

# Directors' Report

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

**PRINCIPAL ACTIVITIES** The Company is an investment holding company. Its principal subsidiaries are engaged in garment manufacturing and trading, branded products distribution, property rental and management, property development and investing activities. The Company and its subsidiaries are hereinafter collectively referred to as the Group.

The Group's associates are principally engaged in property development.

Details of the Company's principal subsidiaries and Group's principal associates at 31 December 2001 are set out in notes 43 and 44 to the financial statements respectively.

**RESULTS** The results of the Group for the year ended 31 December 2001 are set out in the consolidated income statement on page 32.

The directors recommend a final dividend of HK cents 2.5 per share for the year ended 31 December 2001 (2000: Nil) to be payable to shareholders whose names appear on the Register of Members of the Company on 13 June 2002. Subject to the passing of the relevant resolution at the forthcoming annual general meeting, such dividend will be payable on 20 June 2002.

**SHARE CAPITAL** Details of the Company's authorised and issued share capital as at 31 December 2001 are set out in note 29 to the financial statements. There was no change in the year.

**RESERVES** Movements in the reserves of the Group and of the Company are set out in note 30 to the financial statements.

**INVESTMENT PROPERTIES** The Group revalued its investment properties as at 31 December 2001 on an open market value basis. Movements during the year are set out in note 14 to the financial statements.

A summary of the properties held by the Group for investment purposes at 31 December 2001 is set out on page 77.

**PROPERTIES UNDER DEVELOPMENT** The details of the Group's properties under development at 31 December 2001 are set out on page 78. Changes during the year are set out in note 15 to the financial statements.

**OTHER PROPERTIES, PLANT AND EQUIPMENT** During the year, the Group acquired other properties, plant and equipment totalling HK\$19.2 million in its normal course of business. These and other significant movements during the year are set out in note 16 to the financial statements.

**DONATIONS** During the year, the Group made charitable and other donations totalling HK\$0.2 million.

**DIRECTORS AND DIRECTORS' SERVICES CONTRACTS**  
The directors of the Company during the year and up to the date of this report were:

**Executive directors:**

CHENG Wai Chee, Christopher JP, *Chairman*

CHENG Wai Sun, Edward *Chief Executive*

CHENG Man Piu, Francis

NG Tak Wai, Frederick

**Non-executive directors:**

CHENG Wai Keung

KWOK Ping Sheung, Walter

KWOK Ping Kwong, Thomas

KWOK Ping Luen, Raymond

WONG Yick Kam, Michael

*(alternate to Walter KWOK, Thomas KWOK and Raymond KWOK)*

**Independent non-executive directors:**

Simon MURRAY CBE

FANG Hung, Kenneth JP

In accordance with bye-law 100 of the Company's bye-laws, Messrs. CHENG Man Piu, Francis, CHENG Wai Keung and KWOK Ping Sheung, Walter will retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

All directors, except the Chairman of the Company, are subject to retirement by rotation as required by the Company's bye-laws.

None of the 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.

**COMPLIANCE WITH THE CODE OF BEST PRACTICE** In the opinion of the directors, the Company has complied throughout the financial year ended 31 December 2001 with the Code of Best Practice set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

**AUDIT COMMITTEE** The Company's audit committee comprises Messrs. Simon MURRAY and FANG Hung, Kenneth who are the independent non-executive directors of the Company. In establishing the terms of reference for this committee, the directors have had regard to the "Guide for the formation of an audit committee" issued by the Hong Kong Society of Accountants in December 1997.

