



正興集團
CHING HING GROUP

CHING HING

Ching Hing (Holdings) Limited

Interim Report
2002

INDEPENDENT REVIEW REPORT
TO THE BOARD OF DIRECTORS OF CHING HING (HOLDINGS) LIMITED
(incorporated in Bermuda with limited liability)

We have been instructed by the Company to review the interim financial statements set out on pages 2 to 14.

Directors' responsibilities

The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of an interim financial statements to be in compliance with SSAP 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants and the relevant provision thereof. The interim financial statements are the responsibility of, and have been approved by the directors.

Review work performed

We conducted our review in accordance with SAS 700 "Engagement to review interim financial reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of Group management and applying analytical procedures to the interim financial statements and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial statements.

Review Conclusion

On the basis of our review, which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial statements for the six months ended 30th June, 2002.

HORWATH HONG KONG CPA LIMITED
Certified Public Accountants

2001 Central Plaza
18 Harbour Road
Wanchai
Hong Kong

Shiu Hong Ng
Practising Certificate number P03752
Hong Kong, 26th September, 2002

The directors are pleased to present the Group's Interim Report and condensed accounts for the six months ended 30th June, 2002. The consolidated results and consolidated cash flow statement for the Group for the six months ended 30th June, 2002, and the consolidated balance sheet of the Group as at 30th June, 2002, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 2 to 14 of this report.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June, 2002

	Note	Unaudited six months ended 30th June,	
		2002 HK\$'000	2001 HK\$'000
Turnover	2	122,285	97,858
Cost of sales		(110,849)	(87,732)
Gross profit		11,436	10,126
Other revenues		2,285	3,745
Distribution costs		(8,407)	(5,371)
Administrative expenses		(14,260)	(12,871)
Other operating expenses		(1,246)	(1,483)
Operating loss	3	(10,192)	(5,854)
Finance costs		(2,766)	(1,917)
Loss before taxation		(12,958)	(7,771)
Taxation credit	4	303	4,900
Loss after taxation		(12,655)	(2,871)
Minority interests		(449)	(434)
Loss attributable to shareholders		(13,104)	(3,305)
Basic loss per share	5	(4.09) cents	(1.57) cents

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2002

	Share capital HK\$'000	Share premium HK\$'000	Properties revaluation reserves HK\$'000	Statutory reserves HK\$'000	Capital reserves HK\$'000	Retained earnings/ (accumulated loss) HK\$'000	Total HK\$'000
At 31st December, 2001	16,017	51,574	12,924	7,611	51,834	8,963	148,923
Loss attributable to shareholders	—	—	—	—	—	(13,104)	(13,104)
At 30th June, 2002	<u>16,017</u>	<u>51,574</u>	<u>12,924</u>	<u>7,611</u>	<u>51,834</u>	<u>(4,141)</u>	<u>135,819</u>
At 31st December, 2000	10,000	37,710	12,924	7,611	51,834	35,772	155,851
Issue of shares	1,999	9,980	—	—	—	—	11,979
Share issue expenses	—	(1,094)	—	—	—	—	(1,094)
Loss attributable to shareholders	—	—	—	—	—	(3,305)	(3,305)
At 30th June, 2001	<u>11,999</u>	<u>46,596</u>	<u>12,924</u>	<u>7,611</u>	<u>51,834</u>	<u>32,467</u>	<u>163,431</u>

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th June, 2002 and 31st December, 2001

