

Chairman's Statement

I am pleased to present the 2001 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 2001.

FINANCIAL PERFORMANCE

The Group's turnover for the year was approximately HK\$143 million, representing a decrease of approximately 6.7% as compared with last year. Net loss from ordinary activity attributable to shareholders for the year ended 31 December 2001 decreased from approximately HK\$ 25.3 million in 2000 to approximately HK\$11.2 million in 2001.

BUSINESS REVIEW AND SEGMENT INFORMATION

During the year, the principal activity of the Group continues to be manufacturing and sale of casual wear under the Group's brand names in the PRC market. The competition in the PRC's casual wear market is getting very intense due to the introduction of new brand names and higher expectation from the customers. The Group's management has closely monitored the PRC apparel market and refined its marketing and pricing policy in order to maintain the competitiveness of the Group's products. The Group's gross profit margin has increased from approximately 5% in 2000 to 10% in 2001. During the year, the Group has also planned to explore the apparel market in the United States but it was delayed by the terrorist attack at the World Trade Centre in New York on 11 September 2001.

In order to enhance the profitability and broaden the earnings base of the Group, while maintaining the principal business of the Group, the Directors will continue to explore suitable investment opportunities in a prudent manner and may consider to diversify the Group's business. During the year ended 31 December 2001, the Group commenced the trading of oil and petroleum and various other materials. During the year ended 31 December 2001, turnover attributed from such trading activities amounted to approximately HK\$1.4 million, representing approximately 1% of the total turnover of the Group.

LIQUIDITY AND FINANCIAL RESOURCES

On 22 June 2001, the Company placed 500,000,000 new shares at HK\$0.04 per share. The net proceeds from the placement of new shares amounted to HK\$19,400,000 have been retained by the Company as general working capital of the Group. The placement has broadened the capital base of the Company and provided additional working capital to the Group.

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At 31 December 2001, the Group had interest-bearing bank borrowings of approximately HK\$30.5 million (2000: HK\$29.1 million), of which approximately HK\$27.5 million was fixed-interest bearing and denominated in Reminbi, and the remaining was floating-interest bearing and denominated in Hong Kong dollars. Approximately HK\$29.7 million of the Group's bank borrowings had maturity within one year. The directors expect that all the bank borrowings will be either renewed or rolled over upon the maturity and continue to provide funding to the Group's operation. The Group's investment property and leasehold land and buildings have been pledged to banks to secure the Group's bank borrowings.

At 31 December 2001, the Group had current assets of approximately HK\$141.1 million (2000: HK\$141.0 million). The Group's current ratio increased from 3.3 as at 31 December 2000 to 4.1 as at 31 December 2001. At 31 December 2001, the Group had total assets of approximately HK\$175.3 million (2000: HK\$175.0 million) and total liabilities of approximately HK\$35.4 million (2000: HK\$42.7 million). The gearing of the Group, measuring as total debts to total assets, has improved from 24.4% as at 31 December 2000 to 20.2% as at 31 December 2001.

The Group did not have any significant exposure to foreign currency fluctuations.

PROSPECTS

China has been admitted as a member of the World Trade Organisation in late 2001. The directors believe that there would be more competition in the PRC casual wear market. However, it is also expected that the consumption will be pushed up due to more choices and attractive prices of local and foreign brand name products. To compete with local and foreign competitors, the Group is committed to improve the design and quality of its products. The Group also expands its sales network through setting up franchised retail shops in the second-tier cities of the PRC. The Group has also set up a 60% owned subsidiary to explore the apparel market in the United States. It is expected that the aforesaid subsidiary will generate operating profit in 2002.

EMPLOYEES AND REMUNERATION

At 31 December 2001, the Group has employed approximately 600 employees in Hong Kong and the PRC. The employees are remunerated with basic salary, bonus and other benefits in kind with reference to industry practice and their individual performance. The Group also operates a share option scheme of which the Board may, at its discretion, grant options to employees of the Group. No options have been granted or exercised during the year.

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 of Hong Kong Limited on 17 June 1998. As at 31 December 2001, 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 of New Shares

During the year, the Company also raised approximately HK\$19.4 million, net of related expenses, from issuance of 500 million new shares of the Company at HK\$0.04 per share.

The net proceeds of approximately HK\$19.4 million has been applied for 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 2002