

## REPORT OF THE DIRECTORS

The directors present their first report and the audited financial statements of the Company for the period from 9th October, 2002 (date of incorporation) to 31st March, 2004 and of the Group for the year ended 31st March, 2004.

### GROUP REORGANISATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 9th October, 2002 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and 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 shares of the Company 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 6th August, 2003. Further details of the Group Reorganisation are set out in notes 1 and 25 to the financial statements and in the prospectus of the Company dated 12th August, 2003 (the "Prospectus").

The listing of the shares of the Company on the Stock Exchange commenced on 22nd August, 2003.

### PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries of the Company 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 profit of the Group for the year ended 31st March, 2004 and the state of affairs of the Company and of the Group at that date are set out in the annual report on pages 31 to 76.

An interim dividend of HK3 cents per ordinary share was paid on 8th January, 2004. The directors recommend the payment of a final dividend of HK3.5 cents per ordinary share in respect of the year, to shareholders on the register of members on 18th August, 2004. 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.

*Report of the Directors***USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING OF THE COMPANY**

The proceeds from the issue of new shares of the Company at the time of its listing on the Stock Exchange on 22nd August, 2003, after deduction of related issuance expenses, amounted to approximately HK\$21,074,000. During the year under review, the Group utilised approximately HK\$7 million for various purposes, which were in line with the proposed applications set out in the Prospectus, as follows:

	<i>HK\$</i> <i>(in million)</i>
Acquisition of additional factory buildings	–
Acquisition of new machinery and fixtures and fittings	2
Marketing and promotion	2
General working capital	3
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The remaining net proceeds at 31st March, 2004, of approximately HK\$14 million, were placed on short-term interest-bearing deposits with banks in Hong Kong. The directors intend to use the net proceeds in the manner as disclosed in the Prospectus.

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### SUMMARY FINANCIAL INFORMATION

The following is a summary of the published results and assets and liabilities of the Group for the last four financial years prepared on the basis set out in the note below.

#### Results

	<b>2004</b> <b>HK\$'000</b>	<b>Year ended 31st March,</b>		
		2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
Turnover	<b>325,411</b>	242,330	218,704	178,191
Profit before tax	<b>35,597</b>	34,275	31,630	23,281
Tax	<b>(3,511)</b>	(3,444)	(3,502)	(3,246)
Net profit from ordinary activities attributable to shareholders	<b>32,086</b>	30,831	28,128	20,035

#### Assets and liabilities

	<b>2004</b> <b>HK\$'000</b>	<b>As at 31st March,</b>		
		2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
Non-current assets	<b>56,186</b>	45,234	14,600	10,910
Current assets	<b>118,162</b>	47,865	42,094	29,323
Current liabilities	<b>(77,136)</b>	(47,333)	(33,685)	(25,097)
Net current assets	<b>41,026</b>	532	8,409	4,226
Non-current liabilities	<b>(6,850)</b>	(7,774)	(910)	(1,010)
	<b>90,362</b>	37,992	22,099	14,126

*Note:* The summary of the consolidated results of the Group for each of three years ended 31st March, 2003 and of the assets and liabilities of the Group as at 31st March, 2001, 2002 and 2003 have been extracted from the Prospectus. The summary was prepared as if the current structure of the Group had been in existence throughout these financial years and is presented on the basis set out in note 1 to the financial statements. The consolidated results of the Group for the year ended 31st March, 2004 and the consolidated assets and liabilities of the Group as at 31st March, 2004 are those set out on pages 31 to 76 of the annual report.

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### **FIXED ASSETS**

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

### **SHARE CAPITAL**

Details of movements in the share capital of the Company during the period from 9th October, 2002 (date of incorporation) to 31st March, 2004, together with the reasons therefor, are set out in notes 25 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 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**

The listing of the Company's shares commenced on 22nd August, 2003. Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities between that date and 31st March, 2004.

### **RESERVES**

Details of movements in the reserves of the Company and of the Group during the year are set out in note 27 to the financial statements.

### **DISTRIBUTABLE RESERVES**

At 31st March, 2004, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands, amounted to HK\$62,933,000, of which HK\$11,900,000 has been proposed as a final dividend for the year. The amount of HK\$62,933,000 includes the Company's share premium account and capital reserve, of HK\$62,442,000 in aggregate at 31st March, 2004, which may be distributed provided that immediately following the date on which a 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.

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### **MAJOR CUSTOMERS AND SUPPLIERS**

In the year under review, sales to the Group's five largest customers accounted for approximately 99.2% of the Group's total sales for the year and sales to the largest customer included therein accounted for approximately 58.5%.

Purchases from the Group's five largest suppliers accounted for approximately 46.5% of the Group's total purchases for the year and purchases from the largest supplier included therein accounted for approximately 14.9%.