	Note	Unaudited 30th June, 2002 HK\$'000	31st December, 2001 HK\$'000
Fixed assets	6	103,085	110,280
Goodwill	7	11,493	16,567
		114,578	126,847
Current assets			
Inventories		45,405	38,058
Trade receivables	8	58,460	41,728
Prepayments, deposits and other receivables		11,174	6,983
Deposits with bank		37,082	13,852
Bank balances and cash		12,835	37,526
		164,956	138,147
Current liabilities			
Trade payables	9	35,629	29,568
Other payables and accrued charges		6,221	5,194
Amounts due to directors		2,032	2,870
Trust receipt loans — secured		14,557	7,019
Current portion of long-term liabilities	10	13,948	8,947
Short term bank loans — secured		46,167	27,747
Taxation payable		4,258	6,854
Bank overdrafts — secured		14,167	17,467
		136,979	105,396
Net current assets		27,977	32,751
Net assets		142,555	159,598
Financed by:			
Share capital	11	16,017	16,017
Reserves		119,802	132,906
Shareholders' funds		135,819	148,923
Long-term liabilities	10	4,383	8,788
Minority interests		2,353	1,887
		142,555	159,598

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June, 2002

	Unaudited	
	six months ended 30th June,	
	2002	2001
	HK\$'000	HK\$'000
Net cash outflow from operating activities	(33,954)	(3,390)
Net cash used in investing activities	(5,992)	(30,366)
Net cash from financing activities	19,017	17,880
Net decrease in cash and cash equivalents	(20,929)	(15,876)
Cash and cash equivalents at 1st January	5,040	35,751
Cash and cash equivalents at 30th June	(15,889)	19,875

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation and accounting policies

The unaudited consolidated condensed interim financial statements (“interim financial statements”) are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants.

The accounting policies and methods of computation used in the preparation of these interim financial statements are consistent with those used in the annual accounts for the year ended 31st December, 2001 except for the changes as described below.

(a) SSAP 1 (Revised) “Presentation of financial statements”

The consolidated statement of recognised gains and losses is replaced by the consolidated statement of changes in equity.

(b) SSAP 15 (Revised) “Cash flow statement”

A revised classification of activities from which cash flows are derived has been made.

2. Turnover, revenue and segment information

The Group principally engages in the provision of fabric processing, sale of fabrics, and garments and accessories.

Primary report format – business segment

The Group is organised into three main business segments:

- | | |
|------------------------------------|---|
| – Fabric processing | – provision of fabric processing services |
| – Sale of fabrics | – manufacture, wholesale and distribution of fabrics |
| – Sale of garments and accessories | – manufacture, wholesale and distribution of garments and accessories |

2. Turnover, revenue and segment information *(Continued)*

Secondary report format – geographical segment

The Group's three business segments are operated in five main geographical areas:

- Hong Kong
- The People's Republic of China (the "PRC")
- United States
- Other countries (principally Bangladesh and India)
- fabric processing and sale of fabrics
- fabric processing, sale of fabrics and garments
- sale of garments and accessories
- sale of garments and accessories

Primary report format – business segment

	Turnover Unaudited Six months ended 30th June,		Operating (loss)/profit Unaudited Six months ended 30th June,	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Business segment:				
Fabric processing	19,373	31,738	(3,101)	(7,461)
Sale of fabrics	42,626	27,186	(3,960)	(63)
Sale of garments and accessories	60,286	38,934	(251)	1,670
Unallocated revenue and expenses	—	—	(2,880)	—
	<u>122,285</u>	<u>97,858</u>	<u>(10,192)</u>	<u>(5,854)</u>

2. Turnover, revenue and segment information (Continued)

Secondary report format – geographical segment

	Turnover Unaudited		Operating (loss)/profit Unaudited	
	Six months ended 30th June,		Six months ended 30th June,	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Geographical segment:				
Hong Kong	42,320	50,458	(4,424)	(5,505)
PRC	17,267	8,466	(2,402)	(2,019)
United States	47,131	38,934	(95)	1,670
Other countries	15,567	—	(391)	—
Unallocated revenue and expenses	—	—	(2,880)	—
	<u>122,285</u>	<u>97,858</u>	<u>(10,192)</u>	<u>(5,854)</u>

3. Operating loss

Unaudited Six months ended 30th June,

2002	2001
HK\$'000	HK\$'000

Operating loss is stated after crediting and charging the following:

Crediting

Gain on disposal of fixed assets	—	176
Interest income	<u>854</u>	<u>1,060</u>

Charging

Depreciation	7,735	6,537
Amortisation of goodwill	621	364
Operating lease rentals in respect of land and buildings	<u>210</u>	<u>593</u>

4. Taxation credit

No provision has been made for Hong Kong or overseas profits tax as the Group sustained a loss during the period. Hong Kong profits tax had been provided at the rate of 16% on the estimated assessable profit arising in Hong Kong for the six months ended 30th June, 2001.

