

Interim Report 2005



 正興集團  
CHING HING GROUP  
Ching Hing (Holdings) Limited

## **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 13.

### **Respective responsibilities of directors and auditors**

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 Hong Kong Accounting Standard 34 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### **Review work performed**

We conducted our review in accordance with Statement of Auditing Standards 700 “Engagements to review interim financial reports” issued by the Hong Kong Institute of Certified Public 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 modifications that should be made to the interim financial report for the six months ended 30 June 2005.

**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, 22 September 2005

The directors are pleased to present the Group's Interim Report and condensed accounts for the six months ended 30 June 2005. The consolidated results and consolidated cash flow statement for the Group for the six months ended 30 June 2005, and the consolidated balance sheet of the Group at 30 June 2005, 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 2005*

	<i>Note</i>	<b>Unaudited</b>	
		<b>Six months ended 30 June</b>	
		2005	2004
		<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	2	131,014	109,805
Cost of sales		(126,161)	(92,058)
Gross profit		4,853	17,747
Other revenues		442	105
Distribution costs		(5,255)	(6,346)
Administrative expenses		(9,219)	(11,096)
Other operating expenses		(1,828)	(637)
Operating loss	3	(11,007)	(227)
Finance costs		(1,831)	(2,190)
Loss before taxation		(12,838)	(2,417)
Taxation	4	—	—
Loss after taxation		(12,838)	(2,417)
Minority interests		—	(793)
Loss attributable to shareholders		(12,838)	(3,210)
Loss per share — basic	5	(4.01) cents	(1.00) cents

## CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2005

	<i>Note</i>	Unaudited 30 June 2005 <i>HK\$'000</i>	Audited and restated 31 December 2004 <i>HK\$'000</i>
Fixed assets	6	69,058	73,606
Prepaid lease payments		5,622	5,682
Other investment		590	590
		75,270	79,878
Current assets			
Inventories		16,368	21,276
Trade receivables	7	46,903	44,163
Prepayments, deposits and other receivables		1,842	1,031
VAT and other tax recoverable		3,463	2,861
Prepaid lease payments		121	121
Deposits with banks		16,215	23,797
Bank balances and cash		8,437	12,858
		93,349	106,107
Current liabilities			
Trade payables	8	35,878	34,683
Other payables and accrued charges		3,468	3,505
Amounts due to directors		4,013	4,013
Trust receipt loans, secured		7,732	6,659
Current portion of long-term liabilities	9	173	289
Short-term bank loans, secured		12,387	10,128
Obligation under a finance lease	10	218	218
Taxation payable		4,172	4,677
Bank overdrafts, secured		6,187	14,447
		74,228	78,619
Net current assets		19,121	27,488
		94,391	107,366
Financed by:			
Share capital		16,017	16,017
Reserves		64,137	76,977
Shareholders' funds		80,154	92,994
Long-term liabilities	9	14,135	14,161
Obligation under a finance lease	10	91	200
Minority interests		11	11
		94,391	107,366

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2005 — unaudited

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Properties revaluation reserve <i>HK\$'000</i>	Statutory reserve <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Total <i>HK\$'000</i>
	<i>(Note 11)</i>							
At 31 December 2004	16,017	51,574	17,269	7,611	52,694	(52,171)	—	92,994
Exchange differences	—	—	—	—	—	—	(2)	(2)
Revaluation reserves realised	—	—	(116)	—	—	116	—	—
Loss attributable to shareholders	—	—	—	—	—	(12,838)	—	(12,838)
<b>At 30 June 2005</b>	<b>16,017</b>	<b>51,574</b>	<b>17,153</b>	<b>7,611</b>	<b>52,694</b>	<b>(64,893)</b>	<b>(2)</b>	<b>80,154</b>
At 31 December 2003	16,017	51,574	17,501	7,611	51,834	(40,800)	—	103,737
Revaluation reserves realised	—	—	(116)	—	—	116	—	—
Loss attributable to shareholders	—	—	—	—	—	(3,210)	—	(3,210)
At 30 June 2004	16,017	51,574	17,385	7,611	51,834	(43,894)	—	100,527

