

RESULTS, BONUS ISSUE AND DIVIDENDS

The Group's profit for the year ended 31 December 2001 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 18 to 68.

An interim dividend of HK2.5 cents per ordinary share was paid on 4 October 2001.

A bonus issue of 220,000,000 new ordinary shares of HK\$0.1 each of the Company was distributed among the shareholders of the Company whose names were in the register of members of the Company on 27 September 2001 on the basis of one bonus share for every one share then held by them.

The directors recommend the payment of a final dividend of HK2 cents per ordinary share in respect of the year, to the shareholders on the register of members on 28 May 2002. This recommendation has been incorporated in the financial statements as an allocation of retained profits within capital and reserves in the balance sheets. Further details of this accounting treatment are set out in note 4 to the financial statements.

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USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The proceeds from the Company's issue of new shares at the time of its listing on the Stock Exchange on 22 January 2001, after deduction of related expenses, amounted to approximately HK\$43 million. The proceeds were applied during the year in accordance with the proposed applications set out in the Company's prospectus dated 9 January 2001, as follows:

- approximately HK\$3 million was used for developing new models and new products;
- approximately HK\$5 million was used for the acquisition of new machinery and auxiliary equipment;
- approximately HK\$10 million was used for establishing retail outlets and developing distribution channels in major cities in the People's Republic of China (the "PRC"); and
- approximately HK\$18 million was used as general working capital of the Group.

The Group has placed the unused balance of the net proceeds of approximately HK\$7 million with licensed banks in Hong Kong and the PRC. These deposits have been receiving reasonable and steady interest income which preserves the best interests of the Group and the shareholders.

SUMMARY FINANCIAL INFORMATION

The following is a summary of the published consolidated/combined results and assets and liabilities of the Group for the last five years prepared on the basis set out in notes (1) and (2) below:

RESULTS

	Year ended 31 December				
	2001	2000	1999	1998	1997
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	<u>122,808</u>	<u>139,344</u>	<u>115,922</u>	<u>90,626</u>	<u>90,608</u>
Profit before tax	17,377	48,714	30,690	21,848	18,036
Tax	<u>(3,919)</u>	<u>(7,276)</u>	<u>(4,463)</u>	<u>(3,089)</u>	<u>(2,966)</u>
Net profit from ordinary activities attributable to shareholders	<u>13,458</u>	<u>41,438</u>	<u>26,227</u>	<u>18,759</u>	<u>15,070</u>

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SUMMARY FINANCIAL INFORMATION (continued)

ASSETS AND LIABILITIES

	2001	2000	31 December		
	HK\$'000	HK\$'000	1999	1998	1997
			HK\$'000	HK\$'000	HK\$'000
			(Restated)	(Restated)	(Restated)
Total assets	243,210	182,032	107,492	100,493	78,460
Total liabilities	<u>(63,533)</u>	<u>(55,988)</u>	<u>(44,609)</u>	<u>(55,537)</u>	<u>(46,063)</u>
	<u>179,677</u>	<u>126,044</u>	<u>62,883</u>	<u>44,956</u>	<u>32,397</u>

Notes:

- (1) The summary of the published combined results of the Group for the three years ended 31 December 1999 has been extracted from the Company's prospectus dated 9 January 2001. The consolidated results of the Group for the two years ended 31 December 2001 are set out on page 18 of this annual report. The summary of the consolidated/combined results of the Group includes the results of the Company and its subsidiaries as if the current structure of the Group had been in existence throughout these financial years and is presented on the basis set out in note 4 to the financial statements.
- (2) The combined balance sheets as at 31 December 1997, 1998 and 1999 have been extracted from the Company's prospectus dated 9 January 2001, prepared on the basis as if the Group had been in existence since 31 December 1997, and had been adjusted for the effects of retrospective changes in accounting policy affecting the respective proposed final dividends of the years which had not been declared and approved until after the balance sheet dates as detailed in note 3 to the financial statements. The consolidated balance sheets as at 31 December 2000 and 31 December 2001 are as set out on page 20 of the annual report.

FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets and investment properties of the Group during the year are set out in note 15 to the financial statements. Further details of the Group's investment properties are set out on page 46 of the annual report.

BANK AND OTHER BORROWINGS

Details of the bank and other borrowings of the Group as at 31 December 2001 are set out in notes 23, 24 and 25 to the financial statements.

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SHARE CAPITAL AND WARRANTS

Details of movements in the Company's share capital and warrants together with reasons therefor, are set out in note 27 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 28 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2001, the Company had distributable reserves of approximately HK\$134,195,000. Under the Company's memorandum and articles of association and the Companies Law (Revised) of the Cayman Islands, the capital reserve and share premium of the Company of HK\$125,161,000 and HK\$172,000, respectively, at 31 December 2001 are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company is incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

The Company's shares were listed on the Stock Exchange on 22 January 2001. Other than the foregoing, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year and up to the date of this report.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling approximately HK\$236,000.

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RETIREMENT BENEFITS SCHEMES AND COSTS

Details of the Group's retirement benefits schemes and costs charged to the profit and loss account for the year are set out in notes 4 and 7 to the financial statements, respectively.

In the opinion of the directors, the Group had no significant obligations for long service payments to its employees pursuant to the requirements under the Employment Ordinance, Chapter 57 of the Laws of Hong Kong, as at 31 December 2001.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 34% of the total sales for the year and sales to the largest customer included therein accounted for approximately 9%. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

None of the directors of the Company 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 the Group's five largest customers during the year.