The amount of taxation credited/(charged) to the consolidated profit and loss account represents:

	Unaudited Six months ended 30th June,	
	2002 HK\$'000	2001 HK\$'000
Hong Kong profits tax	—	(404)
Over provision in prior periods	303	5,304
	<u>303</u>	<u>4,900</u>

5. Loss per share

Loss per share for the six months ended 30th June, 2002 is calculated based on the Group's loss attributable to shareholders of HK\$13,104,000 (2001: HK\$3,305,000) and the weighted average of 320,349,468 shares (2001: weighted average of 210,169,486 shares) in issue during the period.

The outstanding share options as at 30th June, 2002 have not been included in the calculation of the diluted loss per share as the exercise of these share options would have an anti-dilutive effect.

6. Capital expenditure

	Fixed assets <i>HK\$'000</i>
Six months ended 30th June, 2002	
Opening net book amount	110,280
Additions	817
Disposals	(277)
Depreciation	(7,735)
	<hr/>
Closing net book amount	<u>103,085</u>

7. Goodwill

	<i>HK\$'000</i>
Opening net book amount	16,567
Reduction in the cost of acquisition (<i>note</i>)	(4,453)
Amortisation charge	(621)
	<hr/>
Closing net book amount	<u>11,493</u>

Note: Reduction in the cost of acquisition represents amounts receivable under the guarantee of a minimum profit by the vendor in the acquisition of a subsidiary in 2001.

8. Trade receivables

Details of the aging analysis of trade receivables were as follows:

	Unaudited 30th June, 2002 <i>HK\$'000</i>	31st December, 2001 <i>HK\$'000</i>
Current	42,262	18,018
31 – 60 days	6,608	12,202
61 – 90 days	2,995	5,367
Over 90 days	6,595	6,141
	<hr/>	<hr/>
	58,460	41,728
	<hr/> <hr/>	<hr/> <hr/>

8. Trade receivables (Continued)

The sale of fabrics and fabric processing are with credit terms of 30 days whereas sale from trading of garments and accessories are with credit terms of 120 days. The Group had a defined credit policy and it varied with financial strength of individual customers. Sale from trading of garments and accessories are mostly covered by letter of credits.

9. Trade payables

Details of the aging analysis of trade payables were as follows:

	Unaudited 30th June, 2002 HK\$'000	31st December, 2001 HK\$'000
Current	11,908	19,379
31 – 60 days	9,265	3,809
61 – 90 days	5,151	3,019
Over 90 days	9,305	3,361
	<hr/> 35,629 <hr/>	<hr/> 29,568 <hr/>

10. Long-term liabilities

	Unaudited 30th June, 2002 HK\$'000	31st December, 2001 HK\$'000
Bank loans – secured	18,331	17,735
Current portion of long-term liabilities	(13,948)	(8,947)
	<hr/> 4,383 <hr/>	<hr/> 8,788 <hr/>

10. Long-term liabilities (Continued)

At 30th June, 2002, the Group's bank loans and overdrafts and other borrowings were repayable as follows:

	Unaudited 30th June, 2002 HK\$'000	31st December, 2001 HK\$'000
Bank loans, bank overdrafts including trust receipt loans:—		
Within one year	88,839	61,180
In the second year	3,890	8,788
In the third to fifth year	493	—
	<u>93,222</u>	<u>69,968</u>