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 9th October, 2002 (date of incorporation) to 31st March, 2004 were:

#### **Executive directors:**

Mr. Chung Yuk Sing	(appointed on 28th October, 2002)
Ms. Tsang Yuk Ni	(appointed on 28th October, 2002)
Mr. Chung Tung Sau	(appointed on 31st October, 2002)
Ms. Tsang Sau Fan	(appointed on 31st October, 2002)

#### **Non-executive director:**

Mr. Ong Chor Wei	(appointed on 31st October, 2002)
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#### **Independent non-executive directors:**

Mr. Chan Cheuk Ho	(appointed on 18th November, 2002)
Mr. Li Chi Chung	(appointed on 27th November, 2002)

Subsequent to the balance sheet date, on 16th April, 2004, Mr. Ku Yu Sun Edward and Mr. Kuo Tai Yu were appointed as executive directors of the Company.

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### **DIRECTORS** *(continued)*

In accordance with article 86(3) of the Company's articles of association, Mr. Ku Yu Sun Edward and Mr. Kuo Tai Yu will hold office until the forthcoming annual general meeting of the Company and, being eligible, will offer themselves for re-election.

In accordance with article 87 of the Company's articles of association, Mr. Ong Chor Wei and Mr. Chan Cheuk Ho will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

### **DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES**

Biographical details of the directors of the Company and senior management of the Group are set out on pages 14 to 16 of the annual report.

### **DIRECTORS' SERVICE CONTRACTS**

No director proposed for re-election at the forthcoming annual general meeting of the Company has a service contract with the Company, or any of its subsidiaries, which is not determinable by the employing Company within one year without payment of compensation, other than statutory compensation.

The non-executive directors (including the independent non-executive directors) have no fixed terms of office, but are subject to the provisions governing the retirement and rotation of directors in the articles of association of the Company.

### **DIRECTORS' INTERESTS IN CONTRACTS**

Save for the Subscription Agreement to which Time Easy Investment Holdings Limited ("Time Easy") and Mr. Chung Yuk Sing are parties, details of which are set out in the Chairman's Statement, 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, its holding company or any of its subsidiaries was a party during the year.

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## **DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES**

As at 31st March, 2004, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) which have been notified to the Company pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such director or chief executive was taken or deemed to have under such provisions of the SFO) or 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, were as follows:

**(i) The Company**

<b>Name of director</b>	<b>Capacity/Nature of interest</b>	<b>Number of shares held</b>		<b>Percentage of issued share capital of the Company</b>
		<b>Long position</b>	<b>Short position</b>	
Chung Yuk Sing	Interest of controlled corporation/ Corporate	150,000,000 (Note)	–	75%
Tsang Sau Fan	Beneficial owner/ Personal	1,500,000	–	0.75%

*Note:* These shares are held by Time Easy. The entire issued share capital of Time Easy is held by Mr. Chung Yuk Sing and Ms. Tsang Yuk Ni, the wife of Mr. Chung Yuk Sing, in the proportion of 90% and 10% respectively.

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**DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES** *(continued)*

**(ii) Associated corporations**

Name of director	Name of associated corporation	Capacity/ Nature of interest	Number and class of shares in associated corporation held		Percentage of issued share capital of the same class of the associated corporation
			Long position	Short position	
Chung Yuk Sing	Eagle Nice Development Limited ("Eagle Nice Development")	Beneficial owner/ Personal	9,000 non-voting deferred	9,000 non-voting deferred (Note 1)	90%
	Far East (International) Garment Limited ("Far East")	Beneficial owner/ Personal	9,000 non-voting deferred	9,000 non-voting deferred (Note 2)	90%
	Time Easy (Note 3)	Beneficial owner/ Personal	900 ordinary shares	–	90%
Tsang Yuk Ni	Eagle Nice Development	Beneficial owner/ Personal	1,000 non-voting deferred	1,000 non-voting deferred (Note 1)	10%
	Far East	Beneficial owner/ Personal	1,000 non-voting deferred	1,000 non-voting deferred (Note 2)	10%
	Time Easy (Note 3)	Beneficial owner/ Personal	100 ordinary shares	–	10%



*Report of the Directors***DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES** *(continued)***(ii) Associated corporations** *(continued)**Notes:*

1. Pursuant to an option agreement dated 28th March, 2002, each of Mr. Chung Yuk Sing and Ms. Tsang Yuk Ni granted an option to Jespar Age Limited ("Jespar") whereby Jespar has the right to purchase all of his/her non-voting deferred shares in Eagle Nice Development upon the terms therein provided. Accordingly, each of Mr. Chung Yuk Sing and Ms. Tsang Yuk Ni will be taken to have a short position in his/her non-voting deferred shares in Eagle Nice Development under the SFO.
2. Pursuant to an option agreement dated 28th March, 2002, each of Mr. Chung Yuk Sing and Ms. Tsang Yuk Ni granted an option to Jespar whereby Jespar has the right to purchase all of his/her non-voting deferred shares in Far East upon the terms therein provided. Accordingly, each of Mr. Chung Yuk Sing and Ms. Tsang Yuk Ni will be taken to have a short position in his/her non-voting deferred shares in Far East under the SFO.
3. Time Easy is the holding company of the Company and is an associated corporation of the Company under the SFO.