The audit committee of the Company has reviewed the accounting principles and policies adopted by the Company and discussed with management the internal control, auditing and financial reporting matters in respect of the annual report including review of the audited consolidated financial statements of the Company for the year ended 31 December 2001.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES OF THE COMPANY

As at 31 December 2001, as notified to the Company pursuant to Hong Kong's Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), the interests of the directors and the chief executive in the shares of the Company were as follows:

Name of director	Number of shares held			
	Personal interests	Family interests	Corporate interests	Other interests
CHENG Wai Chee, Christopher	75,999	-	150,409,086	110,595,862
			Note (a)	Notes (b) and (c)
CHENG Wai Sun, Edward	-	-	-	110,595,862
				Notes (b) and (d)
CHENG Man Piu, Francis	-	-	-	110,595,862
				Note (b)
NG Tak Wai, Frederick	26,000	762,000	-	Note (e)
CHENG Wai Keung	-	-	-	110,595,862
				Note (b)
KWOK Ping Sheung, Walter	-	-	-	-
KWOK Ping Kwong, Thomas	-	-	-	-
KWOK Ping Luen, Raymond	-	-	-	-
Simon MURRAY	-	-	-	-
FANG Hung, Kenneth	-	-	-	-
WONG Yick Kam, Michael (alternate to Walter KWOK, Thomas KWOK and Raymond KWOK)	-	-	-	-

### Notes:

- (a) By virtue of the SDI Ordinance, Mr. CHENG Wai Chee, Christopher was interested in 150,409,086 shares of the Company beneficially owned by Bestime Resources Limited, Pofung Investments Limited and Broxbourne Assets Limited. Bestime Resources Limited, Pofung Investments Limited and Broxbourne Assets Limited were the beneficial owners of 68,747,996, 66,698,122 and 14,962,968 shares of the Company respectively.
- (b) Messrs. CHENG Wai Chee, Christopher, CHENG Wai Sun, Edward, CHENG Man Piu, Francis and CHENG Wai Keung were beneficiaries of a trust which assets included indirect interests in 110,595,862 shares of the Company beneficially owned by Brave Dragon Limited and Wing Tai Garment Manufactory (Singapore) Pte Limited as set out under "Substantial Shareholders" below.
- (c) Mr. CHENG Wai Chee, Christopher had outstanding options to subscribe for 2,000,000 shares of the Company as set out below under "Directors' and Chief Executive's Rights to acquire Shares or Debentures" pursuant to the share option scheme of the Company.
- (d) Mr. CHENG Wai Sun, Edward had outstanding options to subscribe for 3,000,000 shares of the Company as set out below under "Directors' and Chief Executive's Rights to acquire Shares or Debentures" pursuant to the share option scheme of the Company.
- (e) Mr. NG Tak Wai, Frederick had outstanding options to subscribe for 1,290,000 shares of the Company as set out below under "Directors' and Chief Executive's Rights to acquire Shares or Debentures" pursuant to the share option scheme of the Company.

Other than disclosed above, as at 31 December 2001, none of the directors or the chief executive has (i) any interest in, or any deemed interest in, pursuant to Section 28 of the SDI Ordinance or under Section 31 or Part I of the Schedule to the SDI Ordinance, the shares of the Company or any associated corporation (within the meaning of the SDI Ordinance); or (ii) any interest which is required to be entered in the register kept by the Company pursuant to Section 29 of the SDI Ordinance; or (iii) any interest which is required to be disclosed, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 to the Listing Rules, to the Company and the Stock Exchange of Hong Kong Limited.

## SHARE OPTION SCHEME

Pursuant to the 2001 Share Option Scheme for employees of the Company (the "Scheme") adopted on 26 June 2001 and effective on 1 July 2001, the Board of Directors may, on or before 30 June 2011, at its discretion offer to grant options at an option price of HK\$1.00 to any employees, including executive directors, of the Company or any of its subsidiaries to subscribe for shares of the Company. The subscription price is the higher of 80% of the average of the closing prices of the shares of the Company on The Stock Exchange of Hong Kong Limited for the five trading days immediately preceding the date of the offer of options and the nominal value of the shares. The maximum aggregate number of shares issued and to be issued on the exercise of options and in respect of which options may be granted under the Scheme may not exceed 10% of the total number of shares in issue from time to time excluding any shares issued on the exercise of options. No option shall be granted to any employees which if exercised in full would result in the total number of shares already issued and issuable to him or her under the Scheme exceeding 25% of the aggregate number of shares for the time being issued and issuable under the Scheme.