11. Share capital

	Authorised Ordinary shares of \$0.05 each	
	No. of shares	HK\$'000
At 31st December, 2001 and 30th June, 2002	<u>1,000,000,000</u>	<u>50,000</u>
	Issued and fully paid Ordinary shares of \$0.05 each	
	No. of shares	HK\$'000
At 1st January, 2001	200,000,000	10,000
Issue of shares in 2001 (Note (i), (ii) & (iii))	<u>120,349,468</u>	<u>6,017</u>
At 31st December, 2001 and 30th June, 2002	<u>320,349,468</u>	<u>16,017</u>

- (i) On 3rd April, 2001, 9,302,326 shares of the Company were issued and allotted at HK\$0.43 per share as part of the consideration to acquire 56% shareholding in a subsidiary.

11. Share capital (Continued)

- (ii) On 29th May, 2001, 30,690,000 shares of the Company were placed and allotted to independent investors at HK\$0.26 per share. The net proceeds of about HK\$7,780,000 was used as general working capital of the Group.
- (iii) On 29th November, 2001, 80,357,142 shares of the Company were issued and allotted at HK\$0.112 per share as the major part of the consideration to acquire the entire share capital in a subsidiary, Yitung Fashion Company Limited.

12. Share options (outstanding)

On 27th May, 2002, the Company adopted a new share option scheme to replace the old one adopted on 29th December, 1999. There are no significant changes on the aggregate of 23,800,000 share options granted by the Company on 13th June, 2001 to certain employees including executive directors of the Company. The holders of the share options are entitled to subscribe for shares of HK\$0.05 each at an exercise price of HK\$0.36 per share. The options are exercisable at any time during the period from 13th June, 2001 to 12th December, 2004. As at 30th June, 2002, all the share options remained outstanding.

13. Banking facilities

As at 30th June, 2002, banking facilities of HK\$172,498,000 (2001: HK\$132,621,000) granted by the banks to the Group are secured by the following:

- (a) legal charges over the Group's properties with net book value of HK\$39,213,000 (2001: HK\$40,256,000);
- (b) corporate guarantees by the Company for HK\$49,000,000 (2001: HK\$39,000,000);
- (c) guarantees given by the Company and the minority shareholder of a subsidiary for HK\$60,000,000 (2001: HK\$50,000,000) by each of them respectively; and
- (d) charges over bank deposits of the Group amounting to HK\$37,082,000 (HK\$33,800,000).

14. Contingent liabilities

At 30th June, 2002, the Company had given guarantees of approximately HK\$109,000,000 (2001: HK\$53,000,000) to certain banks in respect of banking facilities granted to certain subsidiaries of the Company.

15. Commitments under operating leases

At 30th June, 2002, the Group had total future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings which expire as follows:

	Unaudited 30th June, 2002 HK\$'000	31st December, 2001 HK\$'000
Within one year	420	416
In the second to fifth year inclusive	—	154
	<u>420</u>	<u>570</u>

16. Related party transactions

Significant related party transaction, which was carried out in the normal course of the Group's business is as follows:

	Unaudited Six months ended 30th June, 2002 HK\$'000	2001 HK\$'000
Rental paid to a related company	<u>420</u>	<u>420</u>

The related company is beneficially owned by Mr Yiu Ching On, a director of the Company.

RESULTS

Turnover had increased by 25% over the same period last year to HK\$122.3 million as a result of further diversification of income bases in the period. Gross profit margin had declined to about 9.4% as compared with 10.3% of last period. The unaudited net loss attributable to shareholders for the six months ended 30th June, 2002 had increased to approximately HK\$13.1 million, as compared with a net loss of HK\$3.3 million in the same period last year.

INTERIM DIVIDEND

The Board has resolved not to declare the payment of an interim dividend for the six months ended 30th June, 2002 (2001: Nil).

