

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 2004.

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 13 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 2004 is set out in note 3 to the financial statements.

RESULTS AND DIVIDENDS

The Group's result for the year ended 31 December 2004 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 66.

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 (the "Stock Exchange") 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 People's Republic of China. 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				
	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
Turnover	<u>80,674</u>	<u>84,046</u>	<u>100,343</u>	<u>122,808</u>	<u>139,344</u>
(Loss)/Profit before taxation	<u>(14,116)</u>	<u>(4,776)</u>	<u>14,089</u>	<u>17,377</u>	<u>48,714</u>
Taxation	<u>790</u>	<u>169</u>	<u>(2,411)</u>	<u>(3,919)</u>	<u>(7,276)</u>
(Loss)/Profit after taxation	<u>(13,326)</u>	<u>(4,607)</u>	<u>11,678</u>	<u>13,458</u>	<u>41,438</u>
Minority interests	<u>54</u>	<u>2</u>	<u>(4)</u>	<u>-</u>	<u>-</u>
(Loss)/Profit attributable to shareholders	<u>(13,272)</u>	<u>(4,605)</u>	<u>11,674</u>	<u>13,458</u>	<u>41,438</u>

ASSETS AND LIABILITIES

	31 December				
	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
Total assets	<u>230,415</u>	<u>239,069</u>	<u>236,266</u>	<u>243,210</u>	<u>182,032</u>
Total liabilities	<u>83,927</u>	<u>(82,233)</u>	<u>(77,252)</u>	<u>(80,414)</u>	<u>(72,869)</u>
Minority interest	<u>-</u>	<u>(54)</u>	<u>(5)</u>	<u>-</u>	<u>-</u>
	<u>146,488</u>	<u>156,782</u>	<u>159,009</u>	<u>162,796</u>	<u>109,163</u>

Notes:

- (1) The consolidated results of the Group for the years ended 31 December 2003 and 2004 are set out on page 18 of this annual report.
- (2) The consolidated balance sheets as at 31 December 2003 and 31 December 2004 are as set out on page 19 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 11 to the financial statements. Further details of the Group's investment properties are set out on page 47 of the annual report.

BANK AND OTHER BORROWINGS

Details of the bank and other borrowings of the Group as at 31 December 2004 are set out in notes 21 and 22 to the financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital together with reasons therefor, are set out in notes 23 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 25 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2004, the Company had distributable reserves of approximately HK\$128,805,000. 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\$1,658,000, respectively, at 31 December 2004 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.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling approximately HK\$15,000.

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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 33 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 2004.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 41% of the total sales for the year and sales to the largest customer included therein accounted for approximately 13%. 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 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

Mr. Peng Guanghui (appointed on 23 September 2004)

In accordance with article 87 of the Company's articles of association, Madam Hui Hung Tan, Teresa, will retire by rotation and, being eligible, will offer herself for re-election at the forthcoming annual general meeting.

In accordance with article 86(3) of the Company's articles of association, Mr. Peng Guanghui will retire 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 to 7 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 and shall continue thereafter for successive terms of one year, 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

As at 31 December 2004, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are deemed or taken to have under such provisions of the SFO) or which were required pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

Name of Directors	Capacity	Number of Shares	Approximate shareholding
Hui Kee Fung	Interest of a controlled corporation (<i>note</i>)	1,567,500,000 Long position	70.81%
Hui Ki Yau	Not applicable	–	–
Hui Hung Tan, Teresa	Not applicable	–	–

Note: The shares are held by Legend Win Profits Limited, a company incorporated in the British Virgin Islands. The issued share capital of Legend Win Profits Limited is beneficially owned by Hui Kee Fung, Hui Ki Yau, 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 incorporated in Hong Kong, limited by guarantee and does not have a share capital. Hui Kee Fung, Hui Ki Yau and Hui Hung Tan, Teresa are the registered members and directors of Hui's K. K. Foundation Limited.

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DIRECTORS' INTERESTS IN SHARES *(Continued)*

Save as disclosed above, as at the 31 December 2004, none of the Directors and the chief executives of the Company and their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which had been notified to the Company and the Stock Exchange pursuant to the Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are deemed or taken to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Rules Governing the Listing of Securities on the Stock Exchange to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the headings "Directors' interests in shares" 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 28 May 2002. Pursuant to the 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 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 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 Scheme save that the total number of Shares which may be issued upon exercise of all options to be granted under the 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.

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SHARE OPTION SCHEME *(Continued)*

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 2004, no options had been granted or outstanding under the Scheme operated by the Group.

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" above.

RELATED PARTY TRANSACTION

Details of the related party transactions for the year are set out in note 28 to the financial statements.

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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CORPORATE GOVERNANCE

The Group seeks to maintain good corporate governance to enhance long term shareholder value, with an emphasis on transparency, responsibility, independence and accountability.

The Board is currently composed of three executive directors, Mr. Hui Kee Fung, Mr. Hui Ki Yau, Madam Hui Hung Tan, Teresa and three independent non-executive directors, Mr. Sy Chin Mong, Stephen, Dr. Lin Al Yue and Mr. Peng Guanghui. The role of the chairman is separated from the chief executive officer. The chairman is responsible for overseeing the proper functioning of the Board and monitoring group strategy. The chief executive officer, supported by the executive directors, is responsible for managing the group's business and implementing the group's strategies.

Board meetings are held regularly. All directors are given full information in advance of board meetings and notified of any corporate communications in which they are named. Each director must comply with the Model Code for Securities Transactions by Directors as set out in Appendix 10 of Listing Rules when dealing in the Company's shares.

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.

The Code was replaced by the Code of Corporate Governance Practice (the "New Code"), which became effective on 1 January 2005. Appropriate actions are being taken by the Company to comply with the New Code.

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. Peng Guanghui, Mr. Sy Chin Mong, Stephen and Dr. Lin Al Yue, the independent non-executive directors of the Company.

REMUNERATION COMMITTEE

A Remuneration Committee has been established by the Company to establish policies, review and determine the remuneration of directors and the senior management. The Remuneration Committee comprises Dr. Lin Al Yue, Mr. Sy Chin Mong, Stephen, Mr. Peng Guanghui, the independent non-executive directors of the Company and Mr. Hui Kee Fung, the Chairman of the Company.

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NOMINATION COMMITTEE

A Nomination Committee has been established by the Company to make recommendations to the Company as to ensure that all nominations are fair and transparent. The Nomination Committee comprises Mr. Sy Chin Mong, Stephen, Dr. Lin Ai Yue, Mr. Peng Guanghui, the independent non-executive directors of the Company and Mr. Hui Kee Fung, the Chairman of the Company.

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Nomination Committee has assessed the independence of the independent non-executive directors and considers all of the independent non-executive directors are independent.

AUDITORS

Grant Thornton were appointed as auditors of the Company on 24 March 2003 to fill in the casual vacancy arising from the resignation of Ernst & Young. There have been no other change of auditors in the last three years.

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

26 April 2005