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

*For the six months ended 30 June 2005*

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
<b>Net cash (used in)/generated from operating activities</b>	(5,812)	12,442
<b>Net cash generated from investing activities</b>	6,570	1,491
<b>Net cash generated from/(used in) financing activities</b>	2,008	(15,243)
<b>Net increase/(decrease) in cash and cash equivalents</b>	2,766	(1,310)
<b>Cash and cash equivalents at 1 January</b>	(8,248)	(6,928)
<b>Cash and cash equivalents at 30 June</b>	(5,482)	(8,238)
<b>Analysis of balances of cash and cash equivalents:</b>		
<b>Bank balances and cash, excluding bank     balances pledged for long-term liabilities</b>	8,437	11,528
<b>Bank overdrafts, secured</b>	(6,187)	(11,234)
<b>Trust receipt loans repayable within three months</b>	(7,732)	(8,532)
	(5,482)	(8,238)

## 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 the applicable requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”), the Hong Kong Accounting Standards (“HKAS”) 34: Interim Financial Reporting and other relevant HKASs and Interpretations and the Hong Kong Financial Reporting Standards (“HKFRSs”) issued by The Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The accounting policies and basis of preparation adopted in these interim financial statements are consistent with those adopted in the Company’s 2004 Annual Report except for the adoption of HKAS as disclosed below. Due to the new adoption of such HKAS, certain comparative figures previously reported have been restated to comply with the new requirements.

#### *Owner-occupied Leasehold Interest in Land*

In previous periods, owner-occupied leasehold land located outside Hong Kong was included in fixed assets as land use rights and measured using fair value which is determined by the directors based on independent valuations which are performed every three years. In the current period, the Group has applied HKAS 17 “Leases”. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land use rights are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively. The unamortised prepaid lease payment for land use rights has been separately shown in the condensed consolidated balance sheet. The adoption of HKAS 17 has an impact on the reclassification of land use rights from fixed assets to prepaid lease payments amounting to HK\$5,682,000 under non-current assets and HK\$121,000 under current assets as at 31 December 2004.

## 2. Turnover, revenue and segment information

The Group is principally engaged in the provision of fabric processing, sale of fabrics and garment 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

### *Secondary report format — geographical segments*

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

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

### *Primary report format — business segments*

	Turnover Unaudited Six months ended 30 June		Operating loss Unaudited Six months ended 30 June	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Business segments:				
Fabric processing	31,063	33,555	(12,962)	(6,930)
Sale of fabrics	28,168	53,898	(2,904)	9,195
Sale of garments and accessories	71,783	22,352	6,588	(163)
Unallocated revenue and costs	—	—	(1,729)	(2,329)
	<b>131,014</b>	<b>109,805</b>	<b>(11,007)</b>	<b>(227)</b>



2. **Turnover, revenue and segment information** (Continued)  
Secondary report format — geographical segments

	Turnover Unaudited Six months ended 30 June		Operating loss Unaudited Six months ended 30 June	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Geographical segments:				
Hong Kong	43,102	67,296	(10,779)	1,730
United States	70,153	21,558	6,415	(95)
The PRC	9,015	9,649	(4,732)	(634)
Other countries	8,744	11,302	(182)	1,101
Unallocated revenue and costs	—	—	(1,729)	(2,329)
	<b>131,014</b>	<b>109,805</b>	<b>(11,007)</b>	<b>(227)</b>

3. **Operating loss**

	Unaudited Six months ended 30 June	
	2005 HK\$'000	2004 HK\$'000
Operating loss is stated after crediting and charging the following:		
<b>Crediting</b>		
Interest income	76	45
<b>Charging</b>		
Depreciation on property, plant and equipment	5,635	5,994
Operating lease rentals in respect of land and buildings	547	803

#### 4. Taxation

No provision has been made for Hong Kong or overseas profits tax as the Group sustained a loss during the period.