BUSINESS REVIEW AND PROSPECTS

Fabric Processing Section

During the period, this section had been substantially restructured by replacing the under-performed sales executives and head-hunting two sales managers with extensive experience in fabric processing field. In addition, the reward system of the sales department had been reformed by incorporating a larger portion of commission in their remuneration package. We expect the above mechanisms will instill active dynamics to the sales performance in this section in future. Moreover, unit cost of production in the Zhongshan factory had been further controlled and reduced by stringent measures. We expect the unit production cost will be reduced by about 25% by end of 2002 as compared to last year. In addition to traditional processing services, more fabric traders in Hong Kong, which are the major targeted customers of this section, now also demand our supply of grey cloth. Accordingly, the credit risk will increase inevitably. In this respect, we have adopted a series of stringent credit control measures to monitor the credit risk level (e.g. by obtaining L/Cs or post-dated cheques).

Fabric Trading Section

Income from this section had substantially increased by 56.8% as compared with last period. This section has huge synergy with the Fabric Processing Section. Once the level of fabric trading reaches the critical mass, it can provide a strong foundation of sales orders to the Fabric Processing Section. The major targeted customers of this section are garment manufacturers. In the coming five years, we expect fabric processing orders generated internally by this section will gradually reached 50% of the total turnover of the Fabric Processing Section.

Garment Manufacturing and Trading Section

Since garment manufacturers are the frontline participants in the textile industry, profit margin in this section was particularly squeezed in the period due to continuous global economic downturn. In the coming few years, this section will adopt a selective approach in receiving orders. Emphasis will be placed on those orders with sufficiently high margin. With stringent control in production and administrative costs, we expect this section will achieve a steady growth in coming these few years.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30th June, 2002, the Group had total assets of HK\$279.5 million which were financed by current liabilities of HK\$137 million, long-term liabilities of HK\$6.7 million and shareholders' equity of HK\$135.8 million. Accordingly, the Group's ratio of total liabilities to total assets was 51.4%.

The Group financed its operation mainly by internal resources and bank financing. During the period, no new equity shares had been issued for fund raising.

As at 30th June, 2002, the Group had bank balances and cash at an aggregate amount of approximately HK\$49.9 million, which we consider is sufficient for its normal daily operation and expansion.

EMPLOYEE

As at 30th June, 2002, the Group employed about 500 employees including factory workers employed in the PRC and sales and merchandising staff situated in India, Bangladesh, Cambodia, Vietnam and Los Angeles. Employees are remunerated based on market and industry practice.

The remuneration policy and package of the Group's employees are regularly reviewed by the Board. Apart from provident fund scheme and medical insurance, discretionary bonuses and employee share options are also awarded to employees according to the assessment of individual performance.

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

At 30th June, 2002, the interests of the directors and chief executives in the shares and options of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")), as recorded in the register maintained by the Company under Section 29 of the SDI Ordinance or as notified to the Company were as follows:

(i) Shares

The Company:

Name of directors	Number of shares held				Total
	Personal interests	Family interests	Corporate interests	Other interests	
Mr. Yiu Kwok Ming, Tommy	1,100,000	2,610,637 <i>(note (a))</i>	17,857,142 <i>(note (c))</i>	123,833,866 <i>(note (b))</i>	145,401,645
Mr. Yiu Kwok Yung	—	—	62,500,000 <i>(note (d))</i>	123,833,866 <i>(note (b))</i>	186,333,866
Mr. Lo Wai Kon	218,000	—	—	—	218,000

Notes:

- (a) Such shares are beneficially owned by his spouse.
- (b) Determine Win Investments Limited in its capacity as trustee of The Yiu's Family Unit Trust owns approximately 94.98% of the issued share capital of Jarak Assets Limited which in turn holds 123,833,866 shares. HSBC International Trustee Limited holds 99.99% units in issue in The Yiu's Family Unit Trust in its capacity as the trustee of The Yiu's Family Trust, the beneficiaries of which include Mr. Yiu Kwok Ming, Tommy and Mr. Yiu Kwok Yung.
- (c) Such shares are beneficially owned by Cotton Row Limited, a company wholly-owned by Mr. Yiu Kwok Ming, Tommy, a director of the Company.
- (d) Such shares are beneficially owned by Modern Fashion Inc., a company wholly-owned by Mr. Yiu Kwok Yung, a director of the Company.

