

DIRECTORS' REPORT

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

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 2002 are set out in notes 42 and 43 to the financial statements respectively.

RESULTS

The results of the Group for the year ended 31 December 2002 are set out in the consolidated income statement on page 34.

The directors resolved to recommend the payment of a final dividend of HK1.0 cent per share for the year ended 31 December 2002 (2001: HK2.5 cents per share) to be declared payable in cash to shareholders whose names appear on the Register of Members of the Company on 10 June 2003. Subject to the passing of the relevant resolution at the forthcoming annual general meeting, such dividend will be payable on 18 June 2003.

SHARE CAPITAL

Details of the Company's authorised and issued share capital as at 31 December 2002 are set out in note 30 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 32 to the financial statements.

INVESTMENT PROPERTIES

The Group revalued its investment properties as at 31 December 2002 on an open market value basis. Movements during the year are set out in note 15 to the financial statements.

A summary of the properties held by the Group for investment purposes at 31 December 2002 is set out on page 80.

PROPERTIES UNDER DEVELOPMENT

Changes in the Group's properties under development during the year are set out in note 16 to the financial statements.

OTHER PROPERTIES, PLANT AND EQUIPMENT

During the year, the Group acquired other properties, plant and equipment for an aggregate cost of HK\$26.1 million in its normal course of business. These and other significant movements during the year are set out in note 17 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 Luen, Raymond
 WONG Yick Kam, Michael (*appointed on 26 September 2002, also an alternate to Raymond KWOK*)
 HONG Pak Cheung, William (*appointed on 26 September 2002*)
 KWOK Ping Sheung, Walter (*resigned on 26 September 2002*)
 KWOK Ping Kwong, Thomas (*resigned on 26 September 2002*)

Independent non-executive directors:

Simon MURRAY *CBE*
 FANG Hung, Kenneth *JP*

In accordance with bye-law 100 of the Company's bye-laws, Messrs. KWOK Ping Luen, Raymond and FANG Hung, Kenneth will retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In accordance with bye-law 103(B) of the Company's bye-laws, Messrs. WONG Yick Kam, Michael and HONG Pak Cheung, William shall hold office until 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.

DIRECTORS' REPORT

CORPORATE GOVERNANCE

In the opinion of the directors, the Company has complied throughout the financial year ended 31 December 2002 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 Audit Committee of the Company comprises the Chairman of the Committee, Mr. Simon MURRAY and other members including Messrs. FANG Hung, Kenneth and WONG Yick Kam, Michael. Both Messrs. Simon MURRAY and FANG Hung, Kenneth are independent non-executive directors of the Company. Mr. WONG Yick Kam, Michael, a non-executive director of the Company, joined the Audit Committee on 22 January 2003 and in the meantime, he appointed Mr. HONG Pak Cheung, William as his alternate in the Audit Committee.

The Audit Committee of the Company met with external auditors three times with 100% attendance recorded during the year ended 31 December 2002. The Audit Committee 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 a review of the audited consolidated financial statements of the Company for the year ended 31 December 2002.

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

As at 31 December 2002, 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
			<i>Note (a)</i>	<i>Notes (b) and (c)</i>
CHENG Wai Sun, Edward	—	—	—	110,595,862
				<i>Notes (b) and (d)</i>
CHENG Man Piu, Francis	—	—	—	110,595,862
				<i>Note (b)</i>
NG Tak Wai, Frederick	26,000	762,000	—	<i>Note (e)</i>
CHENG Wai Keung	—	—	—	110,595,862
				<i>Note (b)</i>
KWOK Ping Luen, Raymond	—	—	—	—
Simon MURRAY	—	—	—	—
FANG Hung, Kenneth	—	—	—	—
WONG Yick Kam, Michael	—	—	—	—
HONG Pak Cheung, William	—	—	—	—

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 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.
- (e) Mr. NG Tak Wai, Frederick had outstanding options to subscribe for 860,000 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 2002, 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

Details of the share option scheme of the Company are set out in note 31 to the financial statements.

In order to comply with the latest requirements of the Listing Rules, the directors proposed that a new share option scheme which complies with the terms of the new Chapter 17 of the Listing Rules be adopted, and subject to the adoption of the new share option scheme, the existing share option scheme of the Company be terminated at the special general meeting to be convened immediately after the forthcoming annual general meeting. Details of the proposed new share option scheme are set out in the circular sent to shareholders with this Annual Report.

