

REPORT OF THE DIRECTORS

The directors present their first report and the audited financial statements of the Company for the period from 3 January 2002 (date of incorporation) to 30 September 2002 and of the Group for the year ended 30 September 2002.

GROUP REORGANISATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 3 January 2002 under the Companies Law (Revised) of the Cayman Islands. Pursuant to a reorganisation scheme (the “Group Reorganisation”) to rationalise the structure of the Group in preparation for the listing of the Company’s shares on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company became the holding company of the companies now comprising the Group on 2 August 2002. Further details of the Group Reorganisation, together with details of the subsidiaries acquired pursuant thereto, are set out in notes 1, 15 and 22 to the financial statements, and in the Company’s prospectus dated 20 August 2002.

On 30 August 2002, the Company’s shares were listed on the Stock Exchange.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 15 to the financial statements. There were no significant changes in the nature of the Group’s principal activities during the year.

SEGMENT INFORMATION

Details of the segment information of the Group for the year ended 30 September 2002 are set out in note 6 to the financial statements.

RESULTS AND DIVIDENDS

The Group’s profit for the year ended 30 September 2002 and the state of affairs of the Company and of the Group as at that date are set out in the financial statements on pages 20 to 49.

The directors recommend the payment of a final dividend of HK2 cents per ordinary share in respect of the period ended 30 September 2002, to shareholders whose names appear on the register of members on 17 February 2003. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the capital and reserves section of the balance sheet. Further details of this accounting treatment are set out in note 12 to the financial statements.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The proceeds from the Company's issue of new ordinary shares at the time of its listing on the Stock Exchange on 30 August 2002, after deduction of related issuance expenses, amounted to approximately HK\$39 million. These proceeds were partially applied during the period ended 30 September 2002 as follows:

- as to approximately HK\$1.4 million for the second stage of construction of its pure-cotton fabric processing plant;
- as to approximately HK\$0.9 million for the expansion of its non-pure cotton fabrics production capacity through the acquisition of additional machinery and equipment;
- as to approximately HK\$2 million for the acquisition of fabric manufacturing machinery and equipment;
- as to approximately HK\$0.5 million for the expansion of its waste water treatment system;
- as to approximately HK\$0.5 million for further research and development in nano-technology; and
- as to approximately HK\$3.5 million as general working capital of the Group.

The balance of the proceeds of approximately HK\$30.2 million was placed on short-term deposits with licensed banks in the People's Republic of China as at 30 September 2002.

The actual and intended applications of the net proceeds are consistent with the plans set out in the Company's prospectus dated 20 August 2002.

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SUMMARY FINANCIAL INFORMATION

The following is a summary of the published consolidated/combined results and of the assets and liabilities of the Group for the years ended 30 September 1999, 2000, 2001 and 2002, prepared on the bases set out in the note below:

RESULTS

	Year ended 30 September			
	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
TURNOVER	290,131	197,974	114,268	70,851
PROFIT FROM OPERATING ACTIVITIES	94,025	67,549	36,544	22,218
Finance costs	(770)	(766)	(123)	(104)
PROFIT BEFORE TAX	93,255	66,783	36,421	22,114
Tax	(15,158)	(10,667)	(5,912)	(3,543)
PROFIT BEFORE MINORITY INTERESTS	78,097	56,116	30,509	18,571
Minority interests	(50)	(28)	(26)	(7)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	78,047	56,088	30,483	18,564

ASSETS, LIABILITIES AND MINORITY INTERESTS

	At 30 September			
	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
NON-CURRENT ASSETS	121,244	59,674	38,728	16,800
CURRENT ASSETS	173,515	64,450	37,346	22,392
TOTAL ASSETS	294,759	124,124	76,074	39,192
CURRENT LIABILITIES	88,522	57,539	35,605	17,232
MINORITY INTERESTS	1,827	824	796	770
TOTAL LIABILITIES	90,349	58,363	36,401	18,002
NET ASSETS	204,410	65,761	39,673	21,190

Note: The summary of the combined results of the Group for each of the three years ended 30 September 1999, 2000 and 2001, and of the assets and liabilities of the Group as at those dates had been extracted from the Company's prospectus dated 20 August 2002. The results of the Group for the year ended 30 September 2002 and the assets, liabilities and minority interests of the Group as at that date are those set out on pages 20 and 22 of the financial statements, respectively. The summary of the consolidated/combined results, assets and liabilities of the Group includes the results, assets, liabilities and minority interests of the Company and its subsidiaries as if the current structure of the Group had been in existence throughout the four years ended 30 September 1999, 2000, 2001 and 2002, and is presented on the basis set out in note 4 to the financial statements.

FIXED ASSETS

Details of the movements in the fixed assets of the Group during the year are set out in note 14 to the financial statements.

