

Ching Hing (Holdings) Limited

CHING HING



2003



正興集團  
CHING HING GROUP

INTERIM REPORT

**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 report 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 report to be in compliance with SSAP 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants and the relevant provisions thereof. The interim financial reports are the responsibility of, and have been approved by, the directors.

**Review work performed**

We conducted our review in accordance with SAS 700 "Engagements 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 report 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 report.

**Review conclusion**

On the basis of our review which does not constitute an audit, we are not aware of any material modification that should be made to the interim financial report for the six months ended 30 June 2003.

**HORWATH HONG KONG CPA LIMITED**

*Certified Public Accountants*

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18 Harbour Road  
Wanchai  
Hong Kong

**Shiu Hong Ng**

Practising Certificate number P03752

Hong Kong, 25 September 2003

The directors are pleased to present the Group's Interim Report and condensed accounts for the six months ended 30 June 2003. The consolidated results and consolidated cash flow statement for the Group for the six months ended 30 June 2003, and the consolidated balance sheet of the Group as at 30 June 2003, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 6 to 14 of this report.

## CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2003

		<b>Unaudited</b>	
		<b>Six months ended 30 June</b>	
	Note	<b>2003</b>	2002
		<b>HK\$'000</b>	<b>HK\$'000</b>
Turnover	2	<b>127,996</b>	122,285
Cost of sales		<b>(103,612)</b>	(110,849)
Gross profit		<b>24,384</b>	11,436
Other revenues		<b>181</b>	2,285
Distribution costs		<b>(6,680)</b>	(8,407)
Administrative expenses		<b>(13,494)</b>	(14,260)
Other operating expenses		<b>(915)</b>	(1,246)
Operating profit/(loss)	3	<b>3,476</b>	(10,192)
Finance costs		<b>(2,406)</b>	(2,766)
Profit/(loss) before taxation		<b>1,070</b>	(12,958)
Taxation (charge)/credit	4	<b>(28)</b>	303
Profit/(loss) after taxation		<b>1,042</b>	(12,655)
Minority interests		<b>364</b>	(449)
Profit/(loss) attributable to shareholders		<b>1,406</b>	(13,104)
Basic earnings/(loss) per share	5	<b>0.44 cents</b>	(4.09) cents

**CONDENSED CONSOLIDATED BALANCE SHEET**

As at 30 June 2003

	Note	Unaudited 30 June 2003 HK\$'000	Audited 31 December 2002 HK\$'000
Goodwill	6	11,514	12,224
Fixed assets	7	95,396	101,158
Other investment		590	590
		<b>107,500</b>	<b>113,972</b>
<b>Current assets</b>			
Inventories		34,590	39,846
Trade receivables	8	59,139	79,596
Prepayments, deposits and other receivables		2,144	5,573
Deposits with banks		37,500	37,121
Bank balances and cash		14,912	16,922
		<b>148,285</b>	<b>179,058</b>
<b>Current liabilities</b>			
Trade payables	9	25,696	46,226
Other payables and accrued charges		4,265	6,845
Amount due to a related company		6,154	3,847
Amount due to a director		147	2,117
Trust receipt loans, secured		14,411	16,869
Current portion of long-term liabilities	10	2,993	6,678
Short-term bank loans, secured		28,888	40,368
Obligation under a finance lease	11	218	—
Taxation payable		4,163	4,161
Bank overdrafts, secured		18,451	14,875
		<b>105,386</b>	<b>141,986</b>
<b>Net current assets</b>		<b>42,899</b>	<b>37,072</b>
<b>Net assets</b>		<b>150,399</b>	<b>151,044</b>
Financed by:			
<b>Share capital</b>	12	16,017	16,017
<b>Reserves</b>		132,445	131,039
<b>Shareholders' funds</b>		<b>148,462</b>	<b>147,056</b>
Long-term bank loans, secured	10	493	2,708
Obligation under a finance lease	11	527	—
Minority interests		917	1,280
		<b>150,399</b>	<b>151,044</b>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

