

# Report of the Directors

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

## Principal Activities

The principal activity of the Company is investment holding. The ongoing principal activities of the Group have not changed during the year and consisted of the manufacturing, trading and distribution of garments, shoes, leather goods, car audio equipment and other merchandise, the trading of securities, and the provision of Internet and Internet-related services.

## Segment Information

An analysis of the Group's turnover and contribution to results by principal activities and geographical area of operations for the year ended 31 March 2002 is set out in note 4 to the financial statements.

## Results

The Group's loss for the year ended 31 March 2002 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 25 to 74.

## Summary Financial Information

A summary of the results and assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements and reclassified as appropriate, is set out below. This summary does not form part of the audited financial statements.

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## Results

	Year ended 31 March				
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i> <i>(Restated)</i>	1998 <i>HK\$'000</i> <i>(Restated)</i>
Turnover	<b>133,665</b>	158,260	125,962	145,930	302,016
Loss before tax	<b>(48,296)</b>	(278,370)	(196,496)	(48,843)	(57,706)
Tax	–	611	121	(144)	859
Loss before minority interests	<b>(48,296)</b>	(277,759)	(196,375)	(48,987)	(56,847)
Minority interests	<b>31</b>	90	–	–	–
Net loss from ordinary activities attributable to shareholders	<b>(48,265)</b>	(277,669)	(196,375)	(48,987)	(56,847)

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## Assets and Liabilities and Minority Interests

	2002 HK\$'000	2001 HK\$'000	31 March		
			2000 HK\$'000	1999 HK\$'000 (Restated)	1998 HK\$'000 (Restated)
Fixed assets	<b>44,221</b>	51,125	60,923	69,047	75,410
Construction in progress	<b>1,202</b>	841	764	603	468
Investment securities	<b>8,160</b>	20,160	160	160	160
Convertible note receivable	<b>18,000</b>	50,000	–	–	–
Current assets	<b>336,478</b>	240,409	559,326	361,404	404,648
<b>Total assets</b>	<b>408,061</b>	362,535	621,173	431,214	480,686
Current liabilities	<b>144,381</b>	140,868	81,321	112,908	187,371
Interest-bearing bank and other loans	–	14,634	41,430	6,175	6,100
Finance lease payables	–	106	116	1,410	–
<b>Total liabilities</b>	<b>144,381</b>	155,608	122,867	120,493	193,471
Minority interests	<b>110</b>	–	–	–	–
<b>Net assets</b>	<b>263,570</b>	206,927	498,306	310,721	287,215

The results of the Group for the two years ended 31 March 1999 and the assets and liabilities of the Group as at 31 March 1999 and 1998 have been restated to take into account a prior year adjustment, as a result of a change in the accounting policy for deferred business development costs which was made in the year ended 31 March 2000.

## Fixed Assets and Construction in Progress

Details of movements in the fixed assets and construction in progress of the Company and the Group during the year are set out in notes 13 and 14 to the financial statements, respectively.

## Share Capital and Share Options

Details of movements in the Company's share capital and share options during the year, together with reasons therefor, are set out in note 28 to the financial statements.

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## Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's bye-laws or the Companies Act 1981 of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

## Purchase, Redemption or Sale of Listed Securities of the Company

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

## Share Premium and Reserves

Details of movements in the share premium account and reserves of the Company and the Group during the year are set out in note 29 to the financial statements.

## Distributable Reserves

As at 31 March 2002, the Company had no reserves available for distribution. In accordance with the Companies Act 1981 of Bermuda, the contributed surplus of the Company is available for distribution or the payment of dividends to shareholders provided that the Company is able to pay its debts as and when they fall due. The share premium account and capital redemption reserve, with an aggregate balance of HK\$259,955,000 as at 31 March 2002, may be distributed in the form of fully paid bonus shares.

## Major Customers and Suppliers

In the year under review, sales to the Group's five largest customers accounted for 80.7% of the total sales for the year and sales to the largest customer included therein amounted to 31.0%. Purchases from the Group's five largest suppliers accounted for 68.5% of the total purchases for the year and purchases from the largest supplier included therein amounted to 31.8%.

As far as the directors are aware, 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.

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## Directors

The directors of the Company during the year were:

Wong Howard

Chan Chun Tung, John

Lo Ki Yan, Karen

Wong Yat Fai

Wu Qing

Lau Yuen Sun, Adrian (resigned on 31 March 2002)

Li Chi Ming \*

Tung Tat Chiu, Michael \*

\* Independent non-executive directors

The independent non-executive directors are appointed initially for one year and thereafter their appointment is subject to renewal on an annual basis in accordance with their employment contracts.

In accordance with clause 98 of the bye-laws of the Company, Ms. Lo Ki Yan, Karen and Mr. Li Chi Ming will retire and, being eligible, will offer themselves for re-election at the Company's forthcoming annual general meeting.

## Biographies of Directors and Senior Management

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 8 to 9 of the annual report.

## Directors' Service Contracts

Mr. Wong Howard and Ms. Lo Ki Yan, Karen have service contracts with the Company for a fixed term of three years commencing from 1 February 2000, which are subject to termination by either party giving not less than six months' written notice.

On 1 April 2000, the Company entered into service agreements with Mr. Wong Yat Fai and Mr. Wu Qing for a fixed term of three years commencing from 1 April 2000. The service agreements are subject to termination by either party giving not less than six months' written notice.

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Mr. Chan Chun Tung, John has a service contract with the Company for a fixed term of three years commencing from 1 April 1998, which remains effective thereafter unless terminated by either party.

Mr. Lau Yuen Sun, Adrian had a service contract with the Company for a fixed term of three years commencing from 1 April 1999, which was subject to termination by either party giving not less than six months' written notice. On 31 March 2002, Mr. Lau Yuen Sun, Adrian resigned as an executive director of the Company.

