

## Report of the Directors

The directors of the Company (the "Directors") herein present their report and the audited financial statements of the Company for the year ended 31 December 2002 and the financial statements of the Group for the year ended 31 December 2002.

### 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 35 to the financial statements.

### SEGMENTAL INFORMATION

Details of segmental information are set out in note 4 to the financial statements.

### RESULTS AND APPROPRIATION

The results of the Group for the year ended 31 December 2002 are set out in the consolidated income statement on page 21.

The Directors have declared an interim dividend of HK2 cents per share for the year under review, totalling approximately HK\$5,608,000 which was paid on 11 October 2002.

The Directors recommend the payment of a final dividend of HK6 cents per share in respect of the year under review to shareholders whose names appear on the register of members of the Company on 21 May 2003, amounting to approximately HK\$16,878,000.

No arrangement has been made under which a shareholder has waived or agreed to waive any dividends.

### FIVE YEAR FINANCIAL SUMMARY

A financial summary of the Group for the past five financial years ended 31 December 2002 is set out on pages 52 and 53 of the annual report.

### PROPERTY, PLANT AND EQUIPMENT

Details of significant changes in the Group's property, plant and equipment during the year under review are set out in note 13 to the financial statements.

### SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in note 35 to the financial statements.

### SHARE CAPITAL

Details of movements in the share capital of the Company during the year under review are set out in note 24 to the financial statements.

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### RESERVES

Details of movements during the year in the reserves for the Group and the Company are set out in note 26 to the financial statements.

### DONATIONS

Charitable and other donations made by the Group during the year under review amounted to approximately HK\$3,183,000.

### DIRECTORS

The Directors who held office during the year and up to the date of this report were:

#### Executive Directors:

Ngan Hei Keung  
Ngan Po Ling, Pauline  
Chau King Nui, Helen

#### Independent non-executive directors:

Gordon Ng  
Leung Shu Yin, William

In accordance with Clause 87 of the Company's bye-laws, Mr. Leung Shu Yin, William will retire at the forthcoming annual general meeting and, being eligible, offer himself for re-election at the forthcoming annual general meeting of the Company. All other remaining Directors continue in office.

### DIRECTORS' SERVICE CONTRACTS

Each of Mr. Ngan Hei Keung, Madam Ngan Po Ling, and Miss Chau King Nui, Helen has entered into a service contract with the Company for an initial fixed term of three years commencing from 1 June 2000, which will continue thereafter until terminated in accordance with the relevant clauses of the service contract.

Save as disclosed above, no Director 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 other than statutory compensation.

Details of Directors' remuneration for the year under review have been disclosed in note 6 to the financial statements.

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### DIRECTORS' INTEREST IN CONTRACTS

Save as disclosed in note 34 to the financial statements and in the section "Connected transactions" below, no Director had any direct or indirect material interest 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.

### CONNECTED TRANSACTIONS

- (a) On 15 February 2000, the Group entered into a tenancy agreement with Mainland Sewing Mills Company Limited, a company indirectly and beneficially owned by Mr. Ngan Hei Keung ("Mr. Ngan") and controlled by Mr. Ngan and Madam Ngan Po Ling, Pauline ("Madam Ngan") to lease an office space situated in Kowloon Bay, Hong Kong for an initial term of three years commencing from 1 January 2000 to 31 December 2002 at a monthly rent of \$110,000 (exclusive of government rent, rates and management fees) and renewed for a further term of one year at market rent of HK\$80,000 after arm-length negotiation. The office space has a saleable area of approximately 443.1 sq.m.. The original rental has been confirmed by LCH (Asia-Pacific) Surveyors Limited, an independent property valuer, as representing the prevailing market rental of such premises in similar location as at 31 March 2000.
- (b) On 15 February 2000, the Group entered into a tenancy agreement with Mr. Ngan and Madam Ngan to lease the warehouses situated in Kowloon Bay, Hong Kong for an initial term of three years commencing from 1 January 2000 at a monthly rent of \$25,000 (exclusive of government rent, rates and management fees). The leased warehouses have a total saleable area of approximately 230.5 sq.m.. The rental has been confirmed by LCH (Asia-Pacific) Surveyors Limited, an independent property valuer, as representing the prevailing market rental of such premises in similar location as at 31 March 2000. The tenancy agreement was early terminated on 31 July 2002 by mutual consent.