*For the six months ended 30 June 2003 — unaudited*

	Share capital	Share premium	Properties revaluation reserves	Statutory reserves	Capital reserves	Retained earnings/ (accumulated loss)	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 December 2002	16,017	51,574	17,733	7,611	51,834	2,287	147,056
Profit attributable to shareholders	—	—	—	—	—	1,406	1,406
<b>At 30 June 2003</b>	<b><u>16,017</u></b>	<b><u>51,574</u></b>	<b><u>17,733</u></b>	<b><u>7,611</u></b>	<b><u>51,834</u></b>	<b><u>3,693</u></b>	<b><u>148,462</u></b>
At 31 December 2001	16,017	51,574	12,924	7,611	51,834	8,963	148,923
Loss attributable to shareholders	—	—	—	—	—	(13,104)	(13,104)
<b>At 30 June 2002</b>	<b><u>16,017</u></b>	<b><u>51,574</u></b>	<b><u>12,924</u></b>	<b><u>7,611</u></b>	<b><u>51,834</u></b>	<b><u>(4,141)</u></b>	<b><u>135,819</u></b>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT***For the six months ended 30 June 2003 — unaudited*

	<b>Six months ended 30 June</b>	
	<b>2003</b>	<b>2002</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Net cash inflow/(outflow) from operating activities</b>	<b>15,379</b>	(33,954)
<b>Net cash used in investing activities</b>	<b>(1,872)</b>	(5,992)
<b>Net cash (used in)/from financing activities</b>	<b>(16,635)</b>	19,017
<b>Net decrease in cash and cash equivalents</b>	<b>(3,128)</b>	(20,929)
<b>Cash and cash equivalents at 1 January</b>	<b>(14,822)</b>	5,040
<b>Cash and cash equivalents at 30 June</b>	<b><u>(17,950)</u></b>	<b><u>(15,889)</u></b>
<b>Analysis of balance of cash and cash equivalents:</b>		
<b>Bank balances and cash</b>	<b>14,912</b>	12,835
<b>Bank overdrafts</b>	<b>(18,451)</b>	(14,167)
<b>Trust receipt loans</b>	<b>(14,411)</b>	(14,557)
	<b><u>(17,950)</u></b>	<b><u>(15,889)</u></b>

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****1. Basis of preparation and accounting policies**

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) 25, Interim Financial Reporting, issued by the Hong Kong Society of Accountants (“HKSA”), and requirements of Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”). The condensed interim financial statements should be read in conjunction with the Company’s 2002 annual report.

The accounting policies and methods of computation used in the preparation of the condensed interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2002 except that the Group has changed certain of its accounting policies following its adoption of the SSAP 12 (Revised) “Income Taxes” issued by the HKSA which is effective for accounting periods commencing on or after 1 January 2003.

SSAP 12 (Revised) principally prescribes the accounting treatment and disclosures for deferred tax. In prior years, deferred tax is provided using the income statement liability method on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond the reasonable doubt. SSAP 12 (Revised) requires the adoption of the balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the opinion of the Directors, the adoption of the revised SSAP did not have a material impact on the results of the Group for the current and prior accounting periods, accordingly, no prior period adjustment has been required.

**2. Turnover, revenue and segment information**

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

**Primary report format — business segments**

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 segments

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

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

### Primary report format — business segments

	Turnover		Operating profit/(loss)	
	Unaudited		Unaudited	
	Six months ended		Six months ended	
	30 June		30 June	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Business segments:				
Fabric processing	<b>34,473</b>	19,373	<b>4,562</b>	(3,101)
Sale of fabrics	<b>41,495</b>	42,626	<b>2,444</b>	(3,960)
Sale of garments and accessories	<b>52,028</b>	60,286	<b>(1,085)</b>	(251)
Unallocated revenue and expenses	—	—	<b>(2,445)</b>	(2,880)
	<b><u>127,996</u></b>	<u>122,285</u>	<b><u>3,476</u></b>	<u>(10,192)</u>



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

## Secondary report format — geographical segments

	Turnover		Operating profit/(loss)	
	Unaudited		Unaudited	
	Six months ended		Six months ended	
	30 June		30 June	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Geographical segments:				
Hong Kong	57,511	42,320	4,979	(4,424)
United States	41,528	47,131	193	(95)
PRC	16,264	17,267	837	(2,402)
Other countries	12,693	15,567	(88)	(391)
Unallocated revenue and expenses	—	—	(2,445)	(2,880)
	<u>127,996</u>	<u>122,285</u>	<u>3,476</u>	<u>(10,192)</u>

## 3. Operating profit/(loss)

	Unaudited	
	Six months ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
Operating profit/(loss) is stated after crediting and charging the following:		
<b>Crediting</b>		
Interest income	<u>181</u>	<u>854</u>
<b>Charging</b>		
Depreciation	7,299	7,735
Amortisation of goodwill	710	621
Operating leases rentals in respect of land and buildings	<u>210</u>	<u>210</u>

**4. Taxation (charge)/credit**

Hong Kong profits tax had been provided at the rate of 17.5% on the estimated assessable profit arising in Hong Kong for the six months ended 30 June 2003 (2002: 16%). Taxation on overseas profits has been calculated on the estimated assessable profit for the period at rates of taxation prevailing in the countries in which the Group operates.

