

## REPORT OF THE DIRECTORS

The directors submit their report together with the audited accounts for the year ended 31 December 2002.

### PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 12 to the accounts.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 2 to the accounts.

### RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 22.

The directors do not recommend the payment of a dividend.

### RESERVES

Movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 26 and note 21 to the accounts.

### DISTRIBUTABLE RESERVES

As at 31 December 2002, distributable reserves of the Company amounted to HK\$118,178,000.

### FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in note 11 to the accounts.

### SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 19 to the accounts.

### BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group at 31 December 2002 are set out in note 22 to the accounts.

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### PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's bye-laws and there was no restriction against such rights under the laws of Bermuda.

### FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 56.

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

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

### DIRECTORS

The directors during the year were:

#### Executive directors

Mr. Yiu Ching On  
Mr. Yiu Kwok Ming, Tommy  
Mr. Yiu Kwok Yung  
Ms. Wong Kai Chun

#### Independent non-executive directors

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

In accordance with Clause 99 of the Company's bye-laws, Ms. Wong Kai Chun and Mr. Lo Wai Kon will retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

### DIRECTORS' SERVICE CONTRACTS

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

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### DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in "Related party transactions" set out in note 28 to the accounts, no other contracts of significance in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly and indirectly, subsisted at the end of the year or at any time during the year.

### BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of directors and senior management are set out on page 13.

### DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

At 31 December 2002, the interests of the directors and chief executives in the shares and options of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")), as recorded in the register maintained by the Company under Section 29 of the SDI Ordinance or as notified to the Company were as follows:

#### (i) Shares

##### The Company:

Name of directors	Number of shares held				Total
	Personal interests	Family interests	Corporate interests	Other interests	
Mr. Yiu Kwok Ming, Tommy	1,100,000	2,610,637 (note a)	17,857,142 (note c)	123,833,866 (note b)	145,401,645
Mr. Yiu Kwok Yung	—	—	62,500,000 (note d)	123,833,866 (note b)	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.

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(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.

### 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

The 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 29 December 1999 and subsequently terminated on 27 May 2002 ("Share Option Scheme") were as follows:

Name of directors	Date of grant	Number of options outstanding at 31 December 2002
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.

A total of 23,800,000 share options were granted under the Share Option Scheme. No options were waived or exercised and 2,300,000 options had lapsed up to the date of this report.

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The Company has adopted a new share option scheme on 27 May 2002 ("New Scheme") to comply with the recent changes to Chapter 17 of the Listing Rules which governs the operation of the share option scheme. At 31 December 2002, no option had been granted under the New Scheme.

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

At no time during the year 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

The register of substantial shareholders maintained under section 16(1) of the SDI Ordinance shows that as at 31 December 2002, the Company had been notified of the following substantial shareholders' interests, being 10% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the directors.

Name	Number of shares held	Percentage of issued share capital as at 31 December 2002
Jarak Assets Limited	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.

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### CONNECTED TRANSACTIONS

The Company has entered into certain connected transactions during the year ended 31 December 2002. All connected transactions are also regarded as related party transactions and disclosed in note 28 to the accounts.

### MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

### MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases	
— the largest supplier	10%
— five largest suppliers combined	25%
Sales	
— the largest customer	11%
— five largest customers combined	38%

None of the directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

### DIRECTORS' INTEREST IN COMPETING INTEREST

None of the directors or the management shareholders (as defined in the Main Board Listing Rules) of the Company had an interest in a business which competes or may compete with the business of the Group.

### COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

In the opinion of the directors, the Company has complied with 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.

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### 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 both of the external and internal audit and of 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. Two meetings were held during the current financial year.

### AUDITORS

The financial statements for the year ended 31 December 2001 were jointly audited by PricewaterhouseCoopers and Chan, Wong, Chung & Co. During the year, PricewaterhouseCoopers and Chan, Wong, Chung & Co resigned as auditors. Horwath Hong Kong CPA Limited was appointed to fill the casual vacancy. Accordingly, the financial statements for the year ended 31 December 2002 were audited by Horwath Hong Kong CPA Limited.

A resolution will be proposed at the forthcoming Annual General Meeting for the re-appointment of Horwath Hong Kong CPA Limited.

On behalf of the Board

**Yiu Ching On**

*Chairman*

Hong Kong, 16 April 2003