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 as follows:—

Name of director	Date of grant	Exercise price per share HK\$	Number of share options		
			Outstanding at 1.1.2002	Lapsed during the year	Outstanding at 31.12.2002
CHENG Wai Chee, Christopher	15.11.1999	0.800	2,000,000	—	2,000,000
CHENG Wai Sun, Edward	30.8.1997	2.330	1,000,000	(1,000,000)	—
	15.11.1999	0.800	2,000,000	—	2,000,000
NG Tak Wai, Frederick	30.8.1997	2.330	430,000	(430,000)	—
	15.11.1999	0.800	860,000	—	860,000

No options were 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.

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SUBSTANTIAL SHAREHOLDERS

As at 31 December 2002, 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	20.54
Wing Tai Holdings Limited	110,595,862	21.37 (Note 1)
Deutsche Bank International Trust Co. (Jersey) Limited	110,595,862	21.37 (Note 2)
Deutsche Bank International Trust Co. (Cayman) Limited	110,595,862	21.37 (Note 2)
Wing Tai Asia Holdings Limited	110,595,862	21.37 (Note 2)
Wing Sun Development Pte Limited	110,595,862	21.37 (Note 2)
Terebene Holdings Inc.	110,595,862	21.37 (Note 2)
Winlyn Investment Pte Limited	110,595,862	21.37 (Note 2)
Bestime Resources Limited	68,747,996	13.28 (Note 3)
Pofung Investments Limited	66,698,122	12.89 (Note 3)
Wing Tai Corporation Limited	135,446,118	26.17 (Note 3)
Wesmore Limited	83,316,158	16.10 (Note 4)
Sun Hung Kai Properties Limited	100,762,150	19.47 (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 2002.

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 ("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 Group's apparel business.

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

The Group's management team is separated from and independent of those of the Group One Companies, Group Two Company and Group Three Companies. The Group'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 or 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 Group is capable of carrying on its businesses independently of, and at arm's length from the aforesaid garment business.

Messrs. CHENG Wai Chee, Christopher and CHENG Wai Sun, Edward are non-executive directors of and interested in Winsor Properties Holdings Limited ("Winsor"). The letting and managing of industrial buildings by Winsor may be regarded as competitive to the Group's property rental business.

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The Company's management team is separated from and independent of the management team of Winsor. The Group's management team has been instructed that whatever businesses to be transacted with Winsor and/or any companies controlled/affiliated therewith shall be transacted at arm's length. The industrial buildings let and managed by the Group and Winsor are targeting at different customer bases and different market segments. Furthermore, the Company's independent non-executive directors and the members of the Company's Audit Committee will ensure that the Group is capable of carrying on its businesses independently of, and at arm's length from the aforesaid industrial property letting and management business of Winsor.

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 Group.

Messrs. KWOK Ping Sheung, Walter, KWOK Ping Kwong, Thomas, KWOK Ping Luen, Raymond and WONG Yick Kam, Michael are directors of SUNeVision Holdings Ltd. ("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 Group.

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 Group.

Messrs. KWOK Ping Luen, Raymond and WONG Yik Kam, Michael are directors of SmarTone Telecommunications Holdings Limited ("SmarTone"). Businesses of SmarTone consist of Internet services. Only in this respect they are regarded to be interested in the relevant Competing Business with the Group.

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 the independent non-executive directors and the Audit Committee of the Company, the Group 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 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 Bloomsville 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 agreed to extend the final maturity date of the Loan Facilities to 31 May 2003. All bank loan made under the Loan Facilities had been fully repaid on 30 December 2002 and the Guarantee and Supplement to Guarantee were released on 21 February 2003.

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.

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MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2002, 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 2002, the aggregate amount of financial assistance provided to and guarantees given for affiliated companies by the Group amounted to HK\$720.1 million, represented approximately 56.6% 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 2002 are presented below:

(HK\$'M)	Pro-forma combined balance sheet	Group's attributable interest
Non-current assets	2,590.0	514.3
Current assets	2,237.8	250.3
Current liabilities	(593.4)	(85.1)
Non-current liabilities	(5,043.1)	(755.9)
Net liabilities	<u>(808.7)</u>	<u>(76.4)</u>

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 auditors of the Company.

On behalf of the Board

CHENG Wai Chee, Christopher

Chairman

Hong Kong, 8 April 2003