#### 5. Loss per share

The calculation of basic loss per share is based on the Group's loss attributable to shareholders of HK\$12,838,000 (2004: HK\$3,210,000) and on the weighted average number of 320,349,468 (2004: 320,349,468) ordinary shares in issue during the period.

Diluted earnings per share is not presented as the conversion of share options to ordinary shares would have an anti-dilutive effect to the basic loss per share.

#### 6. Fixed assets

	<b>Unaudited</b> <i>HK\$'000</i>
<hr/>	
Six months ended 30 June 2005	
Opening net book amount	73,606
Additions	1,087
Depreciation	<u>(5,635)</u>
Closing net book amount	<u>69,058</u>

#### 7. Trade receivables

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

	<b>Unaudited</b> <b>30 June</b> 2005 <i>HK\$'000</i>	<b>Audited</b> 31 December 2004 <i>HK\$'000</i>
<hr/>		
Current	30,583	34,097
31 — 60 days	6,714	3,537
61 — 90 days	5,058	4,316
91 — 120 days	1,955	1,059
Over 120 days	<u>7,751</u>	<u>4,762</u>
	52,061	47,771
Less: provision on doubtful debts	<u>(5,158)</u>	<u>(3,608)</u>
	<u>46,903</u>	<u>44,163</u>

**7. Trade receivables (Continued)**

Sale of fabrics and processing of fabrics are with credit terms of 45 days whereas sales from trading of garments and accessories are with credit terms of 120 days. The Group has a defined credit policy and it varies with the financial strengths of individual customers. Sales from trading of garments and accessories are mostly covered by letter of credits.

**8. Trade payables**

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

	Unaudited 30 June 2005 HK\$'000	Audited 31 December 2004 HK\$'000
Current	18,946	14,558
31 — 60 days	7,777	7,322
61 — 90 days	4,911	5,291
Over 90 days	4,244	7,512
	35,878	34,683

**9. Long-term liabilities**

	Unaudited 30 June 2005 HK\$'000	Audited 31 December 2004 HK\$'000
Bank loans wholly repayable within five years, secured	14,308	14,450
Current portion repayable within one year	(173)	(289)
	14,135	14,161

## 9. Long-term liabilities (Continued)

At 30 June 2005, the Group's bank loans, bank overdrafts including trust receipt loans were repayable as follows:

	Unaudited 30 June 2005 HK\$'000	Audited 31 December 2004 HK\$'000
Within one year	26,479	31,523
In the second to fifth years inclusive	14,135	14,161
	40,614	45,684

## 10. Obligation under a finance lease

	Minimum lease payments		Present value of minimum lease payments	
	Unaudited 30 June 2005 HK\$'000	Audited 31 December 2004 HK\$'000	Unaudited 30 June 2005 HK\$'000	Audited 31 December 2004 HK\$'000
Amounts payable under a finance lease:				
Within one year	252	251	218	218
In the second to fifth years inclusive	104	230	91	200
	356	481	309	418
<i>Less:</i>				
Future finance charges	47	63		
Present value of lease obligation	309	418		

It is the Group's policy to lease certain of its motor vehicles under finance leases. The lease term is 1.5 years. The lease is on a fixed repayment basis and no arrangement has been entered into for contingent rental payments.