Associated corporation:

Name of associated corporation:	Name of director	Personal interests	Family interests	Corporate interests
Ching Hing Weaving Dyeing & Printing Factory Limited	Mr. Yiu Ching On	14,196,591	376,427 <i>(note (b))</i>	28,023,134 <i>(note (c))</i>
	Mr. Yiu Kwok Ming, Tommy	—	1,000,000 <i>(note (b))</i>	—

Notes:

- (a) The above represent interests in non-voting deferred shares.
- (b) Such non-voting deferred shares are beneficially owned by the spouse of the respective directors.
- (c) Filand Limited and Clear Picture Holdings Limited, companies wholly-owned by Mr. Yiu Ching On, beneficially owned 10,633,875 and 17,389,259 non-voting deferred shares respectively.

(ii) Share Options

The details of the directors' interests in share options to subscribe for shares in the Company pursuant to the Company's employee share option scheme adopted on 29th December, 1999 were as follows:

Name of directors	Date of grant	Number of options outstanding at 31st December, 2001
Mr. Yiu Ching On	13th June, 2001	3,000,000
Mr. Yiu Kwok Ming, Tommy	13th June, 2001	3,000,000
Mr. Yiu Kwok Yung	13th June, 2001	3,000,000
Ms. Wong Kai Chun	13th June, 2001	3,000,000

The exercise price per share of the above options is HK\$0.36. The above options are exercisable from the date of grant to 12th December, 2004.

No options were waived or exercised up to the date of this report.

Save as disclosed above, at no time during the period the directors and chief executives (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for shares of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")).

At no time during the period was the Company or its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under section 16(1) of the SDI Ordinance shows that as at 30th June, 2002, the Company had been notified of the following substantial shareholders' interests, being 10% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the directors and chief executives.

Name	Number of shares held	Percentage of issued share capital as at 30th June, 2002
Jarak Assets Limited	123,833,866	38.66%
Determine Win Investments Limited (<i>note (a)</i>)	123,833,866	38.66%
HSBC International Trustee Limited (<i>note (b)</i>)	123,833,866	38.66%
HSBC Investment Bank Holdings B.V. (<i>note (b)</i>)	123,833,866	38.66%
HSBC Holdings B.V. (<i>note (b)</i>)	123,833,866	38.66%
HSBC Finance (Netherlands) (<i>note (b)</i>)	123,833,866	38.66%
HSBC Holdings plc (<i>note (b)</i>)	123,833,866	38.66%
Modern Fashion Inc. (<i>note (c)</i>)	62,500,000	19.51%

Notes:

- (a) Jarak Assets Limited is owned as to approximately 94.98% by Determine Win Investments Limited in its capacity as the trustee of The Yiu's Family Unit Trust.

- (b) HSBC International Trustee Limited holds 99.99% units in issue in The Yiu's Family Unit Trust in its capacity as the trustee of The Yiu's Family Trust.

HSBC International Trustee Limited is a wholly-owned subsidiary within the HSBC Group. Their interests in the shares of the Company duplicate with each other.

- (c) Modern Fashion Inc. is wholly-owned by Mr. Yiu Kwok Yung, a director of the Company.

PURCHASES, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company has not redeemed any of its listed securities during the six months ended 30th June, 2002. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the same period.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange throughout the accounting period, except that the independent non-executive directors are not appointed for a specific term since they are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's bye-laws.

AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Society of Accountants.

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the Group audit. It also reviews the effectiveness both of the external and internal audit and of internal controls and risk evaluation. The Committee comprises three independent non-executive directors, namely Messrs. Cheung Wing Yui, Wong Shiu Hoi, Peter and Lo Wai Kon.

On behalf of the Board

Yiu Ching On

Chairman

Hong Kong, 26th September, 2002