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

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2003</b>	<b>2002</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Hong Kong profits tax	(2)	—
PRC taxation	(26)	—
Over provision in prior periods	—	303
	(28)	303
	(28)	303

**5. Earnings/(loss) per share**

Earnings/(loss) per share are calculated based on the Group's profit attributable to shareholders of HK\$1,406,000 (2002: loss of HK\$13,104,000) and the weighted average of 320,349,468 shares (2002: 320,349,468 shares) in issue during the period.

The outstanding share options as at 30 June 2003 have not been included in the calculation of the diluted earnings per share as the exercise of these share options would have an anti-dilutive effect.

**6. Goodwill**

	<b>HK\$'000</b>
Six months ended 30 June 2003	
Opening net book amount	12,224
Amortisation charge	(710)
	11,514
Closing net book amount	11,514

**7. Capital expenditure**

	<b>Fixed assets</b> <b>HK\$'000</b>
Six months ended 30 June 2003	
Opening net book amount	101,158
Additions	1,705
Disposals	(168)
Depreciation	<u>(7,299)</u>
Closing net book amount	<u><u>95,396</u></u>

**8. Trade receivables**

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

	<b>Unaudited</b> <b>30 June 2003</b> <b>HK\$'000</b>	<b>Audited</b> <b>31 December 2002</b> <b>HK\$'000</b>
Current	27,244	58,295
31 — 60 days	24,683	13,181
61 — 90 days	4,208	4,274
91 — 120 days	961	1,647
Over 120 days	<u>3,734</u>	<u>3,272</u>
	<b>60,830</b>	<b>80,669</b>
Less: provision on doubtful debts	<u>(1,691)</u>	<u>(1,073)</u>
	<u><u>59,139</u></u>	<u><u>79,596</u></u>

Sale of fabrics and processing of fabrics are with credit terms of 45 days whereas sale from trading of garments and accessories are with credit terms of 120 days. The Group has a defined credit policy which varies with financial strength of individual customers. Sale from trading of garments and accessories is mostly covered by letter of credits.

**9. Trade payables**

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

	<b>Unaudited</b> <b>30 June 2003</b> <i>HK\$'000</i>	Audited 31 December 2002 <i>HK\$'000</i>
Current	<b>11,095</b>	27,347
31 — 60 days	<b>6,063</b>	9,416
61 — 90 days	<b>3,956</b>	2,690
Over 90 days	<b>4,582</b>	6,773
	<u><b>25,696</b></u>	<u>46,226</u>

**10. Long-term liabilities**

	<b>Unaudited</b> <b>30 June 2003</b> <i>HK\$'000</i>	Audited 31 December 2002 <i>HK\$'000</i>
Bank loans, secured	<b>3,486</b>	9,386
Current portion of long-term liabilities	<b>(2,993)</b>	(6,678)
	<u><b>493</b></u>	<u>2,708</u>

At 30 June 2003, the Group's bank loans, bank overdrafts including trust receipt loans were repayable as follows:

	<b>Unaudited</b> <b>30 June 2003</b> <i>HK\$'000</i>	Audited 31 December 2002 <i>HK\$'000</i>
Within one year	<b>64,743</b>	78,790
In the second year	<b>493</b>	2,708
	<u><b>65,236</b></u>	<u>81,498</u>

## 11. Obligation under a finance lease

	Minimum lease payments		Present value of minimum lease payments	
	Unaudited 30 June 2003 HK\$'000	Audited 31 December 2002 HK\$'000	Unaudited 30 June 2003 HK\$'000	Audited 31 December 2002 HK\$'000
Amounts payable under a finance lease:				
Within one year	251	—	218	—
In the second to fifth years inclusive	595	—	527	—
	<u>846</u>	—	<u>745</u>	—
Less:				
Future finance charges	<u>101</u>	—		
Present value of lease obligations	<u>745</u>	—		
Less:				
Amount due for settlement within 12 months (shown under current liabilities)			<u>527</u>	—
Amount due for settlement after 12 months			<u>218</u>	—

