

## **REPORT OF THE DIRECTORS**

For the year ended 31 March 2006

The directors present their annual report and the audited financial statements of the Company for the year ended 31 March 2006.

### **PRINCIPAL ACTIVITIES**

The Company is an investment holding company. The principal activities of the Company's subsidiaries are set out in note 1 to the financial statements. During the year under review, there were no significant changes in the Group's principal activities.

### **RESULTS**

The results of the Group are set out in the consolidated income statement on page 25.

The directors of the Company do not recommend the payment of a dividend.

### **MAJOR SUPPLIERS AND CUSTOMERS**

The largest supplier of the Group by itself and together with the other four largest suppliers accounted for approximately 27% and 60%, respectively, of the Group's purchases for the year under review.

The largest customer of the Group by itself and together with the other four largest customers accounted for approximately 28% and 82%, respectively of the Group's turnover for the year under review.

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 has a beneficial interest in the Group's five largest suppliers or customers.

### **PRINCIPAL SUBSIDIARIES**

The details of the Company's principal subsidiaries are set out in note 1 to the financial statements.

### **SHARE CAPITAL**

The details of the Company's share capital are set out in note 25 to the financial statements.

### **PROPERTY, PLANT AND EQUIPMENT**

During the year, the Group spent approximately HK\$4,094,000 on acquisition of property, plant and equipment. The details of the movements in property, plant and equipment of the Group during the year are set out in note 15 to the financial statements.

### **DISTRIBUTABLE RESERVES OF THE COMPANY**

The Company had no reserves available for distribution at 31 March 2006 and 2005.

### DIRECTORS

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

#### Executive directors:

Tse Wing Chiu, Ricky – <i>Chairman and Chief Executive Officer</i>	(appointed as Vice Chairman on 15 November 2005, re-designated from Vice Chairman to Chairman and appointed as Chief Executive Officer on 20 January 2006)
Lui Yuk Chu – <i>Deputy Chairman</i>	(appointed as Deputy Chairman on 20 January 2006)
Koon Wing Yee	(resigned on 20 January 2006)
Tsang Yiu Kai	(resigned on 10 December 2005)

#### Independent non-executive directors:

Kan Ka Hon  
Kwong Jimmy Cheung Tim  
Lau Sin Ming

In accordance with the Company's Bye-law 102(B), Mr. Tse Wing Chiu, Ricky holds office until the forthcoming annual general meeting of the Company and, being eligible, offers himself for re-election. In accordance with the Company's Special Act, he shall not be subject to retirement by rotation as provided in the Bye-laws of the Company.

In accordance with the Company's Bye-law 99, Mr. Kwong Jimmy Cheung Tim and Mr. Kan Ka Hon retire by rotation and, being eligible, offer themselves for re-election.

None of the directors has a service contract which is not determinable by the Company within one year without payment of compensation (other than statutory compensation). The independent non-executive directors are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's Bye-laws.

The Company has received annual confirmation from each of the independent non-executive directors as regards their independence to the Company and considers that each of the independent non-executive directors is independent to the Company.

### DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS

Pursuant to Chapter 14A of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the following connected transactions of the Company are required to be disclosed in the annual report of the Company:

On 15 June 2004, the Company entered into an agreement (the "LTC Agreement") with Mr. Louie Tsz Chung ("Mr. Louie") and an agreement (the "KPF Agreement") with Ms. Koon Po Fun ("Ms. Koon"), pursuant to which, amongst other things, the Group has agreed to sell fabrics and provide bleaching and dyeing services to companies (the "LTC Companies") controlled by Mr. Louie (the "LTC Transactions") and companies (the "KPF Companies") controlled by Ms. Koon (the "KPF Transactions") respectively for the period from 17 May 2004 to 31 March 2007 subject to respective

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For the year ended 31 March 2006

caps. In addition, under the terms of the LTC Agreement and the KPF Agreement, the Company has agreed to grant trade credit to the LTC Companies and the KPF Companies in respect of the LTC Transactions and the KPF Transactions respectively. Such trade credit is unsecured and interest free with a credit period of 60 days.

