

## REPORT OF THE DIRECTORS

The Directors present their report and the audited financial statements of the Group for the year ended 31 March 2003.

### PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. Its subsidiaries and an associate are principally engaged in the manufacture, on an OEM basis, and trading of men's, ladies' and children's knitted-to-shape garments mainly to the United States and Europe. Details of the principal activities of the Company's subsidiaries and associate are set out in notes 13 and 14 respectively to the financial statements.

There were no significant changes in the nature of the Group's principal activities during the year.

### SEGMENT INFORMATION

The segment information of the Group for the year ended 31 March 2003 is set out in note 30 to the financial statements.

### MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 March 2003, the five largest customers of the Group together accounted for approximately 69% of the Group's total turnover, with the largest customer accounted for approximately 31% of the Group's total turnover. The aggregate purchases attributable to the Group's five largest suppliers was approximately 39% of the total purchase of the Group for the year ended 31 March 2003, with the largest supplier accounted for approximately 19% of the Group's total purchase.

At no time during the year did any Director, any associate of a Director, or any shareholder of the Company, which to the best knowledge of the Directors owned more than 5% of the Company's issued share capital, had any beneficial interests in the Group's five largest customers and suppliers mentioned above.

### RESULTS

Details of the results of the Group for the year ended 31 March 2003 are set out in the consolidated income statement on page 22 of this Annual Report.

### FINANCIAL SUMMARY

A financial summary of the Group for the past five financial years is set out on page 50 of this Annual Report.

### RESERVES

Movements in reserves of the Group during the year are set out in note 24 to the financial statements.

### BORROWINGS

The Group had borrowings amounted to HK\$7,348,000 at 31 March 2003.

### CHARITABLE DONATIONS

Charitable donations by the Group for the year ended 31 March 2003 amounted to HK\$6,000.

## REPORT OF THE DIRECTORS

### PROPERTY, PLANT AND EQUIPMENT

During the year, the Group's additions to property, plant and equipment amounted to HK\$26,125,000.

Movements in the property, plant and equipment of the Group for the year ended 31 March 2003 are set out in note 12 to the financial statements.

### SHARE CAPITAL

Details in the share capital of the Company are set out in note 22 to the financial statements.

### DIRECTORS

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

#### Executive directors

Mr. Cheng Chi Tai  
Mr. Cheng Kwai Chun, John  
Mr. Lin Chick Kwan  
Mr. Lin Wing Chau

#### Non-executive director

Ms. Yip, Galy Ka Lai

#### Independent non-executive directors

Ms. Ko Hay Yin, Karen  
Mr. Ho Kai Wa, Francis  
(resigned on 27 July 2002)  
Mr. Chow Chan Lum  
(appointed on 23 October 2002)

Each of the non-executive and independent non-executive Directors has fixed term of appointment which is subject to rotational retirement in accordance with the Bye-laws of the Company.

In accordance with the Bye-laws of the Company, Ms. Yip, Galy Ka Lai, Ms. Ko Hay Yin, Karen and Mr. Chow Chan Lum will retire at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election.

None of the Directors proposed for re-election at the forthcoming annual general meeting of the Company has a service contract with the Company, which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

The biographical details of Directors and senior management are set out on pages 11 to 12 of this Annual Report.

### DIRECTORS' INTERESTS IN SECURITIES

At 31 March 2003, the interests and short position of the Directors in the shares, debentures and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "SFO")) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are

## REPORT OF THE DIRECTORS

deemed or taken to be under such provisions of the SFO), or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of the Listed Companies in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), were as follows:

the discretionary beneficiaries of which include Mr. Cheng Kwai Chun, John and his son who is under the age of 18. HSBC International Trustee Limited is incorporated in the British Virgin Islands.

- These shares are held by HSBC International Trustee Limited, the trustee of The Brighton Trust, the discretionary beneficiaries of which include Mr. Cheng Kwai Chun, John, the spouse of Ms. Yip, Galy Ka Lai and their son who is under the age of 18.