It is the company's policy to lease certain of its motor vehicles under finance leases. The average lease term is 3.5 years. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

**12. Share capital**

	<b>Authorised</b>	
	<b>Ordinary shares of \$0.05 each</b>	
	<b>No. of shares</b>	<b>HK\$'000</b>
At 30 June 2003 and 31 December 2002	1,000,000,000	50,000
	<b>Issued and fully paid</b>	
	<b>Ordinary shares of \$0.05 each</b>	
	<b>No. of shares</b>	<b>HK\$'000</b>
At 30 June 2003 and 31 December 2002	320,349,468	16,017

**13. Share options (outstanding)**

On 27 May 2002, the Company adopted a new share option scheme to replace the old one adopted on 29 December 1999. There are no significant changes on the aggregate of 23,800,000 share options granted by the Company on 13 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 13 June 2001 to 12 December 2004. As at 30 June 2003, all the share options remained outstanding.

**14. Banking facilities**

As at 30 June 2003, banking facilities of HK\$120,127,000 (2002: HK\$168,103,000) 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\$41,947,000 (2002: HK\$42,978,000);
- (b) guarantees given by the Company and the minority shareholders of subsidiaries for HK\$77,000,000 (2002: HK\$82,000,000) and HK\$73,330,000 (2002: HK\$73,330,000) respectively; and
- (c) charges over bank deposits of the Group amounting to HK\$30,800,000 (2002: (HK\$36,800,000)).

**15. Commitments under operating leases**

At 30 June 2003, the Group had total future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings which expire as follows:

	<b>Unaudited</b>	Audited
	<b>30 June 2003</b>	31 December 2002
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>681</b>	1,033
In the second to fifth year inclusive	<b>327</b>	205
	<b><u>1,008</u></b>	<u>1,238</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:

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Rental paid to a related company (note a)	<b>420</b>	420
Interest paid to a related company (note b)	<b>192</b>	—
	<b><u>192</u></b>	<u>—</u>

Notes:

- (a) The related company is beneficially owned by Mr. Yiu Ching On, an executive director of the Company.
- (b) The related company is beneficially owned by Ms. Wong Kai Chun, Mr. Yiu Ching On and Mr. Yiu Kwok Ming, Tommy, executive directors of the Company.

## RESULTS

The Group had recognised an unaudited net profit attributable to shareholders of HK\$1.4 million for the six months ended 30 June 2003 as compared with a net loss of HK\$13.1 million in the same period last year. Turnover had increased by 4.7% over the same period last year to HK\$128 million as a result of substantial increase in provision of fabric processing services by the Group. Gross profit margin had increased to about 19.1% as compared with 9.4% of last period. The Group had recorded a basic earning per share of 0.44 cents as compared with a basic loss per share of 4.09 cents 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 30 June 2003 (2002: Nil).

## BUSINESS REVIEW AND PROSPECTS

### Fabric Processing Section

As we had mentioned in last year's interim report, we had restructured the sales department by phasing out those under-performed staff and absorbed a number of experienced team leaders to strengthen our marketing team. We had also reformed their rewards system by incorporating a larger portion of commission in their remuneration package. After these restructuring measures, we had seen a substantial increments in sales quantities and amount generated by this section. Turnover in this section had increased by 77.9% over the same period last year to HK\$34.5 million. Unit processing charges were maintained in a relatively stable level even though competition from PRC state-owned enterprises was intense. In future, we will look for opportunity to train up potential sales staff by providing them attractive package, and head-hunt competent and enthusiastic marketing leaders from the industry.

Due to the continuously bleak economic outlook in these few years, a number of competitors had closed down their operations and therefore some of their sales orders had shifted to our production base in Zhongshan. We expect this trend will continue until most of the small and financially weak factories have been phased out from the market.



Since the total yardage of fabrics processed by our Zhongshan factory had substantially increased by about 62% during this period as compared with the same period last year, the coal-fired power and steam generators built up in 2001 could generate power and steam at a lower costs. We noted that the direct cost of processing had reduced by about 27% as compared with last year. If the total yardage of fabrics processed by the factory continues to increase to about 32,000,000 yards per annum, we expect the direct cost of processing will reduce further by 10% by end of 2003.