Save as disclosed herewith, no contract of significance (including but not limited to the provision of services) has been entered into between the Company, or any of its subsidiaries, and a controlling shareholder (as defined in the Listing Rules) or any of its subsidiaries.

### SHARE OPTION SCHEME

The Company has adopted share option schemes to enable the Group to grant options to selected participants as incentive or rewards for their contribution to the Group.

Pursuant to the share option scheme of the Company adopted on 16 November 2000 (the "Old Share Option Scheme"), the Board of Directors has approved on 11 June 2001 to grant options to certain full time employees and to a Director to subscribe for respectively 8,649,000 and 2,000,000 shares of the Company, of which none of them had been exercised or cancelled as at 1 January 2002. The subscription price per share is HK\$1.228, which was approximately 80% of the average closing prices of the shares of the five trading days preceding the date of offer of the option. The option period is eight years from 11 June 2001 and exercisable from 11 June 2002. There are additional restrictions imposed on the varying proportion of options exercisable in the initial years during the option period.

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### SHARE OPTION SCHEME (continued)

During the period under review, appropriate portion of the granted share options under the Old Share Option Scheme were exercised by the full time employees and the Director to subscribe for a total number of respectively 3,098,000 and 600,000 shares of the Company. As at 31 December 2002, there were 5,551,000 and 1,400,000 share options under the Old Share Option Scheme outstanding for the full time employees and the Director respectively.

On 23 May 2002, the Old Share Option Scheme was terminated and a new share option scheme ("New Share Option Scheme") was adopted to comply with the new amendments of Chapter 17 of the Rules ("Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") effected on 1 September 2001 regarding share option schemes of a listed company. As a result, the Company may no longer grant more options under the Old Share Option Scheme. However, all options granted prior to the termination of the Old Share Option Scheme will remain in full force and effect.

Under the new Share Option Scheme, the Directors may grant share options to selected participants within ten years from 23 May 2002. The subscription price shall be the higher of (i) the nominal value of the share; (ii) the closing share price as stated in the daily quotation sheets issued by the Stock Exchange; and (iii) the average closing share price as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the offer date. The maximum number of securities available for issue under the New Share Option Scheme is 10% of the issued share capital of the Company as at the date of approval of the New Share Option Scheme. Unless approved by shareholders in general meeting, no grantees shall be granted share options if the total number of shares issued and to be issued upon exercise of the share options granted to such grantees in any twelve months' period up to the date of last grant would exceed 1% of the issued share capital of the Company from time to time. An option may be exercised in accordance with the terms of the New Share Option Scheme at a varying proportion at any time during a period notified by the Board of Directors to each grantee in the form of an option certificate. A non-refundable remittance of HK\$1 by way of consideration of grant of an offer is required to be paid by each grantee upon acceptance of the share options. Further details of the New Share Option Scheme have been disclosed in the circular of the Company dated 29 April 2002.

Pursuant to the New Share Option Scheme, the Board of Directors has approved on 3 July 2002 to grant options to certain (i) customers and suppliers, and (ii) continuous contract employees of the Group to subscribe for respectively 3,950,000 and 12,035,000 shares of the Company, which represents respectively 1.40% and 4.27% of the existing issued share capital of the Company at the date of this report if the share options are exercised in full. The subscription price per share is HK\$2.7, which is the higher of the closing price of the shares at the day of offer of the option and the average closing prices of the shares of the five trading days preceding the date of offer of the option. The option period is eight years from 3 July 2002 and exercisable from 3 July 2003.

As at 31 December 2002, there were 6,951,000 options outstanding under the Old Share Option Scheme and 15,985,000 options has been granted and outstanding under the New Share Option Scheme.

No valuation of the options granted under the share option schemes is included in these financial statements as the Directors considered that, in the absence of a readily available market value of the options on the Company's shares, they are unable to derive an accurate assessment of the value of the options granted.