SHARE CAPITAL, SHARE OPTIONS AND WARRANTS

Details of the movements in the Company's share capital, share options and warrants during the period from 3 January 2002 (date of incorporation) to 30 September 2002, together with the reasons therefor, are set out in note 22 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Other than in connection with the Company's initial public offering and the listing of the Company's shares on the Stock Exchange on 30 August 2002, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period.

RESERVES

Details of the movements in the reserves of the Company and of the Group during the period/year are set out in note 23 to the financial statements.

DISTRIBUTABLE RESERVES

At 30 September 2002, the Company had distributable reserves of approximately HK\$178,536,000. Under the Companies Law (Revised) of the Cayman Islands, the share premium account of the Company of approximately HK\$165,222,000 as at 30 September 2002, is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers and the Group's largest customer accounted for approximately 39% and 18%, respectively, of the Group's total sales for the year.

Purchases from the Group's five largest suppliers and the Group's largest supplier accounted for approximately 31% and 8%, respectively, of the Group's total purchases for the year.

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MAJOR CUSTOMERS AND SUPPLIERS (continued)

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers.

DIRECTORS

The directors of the Company during the period from 3 January 2002 (date of incorporation) to 30 September 2002 were as follows:

Executive directors

Mr. Cai Zhen Rong	(appointed on 23 January 2002)
Mr. Cai Yang Bo	(appointed on 23 January 2002)
Mr. Choi Wing Toon	(appointed on 17 July 2002)
Mr. Cai Zhen Yao	(appointed on 2 August 2002)
Mr. Cai Zhen Ying	(appointed on 2 August 2002)

Independent non-executive directors

Ms. Choy So Yuk	(appointed on 2 August 2002)
Mr. Lawrence Gonzaga	(appointed on 2 August 2002)

In accordance with the Company's articles of association, Mr. Cai Zhen Ying and Mr. Choi Wing Toon will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

BIOGRAPHICAL DETAILS OF DIRECTORS

Biographical details of the directors of the Company and of the Group are set out on pages 17 to 18 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service contract with the Company for a term of three years commencing from 1 August 2002, which continues thereafter until terminated by either party giving not less than three months' notice in writing to the other party.

Save as disclosed above, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Other than in connection with the Group Reorganisation in preparation for the Company's initial public offering, no director had a significant beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

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 in existence during the year.

DIRECTORS' INTERESTS IN SHARES AND WARRANTS

At 30 September 2002, the interests of the directors in the share capital of the Company or its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

Ordinary shares of the Company

Name of director	Nature of interest	Number of ordinary shares held
Mr. Cai Zhen Rong	Personal	445,600,000

Warrants of the Company

Name of director	Nature of interest	Number of warrants held
Mr. Cai Zhen Rong	Personal	48,000,000

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interests in the equity securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors' interests in shares and warrants" above and "Share option scheme" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

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SHARE OPTION SCHEME

The Company operates a share option scheme (the “SO Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Eligible participants of the SO Scheme include the Company’s directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, persons or entities providing research, development or other technological support to the Group, and any minority shareholder in the Company’s subsidiaries. The SO Scheme became effective on 30 August 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the SO Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the SO Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders’ approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the closing price of the Company’s shares at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders’ approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of the grant of the share options or the expiry date of the SO Scheme, if earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the closing price of the Company’s shares as stated in the Stock Exchange’s daily quotations sheet on the date of the offer of grant, which must be a trading day; (ii) the average closing price of the Company’s shares as stated in the Stock Exchange’s daily quotation sheets for the five trading days immediately preceding the date of the offer of the grant; and (iii) the nominal value of the Company’s shares.

At the date of this report, no share options have been offered and/or granted to any participants under the SO Scheme.

SHARE OPTION SCHEME (continued)

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the share options are exercised, and no charge is recorded in the profit and loss account or the balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Share options which are cancelled prior to their exercise date are deleted from the register of outstanding share options.

SUBSTANTIAL SHAREHOLDERS

At 30 September 2002, the following interests of 10% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance.

Name	Number of ordinary shares held	Percentage of the issued share capital of the Company
Mr. Cai Zhen Rong	445,600,000 [#]	69.6%

[#] These shareholdings are duplicated in the disclosure under the heading "Directors' interests in shares and warrants" above.

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out above, had registered an interest in the share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year and up to date of this report, no directors of the Company are considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group, as defined by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), other than those businesses of which the directors of the Company were appointed as directors to represent the interests of the Company and/or the Group.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 29 to the financial statements.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules, since the listing of the Company's shares on the Stock Exchange on 30 August 2002, except that the independent non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation in accordance with the Company's articles of association.

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AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the two independent non-executive directors of the Company.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Cai Zhen Rong

Chairman

Hong Kong

17 January 2003