In 2003 and 2004, efforts will be made to further reduce administrative and finance expenses by 10%. In the coming few months, we will target to substantially cutting down interest expenses charged by our principal bankers.

### **Fabric Trading Section**

Because the international price of grey cloth fluctuated materially in the first half of 2003, we had downsized the sales order of fabric trading to reduce the adverse impact caused by the wide variation of cost of materials. Therefore, the total yardage of fabrics traded remained at a level similar to that of the same period last year.

China is continuously accumulating huge foreign exchange surplus through its export industries, particularly against the United States. Accordingly, Renminbi is facing a great pressure of appreciation by the US government. We expect the China government will gradually reduce and eventually withdraw the value-added tax refund policy to help to ease the pressure imposed upon by the US government. Accordingly, in monetary terms, high-quality grey cloth produced in Pakistan will have competitive advantage over those manufactured in China. We expect this trend will continue and large amount of sales orders will be obtained by those foreign manufacturers situated in Pearl River Delta which can easily import grey cloth produced in Pakistan as materials. Accordingly, we expect sales orders in this section will increase hugely in the run-up to the end of 2003.

## Garment Manufacturing and Trading Section

Competition for garments manufacturing and trading orders were keen in recent years. Profit margin was squeezed substantially. We expect global competition will still be intense in the next few years. Accordingly, we have adopted a stringent selective approach in the order soliciting process in order to maintain a safer profit margin. We noted that turnover in this section had decreased by 13.7% as compared with the same period last year due to stiff competition. We expect this trend will continue and therefore we will only focus on sales orders with high margin in 2003. In addition, we will try our best to reduce direct and indirect costs to combat the large decrease in turnover in this section.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2003, the Group had total asset of HK\$255.8 million which were financed by current liabilities of HK\$105.4 million, long-term liabilities of HK\$1.0 million and shareholders' equity of HK\$148.5 million. Accordingly, the Group's ratio of debt to total assets and debt to equity were 41.6% and 71.6%, respectively. In the environment of global stagflation, the Group will focus on reducing the gearing ratio to an even safer level.

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 30 June 2003, the Group had cash on hand and in bank for an aggregate amount of about HK\$52.4 million, which we consider was sufficient for normal daily operation and expansion.

## EMPLOYEE

As at 30 June 2003, 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 SECURITIES

As at 30 June 2003, the directors or their associates have the following interests or short positions in shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules ("Model Code"):

### (i) Shares — long position

#### The Company:

	Number of shares held				Total
	Personal interests	Family interests	Corporate interests	Other interests	
<b>Name of directors</b>					
Mr. Yiu Ching On	4,252,000	—	—	—	4,252,000
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 Unit 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.
- (e) All the interests disclosed under this section represent long position in the shares 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 (note b)	28,023,134 (note c)
	Mr. Yiu Kwok Ming, Tommy	—	1,000,000 (note b)	—

## 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, a director of the Company, beneficially owned 10,633,875 and 17,389,259 non-voting deferred shares respectively.

**(ii) Share Options**

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 27 May 2002 pursuant to a new share option scheme are as follows:

<b>Name of directors</b>	<b>Date of grant</b>	<b>Number of options outstanding at 30 June 2003</b>
Mr. Yiu Ching On	13 June 2001	3,000,000
Mr. Yiu Kwok Ming, Tommy	13 June 2001	3,000,000
Mr. Yiu Kwok Yung	13 June 2001	3,000,000
Ms. Wong Kai Chun	13 June 2001	3,000,000

The exercise price per share of the above options is HK\$0.360. The above options are exercisable from the date of grant to 12 December 2004. At 30 June 2003, a total of 20,800,000 share options were outstanding.

No options had been granted and 3,000,000 options had lapsed during the six months ended 30 June 2003.

Save as disclosed above, at no time during the period had the directors (including their spouse and children under 18 years of age) have any interest in, or been granted, or exercised, any rights to subscribe for shares or debentures of the Company and its associated corporations.

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

As at 30 June 2003, the following companies have long positions in the shares and underlying shares as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name	Number of shares held	Percentage of issued share capital as at 30 June 2003
Jarak Assets Limited ( <i>note a</i> )	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 Unit 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.
- (d) All the interests disclosed under this section represent long position in the shares of the Company.

Save as disclosed therein, no other person has an interest or a short position in the shares and underlying shares as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

## **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 30 June 2003. 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 of the external audit and 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, 25 September 2003