Name of directors	Name of Company	Number of ordinary shares held	
		Personal interests	Corporate interests
Mr. Cheng Chi Tai	Pak Tak International Limited	—	157,057,130 (Note 1)
Mr. Cheng Kwai Chun, John	Pak Tak International Limited	—	120,840,000 (Note 2)
Mr. Lin Chick Kwan	Pak Tak International Limited	5,837,150	—
Mr. Lin Wing Chau	Pak Tak International Limited	5,551,430	—
Ms. Yip, Galy Ka Lai	Pak Tak International Limited	—	120,840,000 (Note 3)

### Notes:

- Out of 157,057,130 shares, 36,217,130 shares are held by Best Ahead Limited, a company incorporated in the British Virgin Islands and wholly owned by Mr. Cheng Chi Tai. Another 120,840,000 shares are held by HSBC International Trustee Limited as the trustee of The Brighton Trust, a discretionary trust established by Mr. Cheng Chi Tai. According to the SFO, Mr. Cheng Chi Tai is taken to have an interest or short position in the 120,840,000 shares by virtue of being the founder of The Brighton Trust.
- These shares are held by HSBC International Trustee Limited, the trustee of The Brighton Trust,

### SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted pursuant to a shareholders' resolution passed on 9 November 2001 for the primary purpose of providing incentives to directors and eligible employees of the Group and will expire on 8 November 2010. Under the Scheme, the Board may grant options to eligible full time employees of the Company and its subsidiaries, including any executive and non-executive directors of the Company and its subsidiaries, to subscribe for share in the Company, at a price equal to the higher of: (1) the nominal value of the share; or (2) the average

## REPORT OF THE DIRECTORS

closing prices of the shares as stated in the Stock Exchange's daily quotations for the five trading days immediately preceding the date of grant of the options; or (3) the closing price of the share as stated in the Stock Exchange's daily quotations on the date of grant of the options, which must be a business day.

Options granted must be taken up not later than 28 days after the date of grant of the option. The exercise period for the share options granted is determinable by the Directors, which may not expire later than 10 years from the date of grant. In the absence of such determination, the exercise period would commence from the date of acceptance of the offer for the grant of share options but shall end in any event not later than 10 years from the date of the grant of the option subject to the provisions for early termination under the Scheme. A price of HK\$1 is payable by the grantee upon acceptance of the grant of option under the Scheme.

Shares which may be issued upon exercise of all options to be granted under the Scheme or any other share option scheme of the Company must not in aggregate exceed 22,800,000 shares of the Company, being 10% of the shares in issue upon completion of the share offer and the capitalization issue as stated in the prospectus of the Company dated 23 November 2001 (the "Prospectus") issued in relation to the initial public offering exercise of the Company and the listing of shares on the main board of the Stock Exchange.

Unless approved by shareholders of the Company, the total number of shares of the Company issued and to be issued upon exercise of the options granted to each participant (including both exercised and unexercised options) under the Scheme or any other share option scheme of the Company in any 12-month period must not exceed 1% of the shares of the Company in issue on the date of grant.

No options under the Scheme were granted or exercised during the year and there were no outstanding options at 31 March 2003.

No options may be granted under the Scheme after the date of the tenth anniversary of the adoption of the Scheme.

### **DIRECTOR'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

Apart from disclosed under the headings "Directors' Interests in Securities" and "Share Option Scheme" above, at no time during the year was the Company, or its subsidiaries, a party to any arrangement to enable the Directors and their spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## REPORT OF THE DIRECTORS

### DIRECTORS' INTERESTS IN CONTRACTS

No Director has, or at any time during the year had, any interest, in anyway, directly or indirectly, in any contract with the Company or its subsidiaries which was significant in relation to the business of the Company.

### CONNECTED TRANSACTIONS

The Group sold knitted-to-shape garments to Admiralty Pty. Ltd. of approximately HK\$3,416,000 during the year, representing approximately 0.8% of the total turnover of the Group. Admiralty Pty. Ltd. is wholly owned by the daughter of Mr. Cheng Chi Tai and her husband.

The Group carried out sub-contracting work for Real Company Limited and the sub-contracting income received therefrom amounted to approximately HK\$4,529,000, representing approximately 1.1% of the total turnover of the Group during the year. Real Company Limited is beneficially owned as to 100% by a substantial shareholder of a subsidiary of the Company.