No option has been granted under the Scheme during the year. The movements of the options granted under the Company's former share option scheme, which remain valid, during the year are as follows:

Date of grant	Exercise price per share HK\$	Outstanding at 1.1.2001	Number of share options	
			Lapsed during the year	Outstanding at 31.12.2001
26 July 1996	2.151	2,883,325	(2,883,325)	-
29 July 1996	2.151	1,111,111	(1,111,111)	-
26 February 1997	2.500	80,000	-	80,000
30 August 1997	2.330	3,270,000	-	3,270,000
15 November 1999	0.800	9,875,000	-	9,875,000
18 August 2000	2.025	5,422,222	(5,422,222)	-
Total		22,641,658	(9,416,658)	13,225,000

The options are generally exercisable in stages within a period of one to five years from the date of grant.

At 31 December 2001, the exercise prices of the outstanding options ranged from HK\$0.80 to HK\$2.50 per share. If all the outstanding share options were exercised, the Company would receive gross proceeds, before expenses, of approximately HK\$15.7 million from the issue of 13,225,000 new shares of HK\$0.50 each in the Company.

## DIRECTORS' AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Under the Company's share option scheme, certain directors of the Company have personal interests in share options which have been granted to them to subscribe for shares in the Company.

Name of director	Date of grant	Exercise price per share HK\$	Number of shares for which options have been granted		
			Outstanding at 1.1.2001	Lapsed during the year	Outstanding at 31.12.2001
CHENG Wai Chee, Christopher	15.11.1999	0.800	2,000,000	-	2,000,000
CHENG Wai Sun, Edward	26.7.1996	2.151	833,333	(833,333)	-
	30.8.1997	2.330	1,000,000	-	1,000,000
	15.11.1999	0.800	2,000,000	-	2,000,000
	18.8.2000	2.025	5,422,222	(5,422,222)	-
NG Tak Wai, Frederick	26.7.1996	2.151	333,333	(333,333)	-
	30.8.1997	2.330	430,000	-	430,000
	15.11.1999	0.800	860,000	-	860,000
Simon MURRAY	29.7.1996	2.151	1,111,111	(1,111,111)	-

No option was granted to, or exercised by, the Company's directors during the year.

Other than as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors or the chief executive of the Company to acquire benefits by means of acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate and none of the directors, the chief executive, their spouses or children under the age of 18, had any right to subscribe for securities of the Company, or had exercised any such right during the year.

## SUBSTANTIAL SHAREHOLDERS

As at 31 December 2001, the register kept by the Company under Section 16(1) of the SDI Ordinance showed the following persons, many of whom were related to the directors and the chief executive as stated under "Directors' and Chief Executive's Interests in Shares of the Company", were interested in 10% or more of the nominal value of the issued shares of the Company:

Name of shareholder	Number of shares beneficially held
Brave Dragon Limited	106,345,862
Wing Tai Holdings Limited	110,595,862 (Note 1)
Deutsche Bank International Trust Co. (Jersey) Limited	110,595,862 (Note 2)
Deutsche Bank International Trust Co. (Cayman) Limited	110,595,862 (Note 2)
Wing Tai Asia Holdings Limited	110,595,862 (Note 2)
Wing Sun Development Pte Limited	110,595,862 (Note 2)
Terebene Holdings Inc.	110,595,862 (Note 2)
Winlyn Investment Pte Limited	110,595,862 (Note 2)
Bestime Resources Limited	68,747,996 (Note 3)
Pofung Investments Limited	66,698,122 (Note 3)
Wing Tai Corporation Limited	135,446,118 (Note 3)
Wesmore Limited	83,316,158 (Note 4)
Sun Hung Kai Properties Limited	100,762,150 (Note 4)