Mr. Louie is the nephew of Ms. Lui Yuk Chu, a director of the Company, and Ms. Koon is the sister of Mr. Koon Wing Yee, a former director of the Company. Pursuant to the Listing Rules, Mr. Louie has been deemed to be a connected person of the Company and Ms. Koon is a connected person of the Company. The LTC Transactions and the KPF Transactions constitute non-exempt continuing connected transactions of the Company under the Listing Rules and were approved by the independent shareholders at the special general meeting of the Company held on 25 August 2004. Details of the LTC Transactions and the KPF Transactions are set out in the circular of the Company dated 26 July 2004.

On 3 November 2005, the Company terminated the LTC Agreement in accordance with its terms as Top Star Garment Limited, being the LTC Companies, commenced creditors' voluntary liquidation under section 228(A) of the Companies Ordinance. The termination of ongoing connected transaction agreement was announced by the Company on the same date.

The LTC Transactions for the year ended 31 March 2006 amounted to approximately HK\$4,125,000.

The Group did not enter into any KPF Transactions for the year ended 31 March 2006.

Pursuant to Rule 14A.38 of the Listing Rules on The Stock Exchange of Hong Kong Limited, the Board engaged the auditors of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditors have reported their factual findings on these procedures to the Board. The independent non-executive directors have reviewed the continuing connected transactions and the report of the auditors and have confirmed that the transactions have been entered into by the Group:

- (i) in the ordinary and usual course of business of the Group;
- (ii) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and
- (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Details of other related party transactions undertaken by the Group in the normal course of business during the year ended 31 March 2006, which do not constitute connected transactions of the Company required to be disclosed under the Listing Rules, are provided under note 14 to the financial statements.

Save as disclosed above, there was no other contract of significance, to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisting at the end of the year or at any time during the year.

### CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

Other than the contracts disclosed in the section heading "Directors' Interests in Contracts and Connected Transactions", there was no contract of significance between the Company or its subsidiaries and a controlling shareholder or any of its subsidiaries subsisting during or at the end of the year. Furthermore, there was no contract of significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder or any of its subsidiaries.

### DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES, UNDERLYING SHARES AND CONVERTIBLE BONDS

As at 31 March 2006, the interests and short positions of the directors and the chief executives of the Company and their respective associates in the shares, underlying shares or debentures of the Company or any of 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 by the Company 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 Issuers (the "Model Code") were as follows:

Interests in the Company:

Name of director	Capacity	Number of ordinary shares held (long position)	Approximate percentage to issued ordinary shares of the Company
Mr. Koon Wing Yee ( <i>Note</i> )	Interest of spouse	141,085,252	35.93%
Ms. Lui Yuk Chu ( <i>Note</i> )	Beneficiary of a trust	141,085,252	35.93%

*Note:* The 141,085,252 shares relate to the same block of shares in the Company. These shares were registered in the name of and were beneficially owned by Landmark Profits Limited which was a wholly-owned subsidiary of Easyknit International Holdings Limited ("Easyknit"). Magical Profits Limited was interested in approximately 36.74% of the issued share capital of Easyknit. Magical Profits Limited was wholly-owned by Accumulate More Profits Limited which in turn was wholly-owned by Trustcorp Limited as trustee of The Magical 2000 Trust (the beneficiaries of which include Ms. Lui Yuk Chu and her family members other than spouse). Mr. Koon Wing Yee, being the spouse of Ms. Lui Yuk Chu, was deemed to be interested in the 141,085,252 shares by virtue of the SFO.

Save as disclosed above, as at 31 March 2006, none of the directors or chief executives of the Company or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which had been recorded in the register kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Details of the Company's share option schemes are set out in note 26 to the financial statements.

No share options were granted to, or exercised by, the directors during the year. There was no outstanding option granted to the directors at the beginning and at the end of the year.

Save as disclosed above, at no time during the year ended 31 March 2006 was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the directors or any of their spouses or children under the age of 18, was granted any right to subscribe for the equity or debt securities of the Company or any other body corporate nor had exercised any such right.