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Mr. Hui Kee Fung
Mr. Hui Ki Yau
Ms. Hui Hung Tan, Teresa

Independent non-executive directors:

Mr. Sy Chin Mong, Stephen
Dr. Lin Al Yue

In accordance with article 87 of the Company's articles of association, Mr. Hui Ki Yau will retire by rotation and, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

The directors of the Company, including the independent non-executive directors but not including the chairman of the board of directors and/or the managing director of the Company, are subject to retirement by rotation and re-election in accordance with the provisions of the Company's articles of association.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and of the senior management of the Group are set out on pages 6 to 7 of the annual report.

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DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service contract with the Company for an initial term of three years commencing from 19 December 2000, which may be terminated by either party thereto by giving to the other six months' prior notice in writing.

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 other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 35 to the financial statements, no director had a significant beneficial interest, either direct or indirect, 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.

DIRECTORS' INTERESTS IN SHARES AND WARRANTS

As at 31 December 2001, the interests of the directors or their associates in the share capital of the Company or its associated corporations as recorded in the register (the "Register") maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were set out as below:

Name of director	Number of ordinary shares held and nature of interest			
	Personal interest	Family interest	Corporate interest	Other interest
Mr. Hui Kee Fung	–	–	313,500,000	–
Mr. Hui Ki Yau	–	–	–	–
Ms. Hui Hung Tan, Teresa	–	–	–	–

Name of director	Number of warrants held and nature of interest			
	Personal interest	Family interest	Corporate interest	Other interest
Mr. Hui Kee Fung	–	–	62,700,000	–
Mr. Hui Ki Yau	–	–	–	–
Ms. Hui Hung Tan, Teresa	–	–	–	–

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DIRECTORS' INTERESTS IN SHARES AND WARRANTS (continued)

The 313,500,000 shares and 62,700,000 warrants are held by Legend Win Profits Limited ("Legend Win"), a company incorporated in the British Virgin Islands. The issued share capital of Legend Win is beneficially owned by Mr. Hui Kee Fung, Mr. Hui Ki Yau, Ms. Hui Hung Tan, Teresa and Hui's K. K. Foundation Limited as to 38.95%, 32.63%, 23.16% and 5.26%, respectively. Hui's K. K. Foundation Limited is a company which is incorporated in Hong Kong, limited by guarantee and does not have a share capital. Mr. Hui Kee Fung, Mr. Hui Ki Yau, Mr. Hui Kee Choi and Ms. Hui Hung Tan, Teresa are the registered members and directors of Hui's K. K. Foundation Limited. Mr. Hui Kee Choi is a brother of Mr. Hui Kee Fung, Mr. Hui Ki Yau and Ms. Hui Hung Tan, Teresa. Mr. Hui Kee Choi resigned as a director and ceased to be a member of Hui's K. K. Foundation Limited on 1 March 2001.

In addition to the above, certain directors have non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the headings "Directors' interests in shares and warrants" above and "Share option scheme" below, 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, its holding company, or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Scheme") which became effective on 22 January 2001, under which the directors may, at their discretion, invite any full-time employees of the Company or any of its subsidiaries, including any directors (other than non-executive directors), to take up options to subscribe for shares in the Company. The subscription price is determined by the directors, but may not be less than the higher of the nominal value of the Company's shares or 80% of the average of the closing prices of the shares on the Stock Exchange for the five trading days immediately preceding the date of grant of the option. A nominal cash consideration of HK\$1.00 is payable on acceptance of the grant of an option. The maximum number of shares in respect of which options may be granted under the Scheme is 10% of the issued share capital of the Company from time to time, excluding for this purpose shares issued upon the exercise of any options granted under the Scheme or any other share option scheme.

No option may be granted to any one person which, if exercised in full, would result in the total number of shares already issued and issuable to him under all of the options previously granted to him together with the said option exceeding 25% of the number of shares issued and issuable under all of the options which may be granted under the Scheme at the time it is proposed to grant the relevant option to that person.

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SHARE OPTION SCHEME (continued)

On 23 August 2001, the Stock Exchange announced amendments to Chapter 17 of the Rule Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") in respect of share option schemes, which came into effect on 1 September 2001. To comply with the amendments to the Listing Rules and the announcement of the Stock Exchange, the directors consider that it is in the interest of the Company to terminate the Scheme of the Company and to adopt a new share option scheme. An ordinary resolution will be proposed at the Company's forthcoming shareholders' meeting for the approval of the said adoption of the new share option scheme and termination of the Company's existing share option scheme.

As at the date of this report, no share options were granted or outstanding under the Scheme.

CONNECTED TRANSACTIONS

Details of the connected transaction regarding the acquisition of Newgary Development Limited is set out in note 35 to the financial statements. Save as disclosed therein, there were no other transactions which would need to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

The independent non-executive directors are of the opinion that the terms of the above transactions are fair and reasonable so far as the shareholders of the Company are concerned; and that the transactions have been entered into by the Group in its ordinary and usual course of business and were carried out in accordance with the terms of the agreements governing such transactions.

SUBSTANTIAL SHAREHOLDERS

At the date of this report, no person had registered an interest of 10% or more in the issued share capital of the Company that was required to be recorded in the register of interests pursuant to Section 16(1) of the SDI Ordinance, other than the shares held by Legend Win as disclosed in the section headed "Directors' interests in shares and warrants" above.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year and up to date of this report, no directors are considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, pursuant to the Listing Rules, other than those businesses of which the directors of the Company were appointed as directors to represent the interest of the Company and/or the Group.

POST BALANCE SHEET EVENT

Details of the significant post balance sheet event of the Group are set out in note 34 to the financial statements.

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COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice (the "Code"), as set out in Appendix 14 of the Listing Rules, throughout the accounting period covered by the annual report, except that the independent non-executive directors of the Company were not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's articles of association.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises Mr. Sy Chin Mong, Stephen and Dr. Lin Ai Yue, the independent non-executive directors of the Company.

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

HUI Kee Fung
Chairman

Hong Kong
23 April 2002