### Notes:

- (1) Wing Tai Holdings Limited beneficially owned 89.4% of the issued shares of Brave Dragon Limited and 100% of the issued shares of Wing Tai Garment Manufactory (Singapore) Pte Limited which owned 4,250,000 shares of the Company.
- (2) Deutsche Bank International Trust Co. (Jersey) Limited was the trustee of a family trust (in which Messrs. CHENG Wai Chee, Christopher, CHENG Wai Sun, Edward, CHENG Man Piu, Francis and CHENG Wai Keung were beneficiaries) which held all units of a unit trust ("Unit Trust"). Deutsche Bank International Trust Co. (Cayman) Limited was the trustee of the Unit Trust which beneficially owned 100% issued shares of Wing Tai Asia Holdings Limited and 61.3% of the issued shares of Terebene Holdings Inc.. Wing Tai Asia Holdings Limited, through its wholly-owned subsidiary, Wing Sun Development Pte Limited, held 28.3% of the issued shares of Wing Tai Holdings Limited. Terebene Holdings Inc. held 59.3% of the issued shares of Winlyn Investment Pte Limited, which in turn held 10.8% of the issued shares of Wing Tai Holdings Limited.
- (3) Wing Tai Corporation Limited beneficially owned 100% of Bestime Resources Limited and Pofung Investments Limited. Accordingly, it was deemed by the SDI Ordinance to be interested in the shares of the Company beneficially owned by Bestime Resources Limited and Pofung Investments Limited.
- (4) Sun Hung Kai Properties Limited beneficially owned 100% of Soundworld Limited, Techglory Limited and Wesmore Limited. Soundworld Limited was the beneficial owner of 16,260,992 shares of the Company and Techglory Limited was the beneficial owner of 1,185,000 shares of the Company.

Other than disclosed above, there was no person recorded in the register kept pursuant to Section 16(1) of the SDI Ordinance having an interest in 10% or more of the nominal value of the issued share capital of the Company as at 31 December 2001.

**DIRECTORS' INTERESTS IN CONTRACTS** There were no contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, which subsisted at the end of the year or at any time during the year.

**DIRECTORS' INTERESTS IN COMPETING BUSINESSES** The interests of directors of the Company in competing businesses required to be disclosed pursuant to Rule 8.10 of the Listing Rules are as follows:

Messrs. CHENG Wai Chee, Christopher, CHENG Wai Sun, Edward and CHENG Man Piu, Francis are substantial shareholders of Wing Tai (Cheng) Holdings Limited and Pacific Investment Exponents Inc. (the "Group One Companies"). Messrs. CHENG Wai Chee, Christopher and CHENG Man Piu, Francis are directors of Wing Tai (Cheng) Holdings Limited. Messrs. CHENG Wai Chee, Christopher, CHENG Wai Sun, Edward and CHENG Man Piu, Francis are directors of Pacific Investment Exponents Inc.

Messrs. CHENG Wai Chee, Christopher, CHENG Wai Sun, Edward, CHENG Man Piu, Francis and CHENG Wai Keung are beneficiaries of a family trust which is a substantial shareholder of Wing Tai Garment Industrial Holdings Limited (the "Group Two Company"). Messrs. CHENG Wai Chee, Christopher and CHENG Man Piu, Francis are directors of the Group Two Company.

Messrs. CHENG Wai Chee, Christopher, CHENG Wai Sun, Edward, CHENG Man Piu, Francis and CHENG Wai Keung are beneficiaries of a family trust which is a substantial shareholder of Wing Tai Asia Holdings Limited and Terebene Holdings Limited (the "Group Three Companies"). Mr. CHENG Wai Keung is a director of the Group Three Companies.

Certain companies controlled by the Group One Companies and the Group Two Company carry on garment business in

China and Cambodia which may be regarded as competitive to the Company's apparel business.