Details of the Company's share option schemes are set out in note 25 to the financial statements.

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### DIRECTORS' AND CHIEF EXECUTIVES' INTEREST IN SHARES AND OPTIONS

#### (1) Shares

At 31 December 2002, the interests of the Directors and the chief executives of the Group in the share capital of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

	Number of shares beneficially held			
	Personal Interest	Corporate interest	Family interest	Other interest
Ngan Hei Keung ( <i>Note</i> )	–	–	10,000,000	180,000,000
Ngan Po Ling, Pauline ( <i>Note</i> )	10,000,000	–	–	180,000,000
Chau King Nui, Helen	60,000	–	–	–

*Note:* 180,000,000 shares are legally and beneficially owned by Successful Years International Co., Ltd., a company ultimately and beneficially owned by NHK Trust and NPL Trust as to 40% and 60% respectively. These two trusts are discretionary family trusts settled by Mr. Ngan Hei Keung and the discretionary beneficiaries include Mr. Ngan Hei Keung, Madam Ngan Po Ling, Pauline, and their family members.

10,000,000 shares are legally and beneficially owned by Madam Ngan Po Ling, Pauline who is the spouse of Mr. Ngan Hei Keung.

#### (2) Options

A Director has personal interest in share options to subscribe for shares in the Company pursuant to the Old Share Option Scheme and the details are as follows:

Director	Date of Grant	Outstanding at 1 January 2002	Outstanding at 31 December 2002	Exercise price per share	Exercisable period
Chau King Nui, Helen	11 June 2001	2,000,000	1,400,000	HK\$1.228	11 June 2003 to 10 June 2009 ( <i>note</i> )

*Note:* The maximum outstanding share options exercisable from 11 June 2003 to 10 June 2004 is 600,000.

### DIRECTORS' RIGHT TO ACQUIRE SHARE OR DEBENTURE

Save as disclosed above, at no time during the year under review was the Company or any of 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.

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### SUBSTANTIAL SHAREHOLDERS

At 31 December 2002, the following interests of 10% or more of the share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance.

	<b>Numbers of shares</b>	<b>Percentage of holding</b>
Successful Years International Co., Ltd. ( <i>Note</i> )	180,000,000	63.99%

*Note:* Successful Years International Co., Ltd. is owned by NHK Trust and NPL Trust as to 40% and 60% respectively. These two trusts are discretionary family trusts settled by Mr. Ngan Hei Keung and the discretionary beneficiaries include Mr. Ngan Hei Kueng, Madam Ngan Po Ling, Pauline and their family members.

### MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2002, turnover attributable to the Group's largest customer, accounted for approximately 25% (2001: 35%) of the Group's consolidated turnover and aggregate turnover attributable to the five largest customers of the Group accounted for approximately 58% (2001: 81%) of the Group's consolidated turnover.

For the year ended 31 December 2002, purchases attributable to the Group's largest supplier accounted for approximately 15% (2001: 35%) of the Group's total purchases. Aggregate purchases attributable to the five largest suppliers of the Group accounted for approximately 39% (2001: 68%) of the Group's total purchases.

Except as disclosed above, to the best knowledge of the Directors, none of the Directors, their respective associates or shareholders owning more than 5% of the Company's issued share capital had any beneficial interests in any of the five largest customers or suppliers.

### PRE-EMPTIVE RIGHTS

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

### PURCHASES, SALE OR REDEMPTION OF SECURITIES

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

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### AUDIT COMMITTEE

The Audit Committee comprised the two independent non-executive directors of the Company, namely Mr. Gordon Ng and Mr. Leung Shu Yin, William. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financing reporting matters.

### CODE OF BEST PRACTICE

The Company has complied throughout the year ended 31 December 2002 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules except that non-executive Directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with Articles 87 and 88 of the Company's Articles of Association.

### AUDITORS

A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint Messrs. Moores Rowland, Chartered Accountants, Certified Public Accountants, as auditors of the Company.

There has been no change on auditors of the Company in any of its preceding three years.

On behalf of the Board

**Ngan Hei Keung**

*Chairman*

Hong Kong

9 April 2003