## 11. Share capital

	<b>Authorised Ordinary shares of HK\$0.05 each</b>	
	<b>No. of shares</b>	<b>HK\$'000</b>
At 30 June 2005 and 31 December 2004	1,000,000,000	50,000
	<b>Issued and fully paid Ordinary shares of HK\$0.05 each</b>	
	<b>No. of shares</b>	<b>HK\$'000</b>
At 30 June 2005 and 31 December 2004	320,349,468	16,017

## 12. Banking facilities

At 30 June 2005, the Group's banking facilities amounting to HK\$104,142,000 (31 December 2004: HK\$98,142,000) granted by banks and a credit company are secured by the following:

- (a) legal charges over the Group's properties with a net book value of HK\$37,823,000 (31 December 2004: HK\$38,854,000);
- (b) guarantees given by the Company and the minority shareholders of subsidiaries for HK\$102,000,000 (31 December 2004: HK\$124,000,000) and HK\$44,200,000 (31 December 2004: HK\$64,200,000) respectively;
- (c) charges over bank deposits of the Group amounting to HK\$16,215,000 (31 December 2004: HK\$23,797,000); and
- (d) personal guarantees of HK\$10,511,000 (31 December 2004: HK\$10,511,000) given by a director and an ex-director of the Company.

## 13. Commitments

### (a) Capital commitment

At 30 June 2005, the Group had the following capital commitments:

	<b>Unaudited 30 June 2005 HK\$'000</b>	<b>Audited 31 December 2004 HK\$'000</b>
Construction in progress	—	349
	—	349

### 13. Commitments (Continued)

#### (b) Operating lease commitment

At 30 June 2005, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Unaudited 30 June 2005 <i>HK\$'000</i>	Audited 31 December 2004 <i>HK\$'000</i>
Within one year	948	951
In the second to fifth years inclusive	407	700
	<b>1,355</b>	<b>1,651</b>

### 14. 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 30 June 2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Rental paid to a related company (Note a)	420	420
Interest paid to directors	129	18

Notes:

- (a) Mr. Yiu Ching On, an executive director of the Company, beneficially owns the related company.

## RESULTS

The Group has recognised an unaudited net loss attributable to shareholders of HK\$12.8 million for the six months ended 30 June 2005 as compared with a net loss of HK\$3.2 million in the same period last year. The Group's turnover has increased by 19.3% over the same period last year to HK\$131 million in view of the upsurge of revenue derived from trading of garments and accessories by the Group during the period. Turnover generated from provision of fabric processing services and sale of self-processed fabrics dropped by 7.4% to HK\$31.1 million. Revenue derived from trading of subcontracting processed fabrics decreased by 47.7% to HK\$28.2 million because of the cessation of business by one major fabrics trading subsidiary in late 2004. On the other hand, turnover generated from trading of garments increased dramatically by 221.1% to HK\$71.8 million. The overall gross profit margin decreased to about 3.7% as compared with 16.2% of last period. The Group has recorded a basic loss per share of 4.01 cents as compared with a loss of 1.00 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 2005 (2004: Nil).

## BUSINESS REVIEW AND PROSPECTS

### **Fabric Processing and Sale of Self-processed Fabrics**

Turnover generated from provision of fabric processing services and sale of self-processed fabrics dropped by 7.4% to HK\$31.1 million. We are still facing intense competition from state-owned dyeing factories using cut-throat pricing policies to attract new customers. Because of over-investment in dyeing and processing machinery in the past few years by some private factories in China, they have to adopt similar pricing strategy for survival as well. To cope with continuing competition, we tried to concentrate our fabric processing services to provision of high-end services, like printing and some complicated processing works. By providing these services, we can charge a relatively higher processing charge and thereby reducing the impact of unsaturated production capacity upon the profit margin. In addition, we encouraged sale of self-processed fabrics instead of sole provision of fabric processing services because

## BUSINESS REVIEW AND PROSPECTS *(Continued)*

### **Fabric Processing and Sale of Self-processed Fabrics** *(Continued)*

of the high profit margins. However the switching process was slow and we thus suffered from about 5.5% decrease in yards of fabrics processed during the period while the average processing charge further decreased by about 1.8% as compared with the same period last year. The proportion of turnover generated from sale of self-processed fabrics shrank by about 36.0% due to uncertainty concerning the recent Sino-US trading dispute in textiles products. Notwithstanding the above, we do consider the existing direction is correct and will keep track on the following three strategies:

- (1) Increase the portion of sale of self-processed fabrics to pull up the overall profit margin;
- (2) Increase the average unit fabric processing charge by providing more high-end services;
- (3) Expand the proportion in provision of fabric processing services to domestic customers in China to maintain a steady turnover base.