Certain companies affiliated with the Group Three Companies carry on garment business in Malaysia and Sri-Lanka which might be regarded as competitive to the Company's apparel business.

The Company's management team is separated from and independent of those of the Group One Companies, Group Two Company and Group Three Companies. The Company's management team has been instructed that whatever businesses to be transacted with the Group One Companies, Group Two Company, Group Three Companies and/or any companies controlled thereby/affiliated therewith shall be transacted at arm's length. Furthermore, the Company's independent non-executive directors and the members of the Company's audit committee will ensure that the Company is capable of carrying on its business independently of, and at arm's length from the aforesaid garment businesses.

Messrs. KWOK Ping Sheung, Walter, KWOK Ping Kwong, Thomas, KWOK Ping Luen, Raymond and WONG Yick Kam, Michael are directors of Sun Hung Kai Properties Limited ("SHKP"). Businesses of SHKP consist of property development and investment. Only in this respect they are regarded to be interested in the relevant Competing Business with the Company.

Messrs. KWOK Ping Sheung, Walter, KWOK Ping Kwong, Thomas, KWOK Ping Luen, Raymond and WONG Yick Kam, Michael are directors of SUNeVision Holdings Limited ("SUNeVision"). Businesses of SUNeVision consist of Internet services. Only in this respect they are regarded to be interested in the relevant Competing Business with the Company.

Messrs. KWOK Ping Sheung, Walter and KWOK Ping Luen, Raymond are directors of The Kowloon Motor Bus Holdings Limited ("KMB"). Businesses of KMB consist of property development and investment. Only in this respect they are

regarded to be interested in the relevant Competing Business with the Company.

Mr. KWOK Ping Luen, Raymond is a director of SmarTone Telecommunications Holdings Limited ("SmarTone"). Businesses of SmarTone consist of Internet service. Only in this respect he is regarded to be interested in the relevant Competing Business with the Company.

The aforesaid Competing Businesses, in which Messrs. KWOK Ping Sheung, Walter, KWOK Ping Kwong, Thomas, KWOK Ping Luen, Raymond and WONG Yick Kam, Michael are regarded to be interested, are managed by publicly listed companies with independent management and administration. In this respect, coupled with the diligence of its independent non-executive directors and audit committee, the Company is capable of carrying on its business independently of, and at arm's length from the said Competing Businesses.

#### CONNECTED TRANSACTIONS

1. As previously reported, the Company (through a wholly-owned subsidiary had granted certain loans (the "Shareholders' Loans") to Union Charm Development Limited ("Union Charm") in proportion to the Company's equity interest in Union Charm.

The Company has a 7.5% attributable indirect shareholding in Union Charm, held through Avondale Properties Limited ("Avondale"), the beneficial owner of the entire issued ordinary share capital of Union Charm, and Everton Properties Limited ("Everton"), which holds 15% of the issued share capital of Avondale and 15% of the issued participating preference shares of Union Charm. Each of World-Wide Investment Company (Bermuda) Limited ("WWI") and a wholly-owned subsidiary of the Company holds 50% of the issued share capital of Everton.

On 12 March 2001, Union Charm entered into a loan agreement with The Hongkong and Shanghai Banking Corporation Limited (the "Lender") pursuant to which

the Lender has agreed to provide loan facilities for an aggregate amount of HK\$2,950 million to Union Charm (the "Loan Facilities"). The Loan Facilities are primarily for the purpose of refinancing part of the Shareholders' Loans advanced to Union Charm and the Loan Facilities are for a three-year term and amounts drawn thereunder carry interest at a rate based on the Hong Kong inter-bank offered rate.

As part of the security package for the Loan Facilities, the Company, a wholly-owned subsidiary thereof and Everton respectively entered into a Deed of Consent and Authorisation (consenting to Union Charm executing a Security Deed in favour of the Lender), a Subordination Agreement (subordinating the Shareholders' Loans to the loans made by the Lender under the Loan Facilities) and a Share Mortgage (mortgaging the Group's shareholding in Union Charm to the Lender) in favour of the Lender. The directors (including the independent non-executive directors) of the Company considered that the Loan Facilities had been granted on normal commercial terms.