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### SUBSTANTIAL SHAREHOLDERS

As at 31 March 2006, the persons (other than the directors or the chief executives of the Company) who had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name of substantial shareholder	Capacity	Number of ordinary shares held (long position)	Approximate percentage to issued ordinary shares of the Company
Koon Wing Yee ( <i>notes i</i> )	Interest of spouse	141,085,252	35.93%
Landmark Profits Limited ( <i>notes i and ii</i> )	Beneficial owner	141,085,252	35.93%
Easyknit ( <i>notes i and iii</i> )	Interest of controlled corporation	141,085,252	35.93%
Magical Profits Limited ( <i>notes i and iv</i> )	Interest of controlled corporation	141,085,252	35.93%
Accumulate More Profits Limited ( <i>notes i and v</i> )	Interest of controlled corporation	141,085,252	35.93%
Trustcorp Limited ( <i>note i</i> )	Trustee	141,085,252	35.93%
Newcorp Ltd. ( <i>notes vi</i> )	Interest of controlled corporation	141,085,252	35.93%
Newcorp Holdings Limited ( <i>notes vi</i> )	Interest of controlled corporation	141,085,252	35.93%
David Henry Christopher Hill ( <i>notes vi</i> )	Interest of controlled corporation	141,085,252	35.93%
David William Roberts ( <i>notes vi</i> )	Interest of controlled corporation	141,085,252	35.93%
Rebecca Ann Hill ( <i>notes vi</i> )	Interest of spouse	141,085,252	35.93%
Au Yeung Man Yin	Beneficial owner	29,762,413	7.58%

*Notes:*

- (i) The 141,085,252 shares relate to the same block of shares in the Company. These shares were registered in the name of and were beneficially owned by Landmark Profits Limited which was a wholly-owned subsidiary of Easyknit. Magical Profits Limited was interested in approximately 36.74% of the issued share capital of Easyknit. Magical Profits Limited was wholly-owned by Accumulate More Profits Limited which in turn was wholly-owned by Trustcorp Limited as trustee of The Magical 2000 Trust (the beneficiaries of which include Ms. Lui Yuk Chu, a director of the Company, and her family members other than spouse). Mr. Koon Wing Yee, being the spouse of Ms. Lui Yuk Chu, was deemed to be interested in the 141,085,252 shares by virtual of the SFO.
- (ii) Ms. Lui Yuk Chu, being a director of the Company, is also a director of Landmark Profits Limited.
- (iii) Mr. Tse Wing Chiu, Ricky and Ms. Lui Yuk Chu, being the directors of the Company, are also directors of Easyknit.
- (iv) Ms. Lui Yuk Chu, being a director of the Company, is also a director of Magical Profits Limited.
- (v) Ms. Lui Yuk Chu, being a director of the Company, is also a director of Accumulate More Profits Limited.
- (vi) Trustcorp Limited was a wholly-owned subsidiary of Newcorp Ltd., Newcorp Ltd. was wholly-owned by Newcorp Holdings Limited. Each of Mr. David Henry Christopher Hill and Mr. David William Roberts was interested in 35% of the issued share capital of Newcorp Holdings Limited. Mrs. Rebecca Ann Hill, being the spouse of Mr. David Henry Christopher Hill, was deemed to be interested in the 141,085,252 shares by virtue of SFO.

Save as disclosed above, as at 31 March 2006, the Company had not been notified of any interests or short positions in the shares and underlying shares of the Company which were required to be recorded in the register kept by the Company under Section 336 of the SFO.

### **PURCHASE, SALE AND REDEMPTION OF SHARES**

There was no purchase, sale and redemption of the Company's shares by the Company or any of its subsidiaries during the year ended 31 March 2006.

### **EMOLUMENT POLICY**

The emolument policy of the employees of the Group is set up by the Executive Committee on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted share option schemes as an incentive to directors and eligible employees, details of the scheme is set out in note 26 to the financial statements.

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### PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders, but there are no restrictions against such rights under the laws in Bermuda.

### POST BALANCE SHEET EVENTS

The details of significant post balance sheet events are set out in note 33 to the financial statements.

### PUBLIC FLOAT

As at the date of this report, based on the information publicly available to the Company and within the knowledge of the directors of the Company, over 25% of the issued share capital of the Company was held by the public as required under the Listing Rules.

### AUDITORS

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

On behalf of the Board

**TSE WING CHIU, RICKY**

*Chairman and Chief Executive Officer*

Hong Kong, 23 June 2006