

The directors present their annual report and the audited financial statements for the year ended 31 March 2002.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in the provision of fabric knitting, dyeing and finishing services, the production and sale of finished knitted fabric and the trading of garment products.

RESULTS

The results of the Group for the year ended 31 March 2002 are set out in the consolidated income statement on page 35. The directors recommend the payment of a final dividend of HK3.0 cents per share, in cash form with a scrip dividend option to the shareholders whose names appear on the register of members on 23 August 2002, amounting to approximately HK\$10,793,000. Details of the dividends for the year are set out in note 9 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 20 to the financial statements.

RESERVES

Details of movements in the reserves of the Group and of the Company during the year are set out in note 21 to the financial statements.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 12.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment at a total cost of approximately HK\$83 million to expand its business. Details of movements in the property, plant and equipment of the Group during the year are set out in note 11 to the financial statements.

INVESTMENT PROPERTIES

Details of movements in the investment properties of the Group during the year are set out in note 12 to the financial statements.

DIRECTORS AND SERVICE CONTRACTS

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

Executive directors:

Mr. Li Ming Hung (*Chairman*)

Mr. Chen Tien Tui (*Managing Director*)

Mr. So Kam Wah

Mr. Lee Yuen Chiu, Andy (appointed on 10 April 2001)

Mr. Choi Lin Hung (appointed on 10 April 2001)

Independent non-executive directors:

Mr. Kan Ka Hon

Mr. Phaisalakani Vichai (Andy Hung)

In accordance with Clause 87(1) of the Company's Bye-laws, Mr. Kan Ka Hon and Mr. Phaisalakani Vichai (Andy Hung) will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. All other directors continue in office.

The directors being proposed for re-election at the forthcoming annual general meeting do not have service contracts with the Company or any of its subsidiaries which are not determinable by the Group within one year without payment of compensation other than statutory compensation.

The independent non-executive directors have been appointed for a term subject to retirement by rotation as required by the Company's Bye-laws.

DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS

During the year, the Group had transactions with connected parties as follows:

(1) Name of company	Notes	Nature of transactions	Amount HK\$'000
Denin Trading Company Limited	(i)	Purchases of raw materials by the Group	2,848
Verdure Enterprises Limited	(ii)	Operating lease rental paid by the Group	108
Ford Glory International Limited ("Ford Glory")	(iii)	Sales of raw materials by Victory City Company Limited, a wholly owned subsidiary of the Company	6,698

(2) On 24 May 2001, Pearl Garden Pacific Limited (note iv) and Madian Star Limited (note v), two controlling shareholders of the Company, together entered into an agreement to subscribe for an aggregate of 55,296,000 new shares in the Company at the price of HK\$0.25 each, details of which are disclosed in note 20 (iv) to the financial statements.

(3) On 12 December 2001, Pearl Garden Pacific Limited (note iv) and Madian Star Limited (note v), two controlling shareholders of the Company, together entered into an agreement to subscribe for an aggregate of 28,000,000 new shares in the Company at the price of HK\$0.275 each, details of which are disclosed in note 20 (v) to the financial statements.

- (4) On 1 April 2001, the Company purchased 51% interest in Ford Glory, a private limited company incorporated in Hong Kong and engaged in trading of garment products, at a consideration of approximately HK\$8.3 million.

Included in the acquired 51% interest in Ford Glory, 11% interest in Ford Glory was acquired from Mr. Choi Lin Hung, the substantial shareholder of Ford Glory before the acquisition.

The acquisition constituted a connected transaction of the Group as Mr. Choi Lin Hung became a director of the Group on 10 April 2001 and he is also the remaining shareholder in Ford Glory.

- (5) As at 31 March 2002, the Company and certain of its wholly owned subsidiaries have conditionally agreed to provide guarantees in favour of several banks in respect of facilities granted by the banks to Ford Glory, a non-wholly owned subsidiary of the Company in which Mr. Choi Lin Hung has a 49% beneficial interest.

The guarantees given by the Group in respect of credit facilities granted to Ford Glory amounted to HK\$72 million in aggregate as at 31 March 2002. The amount of financial assistance provided exceeds the proportional interest of the Company in Ford Glory. The provision of the guarantees constitutes connected transactions under Rule 14.26 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Mr. Choi Lin Hung will not provide similar guarantees to the banks but will provide pro rata counter indemnity to the Company and the relevant wholly owned subsidiaries of the Company.

- (6) As at 31 March 2002, the trading balances due from Ford Glory to the Group amounted to approximately HK\$6,270,000.

Notes:

- (i) A company in which Mr. Chen Tien Tui has a 33¹/₃% beneficial interest.
- (ii) The entire issued share capital of Verdure Enterprises Limited is owned by a discretionary trust, the object of which include Mr. Li Ming Hung and his family.
- (iii) A subsidiary of the Company held as to 51% by the Group and as to 49% by Mr. Choi Lin Hung.
- (iv) The entire issued share capital of Pearl Garden Pacific Limited is owned by a discretionary trust, the object of which include Mr. Li Ming Hung and his family.
- (v) The entire issued share capital of Madian Star Limited is owned by a discretionary trust, the object of which include Mr. Chen Tien Tui and his family.