Both of the independent non-executive directors have entered into service contracts with the Company for terms of one year and are subject to retirement by rotation and re-election at the annual general meeting in accordance with the bye-laws of the Company.

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

Save as disclosed in note 34 to the financial statements, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

### Directors' Interests in Shares

At 31 March 2002, the interests of the directors and their associates in the share capital of the Company and 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") or notified to the Company, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

#### Ordinary Shares of the Company

<b>Name of director</b>	<b>Number of shares held</b>	<b>Nature of interest</b>
Chan Chun Tung, John	13,000,000	Personal

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The interests of the directors in the share options of the Company are separately disclosed in the section “Directors’ rights to acquire shares or debentures”.

In addition to the above, Mr. Wong Howard, Mr. Wong Yat Fai and Mr. Chan Chun Tung, John 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 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 heading “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, 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

On 22 February 1994, the Company adopted a share option scheme (the “Scheme”) in order to attract, retain and motivate high-calibre employees of the Group, under which the directors may, on or before 21 February 2004, at their discretion, make an offer to any employee of the Company or any of its subsidiaries, including directors of the Company or any such subsidiary, for the grant of options to subscribe for shares of the Company. The subscription price is the higher of 80% of the average of the closing share price on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) for the five trading days immediately preceding the date of offer of the option and the nominal value of the shares. The maximum number of shares in respect of which options may be granted under the Scheme may not exceed, in nominal amount, 10% of the issued share capital of the Company from time to time which have been duly allotted and issued. The maximum number of shares in respect of which options may be granted to any one employee or director may not exceed 25% of the aggregate number of shares in respect of which options are issued and issuable under the Scheme. The offer for the grant of share options may be accepted within 40 days from the date of the offer. An amount of HK\$1 is payable by the grantee of an option upon acceptance of the grant of the option.

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The following share options were outstanding under the Scheme during the year:

Name or category of participant	Number of share options				Date of grant of share options *	Exercise period of share options	Exercise price of share options ** date of options ***	Price of Company's shares at grant ***
	At 1 April 2001	Granted during the year	Lapsed during the year	At 31 March 2002				
<b>Directors</b>								
Chan Chun Tung, John	2,400,000	-	-	2,400,000	29-9-1997	27-3-2000 to 21-2-2004#	0.1888	0.155
Lau Yuen Sun, Adrian	1,000,000	-	(1,000,000)	-	23-10-1998	24-10-1998 to 21-2-2004	0.1000	0.089
	18,000,000	-	(18,000,000)	-	28-12-1999	3-1-2000 to 21-2-2004	0.1000	0.093
	-	3,000,000	(3,000,000)	-	17-8-2001	21-8-2001 to 21-2-2004	0.0215	0.026
	19,000,000	3,000,000	(22,000,000)	-				
Wong Howard	-	212,990,000	-	212,990,000	17-8-2001	21-8-2001 to 21-2-2004	0.0215	0.026
Wong Yat Fai	-	212,990,000	-	212,990,000	17-8-2001	21-8-2001 to 21-2-2004	0.0215	0.026
Wu Qing	-	212,990,000	-	212,990,000	17-8-2001	21-8-2001 to 21-2-2004	0.0215	0.026
	21,400,000	641,970,000	(22,000,000)	641,370,000				
<b>Other employees</b>								
In aggregate	2,400,000	-	(2,400,000)	-	29-9-1997	27-3-2000 to 21-2-2004#	0.1888	0.155
	-	83,600,000	(3,100,000)	80,500,000	17-8-2001	21-8-2001 to 21-2-2004	0.0215	0.026
	2,400,000	83,600,000	(5,500,000)	80,500,000				
	23,800,000	725,570,000	(27,500,000)	721,870,000				

\* The vesting period of the share options is from the date of grant until the commencement of the exercise period.

\*\* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

\*\*\* The price of the Company's shares disclosed as at the date of grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of grant of the options.

# The number of shares exercisable and the exercise price of the share options granted were adjusted following the rights issue of shares of the Company on 27 March 2000.



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Summary details of the Company's share option scheme are also set out in note 28 to the financial statements.

The financial impact of the share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

The directors do not consider it appropriate to disclose a theoretical value of the share options granted during the year, because in the absence of a readily available market value of the share options on the ordinary shares of the Company, the directors are unable to arrive at an assessment of the value of these share options.

On 23 August 2001, the Stock Exchange announced amendments to Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") in respect of share option scheme, which subsequently came into effect on 1 September 2001. In compliance with the amendments to the Listing Rules and the announcement of the Stock Exchange, the directors consider to terminate the Scheme of the Company and to adopt a new share option scheme.

The share options granted by the Company to the grantees under the Scheme will not be affected by the proposed new share option scheme.

### Substantial Shareholders

The Company has not been notified of any interest in the Company's issued share capital as at 31 March 2002 amounting to 10% or more of the ordinary shares in issue which is required to be kept pursuant to Section 16(1) of the SDI Ordinance.

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## Directors' Interests in Competing Businesses

During the year and up to the 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, as defined in the Listing Rules, other than those businesses of which the directors of the Company were appointed as directors to represent the interests of the Company and/or the Group.

## Code of Best Practice

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the accounting period covered by the annual report.

## Audit Committee

The Company has an audit committee which was established in accordance with the requirements of the Code of Best Practice, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the two independent non-executive directors of the Company. The present members of the audit committee are Mr. Li Chi Ming and Mr. Tung Tat Chiu, Michael.

## Auditors

Ernst & Young 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

**Wong Howard**

*Executive Director*

Hong Kong

18 July 2002