On the other hand, average direct costs rose by about 11.7% during the period (excluding stock provision) because of some inefficiency in the production processes experienced by the factory under the adverse impact of unsaturated capacity. Prices of coal and oil were at a record-high level during the period. Appreciation of Renminbi currency for 2.1% in July 2005 will further plague us on the spirally increasing production costs in Pearl River Delta. We have thus rescheduled the production flow with the dyeing factory during these few months in a more cost-efficient way and expect that the production costs will be maintained in a relatively more stable and lower level during the second half of 2005.

### **Trading of Subcontracting Processed Fabrics**

Turnover generated from trading of subcontracting processed fabrics reduced by 47.7% to HK\$28.2 million mainly because of the expiry of the cooperation agreement in a major fabrics trading subsidiary in August 2004. Gross profit margin decreased to approximately 7.1% due to stiff market competition. We will concentrate on orders with higher profit margins and therefore expect the revenue in trading of subcontracting processed fabrics will not have an enormous growth in foreseeable future.



## BUSINESS REVIEW AND PROSPECTS *(Continued)*

### **Trading of Garments and Accessories**

Turnover derived from trading of garments and accessories shot up by 221.1% to HK\$71.8 million as compared with the same period in last year. Gross profit margin improved slightly to approximately 12.6%. During the period, China and the United States were in dispute on the impact of revival of quota systems on China against certain textile products after a severe flood of China produced textile goods exported to the United States following the abolishment of quota systems pursuant to the WTO agreement on 1 January 2005. Because of the uncertainty in China textile markets, this created a favourable environment for us with strong back-up of production bases in Southeast Asia like Bangladesh. We expect revenue generated from trading of garments and accessories in coming few years will at least be maintained at 2005 level.

## LIQUIDITY AND FINANCIAL RESOURCES

At 30 June 2005, the Group had total assets of HK\$168.6 million which were financed by current liabilities of HK\$74.2 million, long-term liabilities of HK\$14.2 million and shareholders' equity of HK\$80.2 million. Accordingly, the Group's ratio of debt to total assets and debt to equity were 52.4% and 110.2%, respectively.

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.

At 30 June 2005, the Group had cash on hand and in banks for an aggregate amount of about HK\$24.7 million, of which HK\$16.2 million were pledged to banks for banking facilities granted to the Group. We consider the cash position and the available credit facilities sufficient for normal daily operation and expansion.

## EMPLOYEE

At 30 June 2005, the Group employed about 500 employees including factory workers employed in China, sales and merchandising, accounting and administrative staff situated in Hong Kong, China and Bangladesh. Employees are remunerated based on market and industry practice.

## EMPLOYEE *(Continued)*

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

At 30 June 2005, 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 Part XV 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:*

Name of directors	Number of shares held				Total
	Personal interests	Family interests	Corporate interests	Other interests	
Mr. Yiu Ching On	752,000	—	—	117,618,055 <i>(note e)</i>	118,370,055
Mr. Yiu Kwok Ming, Tommy	1,100,000	2,610,637 <i>(note a)</i>	49,857,142 <i>(note c)</i>	117,618,055 <i>(note b)</i>	171,185,834
Mr. Yiu Kwok Yung (resigned on 1 January 2005)	—	—	32,500,000 <i>(note d)</i>	117,618,055 <i>(note b)</i>	150,118,055
Mr. Lo Wai Kon	218,000	—	—	—	218,000

