

# Report of the Directors

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The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2002.

## **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 14 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 2002 is set out in note 3 to the financial statements.

## **RESULTS AND DIVIDENDS**

The Group's profit for the year ended 31 December 2002 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 HK0.4 cent per ordinary share was paid on 24 September 2002.

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

## **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 of Hong Kong Limited on 22 January 2001, after deduction of related expenses, amounted to approximately HK\$43 million. The proceeds were applied in accordance with the proposed applications set out in the Company's prospectus dated 9 January 2001, as follows:

- approximately HK\$5 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 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 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.

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## 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				
	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000
Turnover	<b>100,343</b>	122,808	139,344	115,922	90,626
Profit before taxation	<b>14,089</b>	17,377	48,714	30,690	21,848
Taxation	<b>(2,411)</b>	(3,919)	(7,276)	(4,463)	(3,089)
Profit after taxation	<b>11,678</b>	13,458	41,438	26,227	18,759
Minority interest	<b>(4)</b>	–	–	–	–
Profit attributable to shareholders	<b>11,674</b>	13,458	41,438	26,227	18,759

## ASSETS AND LIABILITIES

	31 December				
	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000
Total assets	<b>236,266</b>	243,210	182,032	107,492	100,493
Total liabilities	<b>(60,371)</b>	(63,533)	(55,988)	(44,609)	(55,537)
Minority interest	<b>(5)</b>	–	–	–	–
	<b>175,890</b>	179,677	126,044	62,883	44,956

Notes:

- (1) The summary of the published combined results of the Group for the two years ended 31 December 1999 has been extracted from the Company's prospectus dated 9 January 2001, which 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. The consolidated results of the Group for the two years ended 31 December 2002 are set out on page 18 of this annual report.
- (2) The combined balance sheets as at 31 December 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 1998. The consolidated balance sheets as at 31 December 2001 and 31 December 2002 are as set out on pages 19 and 20 of the annual report.

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## **PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES**

Details of movements in the property, plant and equipment and investment properties of the Group during the year are set out in note 12 to the financial statements. Further details of the Group's investment properties are set out on page 48 of the annual report.

## **BANK AND OTHER BORROWINGS**

Details of the bank and other borrowings of the Group as at 31 December 2002 are set out in notes 21 and 22 to the financial statements.

## **SHARE CAPITAL AND WARRANTS**

Details of movements in the Company's share capital and warrants together with reasons therefor, are set out in notes 23 and 24 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 26 to the financial statements.

## **DISTRIBUTABLE RESERVES**

As at 31 December 2002, the Company had distributable reserves of approximately HK\$130,634,000. 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\$472,000, respectively, at 31 December 2002 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**

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.

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## **CHARITABLE CONTRIBUTIONS**

During the year, the Group made charitable contributions totalling approximately HK\$39,100.

## **RETIREMENT BENEFITS SCHEMES AND COSTS**

Details of the Group's retirement benefits schemes and costs charged to the income statement for the year are set out in notes 2 and 34 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 2002.

## **MAJOR CUSTOMERS AND SUPPLIERS**

In the year under review, sales to the Group's five largest customers accounted for approximately 38% of the total sales for the year and sales to the largest customer included therein accounted for approximately 8%. Purchases from the Group's five largest suppliers accounted for approximately 35% of the total purchases for the year and purchases from the largest supplier included therein accounted for approximately 14%.

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 or suppliers 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 Ai Yue

In accordance with article 87 of the Company's articles of association, Mr. Sy Chin Mong, Stephen 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.

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## 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 5 and 6 of the annual report.

## 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

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 2002, 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	–	–	1,567,500,000	–
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 1,567,500,000 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 and Ms. Hui Hung Tan, Teresa are the registered members and directors of Hui's K. K. Foundation Limited.

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 "Original 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 Original 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 Original 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 Original 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 Original Scheme of the Company and to adopt a new share option scheme (the "New Scheme"). An ordinary resolution was passed at the Company's annual general meeting held on 28 May 2002 for adoption of the New Scheme and termination of the Company's Original Scheme.

Pursuant to the New Scheme, the directors may, at their discretion, invite any eligible employees (including executive directors), any non-executive directors, shareholders, suppliers and customers of the Group and any other parties having contributed or may contribute to the development of the Group to take up options to subscribe for the Shares. The subscription price shall be a price determined by the directors, but shall not be less than the highest of (i) the closing price of the Shares on the date of the offer; (ii) the average closing price of the Shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the Share.

The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme must not exceed 30% of the total issued share capital of the Company from time to time. The total number of shares which may be issued upon exercise of all options to be granted under the New Scheme shall not in aggregate exceed 10% of the total number of Shares in issue as at 28 May 2002. The Company may seek approval of the Company's shareholders in general meeting for refreshing the 10% limit under the New Scheme save that the total number of Shares which may be issued upon exercise of all options to be granted under the New Scheme under the limit as refreshed shall not exceed 10% of the total number of Shares in issue as at the date of approval of the limit.

The total number of Shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of Shares in issue. Where any further grant of options to a participant would result in the total number of Shares issued and to be issued upon exercise of all the options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the total number of Shares in issue, such further grant must be separately approved by the shareholders of the Company in general meeting with such participant and his associates abstaining from voting.

During the year ended 31 December 2002, no options had been granted or outstanding under the Original Scheme operated by the Group.

No options had been granted to the participants (including the employees of the Group, the suppliers of goods or services and all other participants under the New Scheme) pursuant to the New Scheme for the period from the date of adoption of the New Scheme (i.e. 28 May 2002) to the date of this report. Accordingly, no options had been granted to any participant under the New Scheme in excess of the individual limit set out in the Listing Rules of the Stock Exchange (i.e. 1% of the total issued share capital of the Company in any 12-month period).

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## **SUBSTANTIAL SHAREHOLDERS**

At the date of this report, no person had registered an interest of 5% 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 35 to the financial statements.

## **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.



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## **AUDITORS**

Ernst & Young resigned as auditors of the Company on 7 March 2003 and Grant Thornton were appointed as auditors of the Company on 24 March 2003. There have been no other changes of auditors since the Company's incorporation on 21 November 2000.

Grant Thornton will 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 2003