2. As previously reported, Joy Alliance Limited ("Joy Alliance") and Bostar Limited ("Bostar") entered into a loan agreement with Hang Seng Bank Limited (the "Bank") under which the Bank provided loan facilities to Joy Alliance and Bostar for an amount up to HK\$143,010,000 for a term of three years commencing 31 May 1999 ("Loan Facilities") to finance the Nga Tsin Wai Road redevelopment project in Kowloon Tong. The Company indirectly owns 87.5% interests in each of Joy Alliance and Bostar, the remaining 12.5% interests are owned by King Begonia Limited, a company which is incorporated in Hong Kong. As a condition of the Loan Facilities, the Company granted a guarantee (the "Guarantee") in favour of the Bank to secure in full the payment obligations of both Joy Alliance and Bostar under the Loan Facilities. The granting of the Guarantee constituted a connected transaction of the Company as King Begonia Limited was a Connected Person by virtue of it being a substantial shareholder in Joy Alliance and Bostar.

On 15 March 2001, Joy Alliance and Bostar further entered into a Supplement to Loan Agreement with the Bank pursuant to which the Bank has agreed to increase the amount of the Loan Facilities from HK\$143,010,000 to HK\$166,010,000. In this connection, the Company as required by the term of the Supplement to Loan Agreement on the same date, entered into a Supplement to Guarantee in favour of the Bank to provide additional guarantee to cover to the extent that the liabilities of Joy Alliance and Bostar under the amended Loan Facilities.

On 20 March 2002, the Bank has agreed to extend the final maturity date of the Loan Facilities to 31 May 2003.

- On 30 May 2001, a wholly-owned subsidiary of the Company, Shui Ming Garment Manufacturing Limited ("Shui Ming"), acquired 2,880,000 shares of HK\$1.00 each, representing 36% of the issued share capital of Shui Ying Knitting and Garment Factory Limited ("Shui Ying") from Mr. Chan Chow Bor at a consideration of HK\$6,002,000. Shui Ying became a wholly-owned subsidiary of Shui Ming after the acquisition. Mr. Chan Chow Bor is a director of Shui Ying, a subsidiary of the Company, and is therefore a connected person as defined in the Listing Rules.

The directors of the Company, including the independent non-executive directors, believe that the terms of the above transactions are fair and reasonable, are in the interests of the Group, and were concluded on normal commercial terms in the ordinary and usual course of the Group's business.

**MAJOR CUSTOMERS AND SUPPLIERS** For the year ended 31 December 2001, the aggregate purchases and turnover attributable to the Group's five largest suppliers and customers were less than 30% of the total value of the Group's purchases and turnover respectively.

**PRACTICE NOTE 19 TO THE LISTING RULES** As at 31 December 2001, the aggregate amount of financial assistance provided to and guarantees given for affiliated

companies by the Group amounted to HK\$533.2 million, represented approximately 42.3% of the net assets of the Group.

A pro-forma combined balance sheet of these affiliated companies and the Group's attributable interest in these affiliated companies as at 31 December 2001 are presented below:

(HK\$'M)	Pro-forma combined balance sheet	Group's attributable interest
Non-current assets	4,372.4	548.1
Current assets	688.4	90.0
Current liabilities	(618.3)	(104.4)
Non-current liabilities	(5,061.4)	(586.4)
Net liabilities	(618.9)	(52.7)

**PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES** Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year.

**PRE-EMPTIVE RIGHTS** There is no provisions for pre-emptive rights under the Company's bye-laws although there is no restriction against such rights under the laws in Bermuda.

**AUDITORS** A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as the auditors of the Company.

On behalf of the Board

**CHENG Wai Chee, Christopher**

*Chairman*

Hong Kong, 15 April 2002