

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31st December, 2001.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company.

The principal activities of the Company's subsidiaries and associate as at 31st December, 2001 are set out in notes 31 and 32 to the financial statements, respectively.

RESULTS

The results of the Group for the year ended 31st December, 2001 are set out in the consolidated income statement on page 16 of the annual report.

The directors do not recommend the payment of a dividend for the year.

RESERVES

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

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the largest customer and the five largest customers of the Group accounted for approximately 16.0% and approximately 44.8%, respectively, of the total turnover of the Group for the year.

The aggregate purchases attributable to the five largest suppliers of the Group were less than 30% of the total purchases of the Group for the year.

At no time during the year did a director, an associate of a director within the meaning of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or a shareholder of the Company, which to the knowledge of the directors owns more than 5% of the issued share capital of the Company, have any interest in any of the five largest customers or suppliers of the Group.

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five financial years is set out on page 48 of the annual report.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group spent approximately HK\$3.9 million on plant and machinery and approximately HK\$2.3 million on furniture, fixtures and equipment to expand and upgrade its manufacturing facilities.

Details of these and other movements in the property, plant and equipment of the Group during the year are set out in note 12 to the financial statements.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 21 to the financial statements.

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

DIRECTORS

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

Executive directors:

Chang Wen I (*Chairman*)

Chen Hsien Min (*Managing Director*)

Chen Ying-Chieh

Chu Chi Ping

(*resigned on 20th February, 2001*)

Independent non-executive directors:

Kuo Jung-Cheng

(*appointed on 31st July, 2001*)

Huang Shun-Tsai

(*appointed on 31st July, 2001*)

Liu Yun Fan

(*resigned on 20th February, 2001*)

Chen Bao Yih

(*resigned on 20th February, 2001*)

Lee Hau Kit, Alex

(*resigned on 31st July, 2001*)

Chen Si An

(*resigned on 31st July, 2001*)

In accordance with Article 99 of the Company's Articles of Association, Mr Chen Ying-Chieh retires by rotation and, being eligible, offers himself for re-election.

In accordance with Article 91 of the Company's Articles of Association, Messrs Kuo Jung-Cheng and Huang Shun-Tsai retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

DIRECTORS *(continued)*

No directors being 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 of compensation (other than statutory compensation).

The term of office of each independent non-executive director is the period from his date of appointment up to his retirement by rotation in accordance with the Company's Articles of Association.

DIRECTORS' INTERESTS IN SECURITIES

As at 31st December, 2001, the interests of the directors of the Company and their associates in the securities of the Company and of its associated corporations, within the meaning of the Securities (Disclosure of Interests) Ordinance, Chapter 396 of the Laws of the Hong Kong Special Administrative Region (the "SDI Ordinance"), as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance or as otherwise notified to the Company and to the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Name of director	Nature of interest	Number of ordinary shares of the Company held
Chang Wen I	Corporate (Note (a))	449,669,995
Chen Hsien Min	Corporate (Note (b))	217,692,895

Notes:

- (a) These securities are registered in the name of, and beneficially owned by, Lucky Earn International Ltd., a company incorporated in the British Virgin Islands, the entire issued share capital of which is beneficially owned by Mr Chang Wen I.
- (b) These securities are registered in the name of, and beneficially owned by, Top Glory Assets Limited, a company incorporated in the British Virgin Islands, the entire issued share capital of which is beneficially owned by Mr Chen Hsien Min, his spouse, Madam Chen Chang Shu Yu, his son and his daughter as to 10%, 30%, 30% and 30%, respectively.

Mr Chen Hsien Min and his spouse, Madam Chen Chang Shu Yu, were deemed to have interests in these shares by virtue of Section 8 of the SDI Ordinance since they were entitled to exercise more than one-third of the voting power at general meetings of Top Glory Assets Limited.

DIRECTORS' INTERESTS IN SECURITIES *(continued)*

In addition to the above, as at 31st December, 2001, the following directors beneficially owned the non-voting deferred shares in the subsidiaries of the Company:

Name of subsidiary	Name of director	Number of non-voting deferred shares of HK\$1 each held
Gentlefit Trading Limited	Chang Wen I	6,425,051
	Chen Hsien Min	3,013,917
Modern City Development Limited	Chang Wen I	3,400
	Chen Hsien Min	3,300

The non-voting deferred shares practically carry no rights to dividends or to receive notice of or to attend or vote at any general meeting of the respective companies or to participate in any distributions on winding up.

Save as disclosed above and certain nominee shares in subsidiaries held by certain directors in trust for the Group, as at 31st December, 2001, none of the directors or chief executives, nor any of their associates, had any interests in any securities of the Company or any of its associated corporations as defined by the SDI Ordinance.

SHARE OPTIONS

In accordance with the Company's share option scheme (the "Scheme"), which was adopted on 9th October, 1995 for a period of 10 years. The primary purpose of providing incentives to directors and eligible employees. Under the Scheme, the board of directors of the Company may grant options to eligible employees, including director(s) of the Company and its subsidiaries, to subscribe for ordinary shares in the Company, in accordance with the terms of the Scheme.

At 31st December 2001, the number of shares in respect of which options had been granted under the Scheme was 80 million, representing 5.3% of the shares of the Company in issue at that date. Without prior approval from the Company's shareholders, the total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, and the number of shares in respect of which options may be granted to any individual is not permitted to exceed 25% of the aggregate number of shares for the time being issued and issuable under the Scheme.

No consideration is payable on the grant of an option. Options may be exercised at any time for two years commencing on the expiry of six months after the date the options are granted. The subscription price of the option shares shall be a price to be determined by the directors of the Company, being not less than 80% of the average of the closing prices of the ordinary shares of the Company for the five trading days immediately preceding the date of the offer of the option or the nominal value of the shares of the Company, whichever is higher.

At 1st January, 2001 and 31st December, 2001, a total of 80,000,000 share options granted to employees in September 1999 remained outstanding. These share options entitle the holders thereof to subscribe for shares of HK\$0.10 each in the Company at a subscription price of HK\$0.20 per share (subject to adjustment).

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries a party to any arrangements 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. None of the directors or chief executives, nor any of their spouses or children under the age of eighteen, had any rights to subscribe for the securities of the Company, or had exercised any such rights during the year.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a director or former director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

Other than as disclosed under the section headed "DIRECTORS' INTERESTS IN SECURITIES", the Company has not been notified of any other interests representing 10% or more in the issued share capital of the Company as at 31st December, 2001.

RETIREMENT BENEFITS SCHEMES

Information on the retirement benefits schemes of the Group is set out in note 29 to the financial statements.

PRE-EMPTIVE RIGHTS

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

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31st December, 2001 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

AUDITORS

A resolution will be submitted to the annual general meeting to appoint auditors of the Company.

On behalf of the Board

CHANG WEN I

Chairman

Hong Kong, 23rd April, 2002