In the opinion of the independent non-executive directors of the Company, these transactions were carried out on normal commercial terms in the ordinary course of business of the Group.

Other than as disclosed above, no other 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 and indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN SECURITIES

At 31 March 2002, the interests of the directors in the shares of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Hong Kong Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

Name of director	Number of shares of HK\$0.01 each	
	Personal interests	Other interests
Mr. Li Ming Hung (<i>Note (1)</i>)	—	65,000,000
Mr. Chen Tien Tui (<i>Note (2)</i>)	461,600	65,000,000
Mr. Phaisalakani Vichai (Andy Hung)	400,000	—

Notes:

- (1) These shares were owned by Pearl Garden Pacific Limited, a company beneficially owned by a discretionary trust the objects of which include Mr. Li Ming Hung and his family.
- (2) The shares described as "other interests" were owned by Madian Star Limited, a company beneficially owned by a discretionary trust the objects of which include Mr. Chen Tien Tui and his family.

No director held an interest in the securities of any subsidiaries of the Company or any of its associated corporations as defined in the SDI Ordinance as at 31 March 2002 except for the following:

- (a) One nominee share in each of Victory City Company Limited, Grace Link Enterprises Limited and Best Color Development Limited is held by Mr. Li Ming Hung in trust for the Group;
- (b) Each of Messrs. Li Ming Hung and Chen Tien Tui holds 4,000,000 non-voting deferred shares in Victory City Company Limited;
- (c) Each of Messrs. Li Ming Hung, Chen Tien Tui holds 1,300 redeemable non-voting preference shares in Victory City Overseas Limited; and
- (d) Mr. Choi Lin Hung holds 2,450,000 ordinary shares in Ford Glory and 700 redeemable non-voting preference shares in Victory City Overseas Limited.

Other than as disclosed above, none of the directors, or their associates, had any interests in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance, and none of the directors, or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

SUBSTANTIAL SHAREHOLDERS

At 31 March 2002, the register of substantial shareholders maintained by the Company under Section 16(1) of the SDI Ordinance showed that, other than the interests disclosed above in respect of the directors, the Company has not been notified of any interests representing 10% or more of the Company's issued share capital.

SHARE OPTIONS

Pursuant to the special general meeting of the Company held on 30 November 2001, the Board of Directors of the Company had terminated the share option scheme which was adopted by the Company pursuant to an ordinary resolution passed at the special general meeting held on 22 April 1996. At the same day, the Board of Directors approved and adopted the new share option scheme (the "Scheme") as follows.

The Scheme was adopted for the primary purpose of providing incentives or rewards to selected participants for their contribution to the Group, and will expire on 29 November 2011. Under the Scheme, the Board of Directors of the Company may grant options to full-time employees, including executive directors of the Company and its subsidiaries, and any participants from time to time determined by the Board of Directors as having contributed or may contribute to the development and growth of the Group to subscribe for shares in the Company.

At 31 March 2002, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 82,944,000, representing approximately 23% of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 30% of the shares of the Company in issue at any point in time. The number of shares in respect of which options may be granted to any individual is not permitted to exceed 1% of the issued share capital of the Company for the time being.

Options granted must be taken up within 21 days from the date of grant, upon payment of HK\$1 per each grant of option(s). Options may generally be exercised at any time from the date of grant to the 10th anniversary of the date of grant. In each grant of options, the Board of Directors may at their discretion determine the specific exercise period and exercise price. The exercise price shall not be less than the highest of (i) the closing price of shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of the offer of grant; (ii) the average closing price of shares on the Stock Exchange for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the shares.

The fair value of the option granted in the current year measured as at 11 October 2001, the date on which the Board of Directors proposed to grant the options, was totalled approximately HK\$22,810,000. The following significant assumptions were used to derive the fair value using the Black-Scholes option pricing model:

Expected life of options	10 years
Expected volatility based on historical volatility of share prices	101%
Hong Kong Exchange Fund Notes interest rate	5.39% per annum

The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the opinion of the directors, the existing model does not necessarily provide a reliable single measure of the fair value of the share options.

No charge is recognised in the income statement in respect of the value of options granted during the year.

The options granted under the Scheme as at 31 March 2002 were as follows:

	Date of grant	Exercise price <i>HK\$</i>	Number of option shares granted during the year and balance at 31.3.2002
Directors			
Mr. Li Ming Hung	4 December 2001	0.275	8,294,400
Mr. Chen Tien Tui	4 December 2001	0.275	8,294,400
Employees	4 December 2001	0.275	66,355,200
Grand total			82,944,000

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

CODE OF BEST PRACTICE

The Company has complied throughout the year ended 31 March 2002 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws although there are no restrictions against such rights under the laws in Bermuda.

DONATIONS

During the year, the Group made charitable donations totalling HK\$70,000.

AUDITORS

A resolution to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Li Ming Hung

Chairman

Hong Kong

16 July 2002