

Report of the Directors

The directors present their first annual report and the audited financial statements of LeRoi Holdings Limited (the "Company") for the period from 24 July 2002 (date of incorporation) to 31 March 2003 and of the Group for the year ended 31 March 2003.

GROUP REORGANISATION

The Company was incorporated in the Cayman Islands on 24 July 2002 as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands. Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the Group structure 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 7 October 2002. Further details of the Group Reorganisation and of the subsidiaries acquired pursuant thereto are set out in notes 2 and 22, and 16 to the financial statements, respectively, and in the Company's prospectus dated 23 October 2002 (the "Prospectus").

The shares of the Company were listed on the Stock Exchange on 7 November 2002.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 16 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 March 2003 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 21 to 53.

A special dividend of HK\$12 million was paid by a subsidiary of the Company to its then shareholder during the period prior to the Group Reorganisation and the listing of the Company's shares on the Stock Exchange. Details of the special dividend are set out in note 13 to the financial statements.

The directors do not recommend any payment of a final dividend in respect of the period.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The proceeds from the Company's issue of new shares at the time of its listing on the Stock Exchange in November 2002, after deduction of related issuance expenses, amounted to approximately HK\$28.1 million. These proceeds were partly applied during the year ended 31 March 2003 in accordance with the proposed applications set out in the Prospectus, as follows:

- approximately HK\$1.5 million for the development and expansion of the Group's distribution network, including franchised and authorised distributors, and its sales control computer systems, in the People's Republic of China (the "PRC");
- approximately HK\$2.0 million for the design, development and promotion of the Group's *LeRoi* products; and
- approximately HK\$1.0 million for the development of a new line of the Group's products specially designed for ladies aged between 16 and 25.

The remaining net proceeds as at 31 March 2003 of approximately HK\$23.6 million were placed on current account deposit with a bank in Hong Kong. The directors are of the opinion that the remaining proceeds will be applied in the coming year for their intended uses as set out in the Prospectus.

SUMMARY FINANCIAL INFORMATION

A summary of the published combined financial results and consolidated/combined assets and liabilities of the Group for the last four financial years, prepared on the basis set out therein and in note 2 to the financial statements, is set out on page 54 of this annual report. This summary does not form part of the audited financial statements.

FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note 15 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options since its incorporation on 24 July 2002, together with the reasons therefor, are set out in note 22 to the financial statements.

Report of the Directors (continued)

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of associations 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 placing of shares as detailed in note 22 to the financial statements, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period since the listing of the shares.

RESERVES

Details of 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 31 March 2003, the Company's reserves available for distribution, calculated in accordance with the Companies Law (Revised) of the Cayman Islands, amounted to HK\$59,653,000. This includes the Company's share premium account in the amount of HK\$58,932,000, which may be distributed, 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.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for less than 30% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for 100% of the total purchases for the year and purchases from the largest supplier included therein amounted to 76%.

As far as the directors are aware, neither the directors of the Company, their associates nor those 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 and suppliers.

Report of the Directors (continued)

DIRECTORS

The directors of the Company during the period from 24 July 2002 (date of incorporation) to the date of this report were:

Executive directors:

Mr. So Chi Hiu (蘇智曉)	(appointed on 31 July 2002)
Ms. Yeung Sau Han, Agnes (楊秀嫻)	(appointed on 31 July 2002)
Mr. So Yuen Chun (蘇遠進)	(appointed on 31 July 2002)

Independent non-executive directors:

Mr. Lok Shing Kwan, Sunny (樂承鈞)	(appointed on 26 August 2002)
Mr. Wong Wing Hang, Henry (黃穎恒)	(appointed on 26 August 2002)

In accordance with article 86(3) of the Company's articles of association, Ms. Yeung Sau Han, Agnes, Mr. So Yuen Chun, Mr. Lok Shing Kwan, Sunny and Mr. Wong Wing Hang, Henry will retire from office by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting. The independent non-executive directors are not appointed for specific terms but are subject to retirement by rotation in accordance with the Company's articles of association.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Executive directors

Mr. So Chi Hiu (蘇智曉), aged 52, is the chairman of the Company and the founder of the Group. Mr. So has over 25 years of experience in the design, manufacturing and sale of garments. He is responsible for the Group's overall strategy formulation. Before setting up the Group, Mr. So was a garment technician.