## DIRECTORS' INTERESTS IN SECURITIES *(Continued)*

### (i) **Shares — long position** *(Continued)*

*Notes:*

- (a) Such shares are beneficially owned by his spouse.
- (b) Happy Joy Limited, a company wholly-owned by Mr. Yiu Kwok Ming, Tommy, and Determine Win Investments Limited in its capacity as trustee of The Yiu's Family Unit Trust owns approximately 5.02% and 94.98% of the issued share capital of Jarak Assets Limited, respectively which in turn holds 117,618,055 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 as to 19,857,142 shares and Happy Joy Limited as to 30,000,000 shares. Both companies are 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, an ex-director of the Company (resigned on 1 January 2005).
- (e) Mr. Yiu Ching On was founder of The Yiu's Family Unit Trust, a discretionary trust.

#### *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>	—

## DIRECTORS' INTERESTS IN SECURITIES *(Continued)*

### (i) **Shares — long position** *(Continued)*

*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.

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

At 30 June 2005, 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 at 30 June 2005
Jarak Assets Limited ( <i>note a</i> )	117,618,055	36.7%
Determine Win Investments Limited ( <i>note a</i> )	117,618,055	36.7%
HSBC International Trustee Limited ( <i>note b</i> )	117,618,055	36.7%
HSBC Investment Bank Holdings B.V. ( <i>note b</i> )	117,618,055	36.7%
HSBC Holdings B.V. ( <i>note b</i> )	117,618,055	36.7%
HSBC Finance (Netherlands) ( <i>note b</i> )	117,618,055	36.7%
HSBC Holdings plc ( <i>note b</i> )	117,618,055	36.7%
Modern Fashion Inc. ( <i>note c</i> )	32,500,000	10.1%
Happy Joy Limited ( <i>note d</i> )	30,000,000	9.4%
Cotton Row Limited ( <i>note e</i> )	19,857,142	6.2%

*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, an ex-director of the Company (resigned on 1 January 2005).

(d) Happy Joy Limited is wholly-owned by Mr. Yiu Kwok Ming, Tommy, a director of the Company.

## SUBSTANTIAL SHAREHOLDERS *(Continued)*

- (e) Cotton Row Limited is wholly-owned by Mr. Yiu Kwok Ming, Tommy, a director of the Company.
- (f) 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.

## CORPORATE GOVERNANCE

The Company is committed to high standards of corporate governance. To their best knowledge, the Company and its directors confirm that the Company has complied throughout the accounting period covered by this interim report with the applicable code provisions set out in the Code on Corporate Governance Practice contained in Appendix 14 to the Listing Rules.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the directors. Having made specific enquiry of all directors, the Company confirmed that all directors have complied with the required standard set out in the Model Code.

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

The Company had not redeemed any of its listed securities during the six months ended 30 June 2005. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's listed securities during the same period.

## 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 Institute of Certified Public 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 risk evaluation. The Committee comprises three independent non-executive directors, namely Messrs. Cheung Wing Yui, Wong Shiu Hoi, Peter and Lo Wai Kon.

The audit committee has reviewed the accounting policies and practices adopted by the Group and discussed affairs of internal control and financial reporting (including reviewing our condensed interim financial information) with senior management.

## REMUNERATION COMMITTEE

The Remuneration Committee comprises two independent non-executive directors, Mr. Wong Shiu Hoi, Peter and Mr. Cheung Wing Yui and one executive director, Mr. Yiu Kwok Ming, Tommy. Mr. Wong Shiu Hoi, Peter is the Chairman of the Committee. The Committee has adopted terms of reference which are in line with the Code on Corporate Governance Practices.

## MEMBERS OF THE BOARD

### Executive Directors

- Mr. Yiu Ching On (*Chairman*)
- Mr. Yiu Kwok Ming, Tommy (*Managing Director*)
- Mr. Yiu Kwok Yung (Resigned on 1 January 2005)
- Ms. Wong Kai Chun

### Independent Non-executive Directors

- Mr. Cheung Wing Yui
- Mr. Wong Shiu Hoi, Peter
- Mr. Lo Wai Kon