The independent non-executive Directors have reviewed the aforesaid connected transactions and confirmed that:

- (i) the transactions have been entered into by the Company in the ordinary and usual course of its business;
- (ii) the transactions have been conducted either (a) on normal commercial terms (which expression is applied by reference to transactions of a similar nature and to be made by similar entities) or (b) where there is no available comparison, on terms that are fair and reasonable so far as the independent shareholders of the Company concerned;
- (iii) the transactions have been entered into either (a) in accordance with the terms of the agreements governing the transactions or (b) where there are no such agreements, on terms no less favourable than those available to or from independent third parties; and
- (iv) the cap amount as stated in the waiver granted by the Stock Exchange dated 6 December 2001 has not been exceeded.

## REPORT OF THE DIRECTORS

### COMPETING INTERESTS

At 31 March 2003, the interest of Mr. Cheng Chi Tai that competes or may compete with the business of the Group is set out below:

### PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

#### Entity that competes or may compete with business of the Group

#### Position of the director in the entity

#### Competing business of the entity

Kong Shing Knitting Factory

Partner

Garment manufacturing  
(Note 1)

Dongguan Boji Knitting  
Garment Co. Ltd.

Director

Garment manufacturing  
(Note 2)

Save as disclosed above, none of the Directors had any interest in a business which competes or may compete with the business of the Group.

*Note 1:* Mr. Cheng Chi Tai and Ms. Chan Hung Ching, the other partner of Kong Shing Knitting Factory, executed a deed of non-competition in favour of the Company on 1 November 2001. Details of which are set out in the Prospectus.

*Note 2:* Dongguan Boji Knitting Garment Co. Ltd. is a sino-foreign equity joint venture established in the PRC which was held as to 70% by Kong Shing Knitting Factory and 30% by an independent party. On 31 October 2001, Dongguan Boji Knitting Garment Co. Ltd. gave a non-competition undertaking to the Company that it will not directly or indirectly carry on any business or undertake any investment which may compete with the business of the Group.

## REPORT OF THE DIRECTORS

### SUBSTANTIAL SHAREHOLDERS

At 31 March 2003, so far as was known to the Directors, the following persons had an interest or short position in the shares and the underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO and which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any members of the Group:

Notes:

1. HSBC International Trustee Limited is incorporated in the British Virgin Islands and is the trustee of The Brighton Trust, a discretionary trust, the discretionary beneficiaries of which are Mr. Cheng Kwai Chun, John, the Director, and other family members of Mr. Cheng Chi Tai.
2. Best Ahead Limited is incorporated in the British Virgin Islands, the entire issued share capital of which is beneficially owned by Mr. Cheng Chi Tai.

Name	Name of Company	Number of shares held	Percentage held
HSBC International Trustee Limited	Pak Tak International Limited	120,840,000	approximately 51.12% (Note 1)
Best Ahead Limited	Pak Tak International Limited	36,217,130	approximately 15.32% (Note 2)
Mr. Cheng Chi Tai	Pak Tak International Limited	157,057,130	approximately 66.44% (Note 3)
Ms. Amy Pik Sin	Pak Tak Knitting & Garment Factory (Thailand) Company Limited	1,000	10%
Mr. Nakorn Phisitchoowong	Pak Tak Knitting & Garment Factory (Thailand) Company Limited	1,000	10%
Miss Janphen Phisitchoowong	Pak Tak Knitting & Garment Factory (Thailand) Company Limited	1,000	10%

## REPORT OF THE DIRECTORS

3. Out of 157,057,130 shares, 36,217,130 shares are held by Best Ahead Limited, a company incorporated in the British Virgin Islands and wholly owned by Mr. Cheng Chi Tai. Another 120,840,000 shares are held by HSBC International Trustee Limited as the trustee of The Brighton Trust, a discretionary trust established by Mr. Cheng Chi Tai. According to the SFO, Mr. Cheng Chi Tai is taken to have an interest or short position in these shares by virtue of being the founder of The Brighton Trust.

### CODE OF BEST PRACTICE

During the year, the Company has been in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

### AUDIT COMMITTEE

The Audit Committee was formed in 9 November 2001 to review and supervise the financial reporting process and internal control of the Company. The Audit Committee comprises of the two independent non-executive Directors.

### AUDITORS

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

### PRE-EMPTIVE RIGHTS

There are no provision 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 existing shareholders.

On behalf of the Board

**Cheng Chi Tai**

*Chairman*

Hong Kong, 9 July 2003