Ms. Yeung Sau Han, Agnes (楊秀嫻), aged 37, is the design director of the Company. Ms. Yeung graduated from the Hong Kong Polytechnic (now the Hong Kong Polytechnic University) with a higher diploma in fashion design. Before joining the Group in 1998, Ms. Yeung worked in various garment companies for 10 years. She is responsible for the design operations of the Group. She is the sister-in-law of Mr. So Chi Hiu.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES (CONTINUED)

Executive directors (continued)

Mr. So Yuen Chun (蘇遠進), aged 31, is the finance director of the Company. He graduated from the City University of Hong Kong with a higher diploma in accounting. He is a member of the Hong Kong Society of Accountants and the Association of Chartered Certified Accountants. Before joining the Group in 1999, he worked in the audit and accounting field for 5 years. He is the nephew of Mr. So Chi Hiu and Ms. Yeung Sau Han, Agnes.

Independent non-executive directors

Mr. Lok Shing Kwan, Sunny (樂承鈞), aged 37, is an independent non-executive director. Mr. Lok has over 10 years of experience in finance, accounting, corporate and taxation affairs. He is an associate member of the Hong Kong Society of Accountants and a member of CPA Australia. Mr. Lok is also an independent non-executive director of China Investment Fund Company Limited, a company listed on the Stock Exchange. He was appointed in August 2002.

Mr. Wong Wing Hang, Henry (黃穎恒), aged 35, is an independent non-executive director. Mr. Wong is admitted as a solicitor of the High Court of Hong Kong. Mr. Wong is also a partner of W. K. To & Co., a law firm in Hong Kong. He was appointed in August 2002.

Senior management

Mr. Shui Fuk Yip (水復業), aged 40, is the quality control manager of the Group. Mr. Shui joined the Group in 1990. He has over 15 years of experience in quality control in fashion manufacturing. He is the brother-in-law of Mr. So Chi Hiu.

Ms. Wong Hung Ying (黃鴻英), aged 39, is the sales and marketing manager of the Group. Ms. Wong joined the Group in 1994. She has over 10 years of experience in sales and marketing.

Mr. Ng Kwok Kin (吳國堅), aged 52, is the administrative manager of the Group. Mr. Ng joined the Group in 1996. Mr. Ng has over 6 years of experience in administration.

DIRECTORS' SERVICE CONTRACTS

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

Apart from the forgoing, 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

Apart from the transactions related to the Group Reorganisation and those transactions disclosed in note 3 to the financial statements, no director had a significant beneficial interest, either direct or indirect, in any contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN SHARES

As at 31 March 2003, the interests of the directors and their associates 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:

(a) Interest in the Company

Name	Type of interest (Note)	Number of issued ordinary shares held
So Chi Hiu	Corporate	607,200,000

Note: There shares were held by Taco Holdings Limited, a company incorporated in the British Virgin Islands, the entire issued share capital of which is held and beneficially owned by Mr. So Chi Hiu.

(b) Interest in associated corporations

As mentioned above, Mr. So Chi Hiu beneficially owns the entire issued share capital of Taco Holdings Limited, the Company's holding company.

Report of the Directors (continued)

DIRECTORS' INTERESTS IN SHARES (CONTINUED)

Save as disclosed above, as at the balance sheet date, none of the directors or their associates had any personal, family, corporate or other beneficial interests in the issued share capital of the Company or any of its associated corporations as defined in the SDI Ordinance or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standard of dealings prescribed by the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save for the transactions relating to the Group Reorganisation as disclosed above and in the share option scheme disclosures in note 22 to the financial statements, at no time since the incorporation of the Company were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or of any other body corporate 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, its holding company or any of its subsidiaries a party to any arrangement to enable the directors, their respective spouse or children under 18 years of age to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2003, the following party with interest representing 10% or more of the Company's issued share capital was recorded in the register of interests maintained under Section 16(1) of the SDI Ordinance:

Name of shareholder	Number of issued ordinary shares held	Percentage of total issued ordinary shares
Taco Holdings Limited	607,200,000	75

Note: The interest is also disclosed under the paragraph headed "Directors' Interests in Shares" disclosed above.

Save as disclosed above, no other person other than the director whose interests are set out in the paragraph headed "Directors' Interests in Shares" above, had registered an interest of 10% or more in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

Report of the Directors (continued)

CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the accounting period covered by the annual report, except that the independent non-executive directors of the Company are not appointed for specific terms, but are subject to retirement by rotation at the annual general meeting in accordance with the Company's memorandum and articles of association.

AUDIT COMMITTEE

The Company set up an audit committee (the "Committee") on 8 October 2002, which was established in accordance with the requirements of the Code of Best Practice, for the purposes of reviewing and providing supervision over the financial reporting process and internal controls of the Group. The Committee comprises the two independent non-executive directors of the Company. The Group's financial statements for the year ended 31 March 2003 have been reviewed by the Committee, who are of the opinion that such statements comply with the applicable accounting standards and legal requirements, and that adequate disclosures have been made.

AUDITORS

Ernst & Young were appointed as the first auditors of the Company for the period ended 31 March 2003.

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

SO CHI HIU

Chairman

Hong Kong

28 July 2003