Save as disclosed above, none of the directors and chief executive of the Company was interested or had any short positions in any shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as at 31st March, 2004.

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### **DIRECTORS' INTERESTS IN COMPETING BUSINESS**

Interests of the directors of the Company in competing businesses required to be disclosed pursuant to Rule 8.10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") are as follows:

<b>Name of director</b>	<b>Name of company</b>	<b>Nature of competing business</b>	<b>Nature of interest</b>
Mr. Ku Yu Sun Edward ("Mr. Ku")	Yuen Thai Industrial Company Limited ("Yuen Thai") (Note)	Manufacturing of sports and active wear	As a director

Note: Yuen Thai is a company incorporated in Hong Kong on 24th September, 2003 and is held as to 50% by the Yue Yuen Group and as to 50% by a subsidiary of Luen Thai Holdings Limited. Mr. Ku has been nominated by the Yue Yuen Group to represent its interest on the board of directors of Yuen Thai.

Having considered (i) the nature, geographical market, scope and size of Yuen Thai as compared to those of the Group; and (ii) the nature and extent of Mr. Ku's interest in Yuen Thai, the directors of the Company believe that there is unlikely to be any significant competition caused to the business of the Group.

Save as disclosed above, none of the directors of the Company or their respective associates was interested in, apart from the Group's business, any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

### **DIRECTOR'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

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 minor children 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 to acquire such rights in any other body corporate.

## Report of the Directors

### SHARES OPTION SCHEME

On 6th August, 2003, the Company has conditionally adopted the Share Option Scheme whereby eligible participants of the Share Option Scheme, including any employee (whether full-time or part-time) and any director of the Company and/or any of its subsidiaries who the Board may think fit with reference to their respective contributions to the Group, may be granted options which entitle them to subscribe for the shares of the Company. Details of the Share Option Scheme are set out in note 26 to the financial statements.

As at 31st March, 2004, no share options had been granted under the Share Option Scheme.

### SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31st March, 2004, the interests and short positions of the following persons, other than directors and chief executive of the Company, in the shares and underlying shares of the Company which have been disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO have been recorded in the register kept by the Company pursuant to section 336 of the SFO:

Name	Capacity/ Nature of interest	Number of Shares		Percentage of shareholding
		Long position	Short position	
Time Easy	Beneficial owner/ Personal	150,000,000 (Note 1)	–	75%
Pou Chen Corporation ("PCC")	Interest of controlled corporation/Corporate	192,000,000 (Notes 2 and 3)	–	96%
Wealthplus Holdings Limited ("Wealthplus")	Interest of controlled corporation/Corporate	192,000,000 (Notes 2 and 3)	–	96%
Yue Yuen Industrial (Holdings) Limited ("Yue Yuen")	Interest of controlled corporation/Corporate	192,000,000 (Notes 2 and 3)	–	96%
Pou Hing Industrial Co. Ltd. ("Pou Hing")	Interest of controlled corporation/Corporate	192,000,000 (Notes 2 and 3)	–	96%
Great Pacific Investments Limited ("Great Pacific")	Beneficial owner/ Personal	192,000,000 (Notes 2 and 3)	–	96%

*Report of the Directors***SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES** *(continued)**Notes:*

1. The entire issued share capital of Time Easy is held by Mr. Chung Yuk Sing and Ms. Tsang Yuk Ni in the proportion of 90% and 10% respectively.
2. PCC owns the entire interest in Wealthplus which in turn owns approximately 46.6% interest in Yue Yuen. Yue Yuen owns the entire interest in Pou Hing which in turn owns the entire interest in Great Pacific.
3. Pursuant to a conditional subscription agreement dated 3rd March, 2004 and made between, inter alios, the Company and Great Pacific (the "Subscription Agreement"), Great Pacific agreed to subscribe (i) 105,000,000 new shares at HK\$1.06 per share and (ii) a convertible note in the aggregate principal amount of HK\$207,060,000 which would be convertible into 87,000,000 new shares at the initial conversion price of HK\$2.38 per share (subject to adjustment). As at 31st March, 2004, the Subscription Agreement had not been completed. Notwithstanding this, Great Pacific was deemed to be interested in these shares under the SFO by virtue of its aforesaid obligations under the Subscription Agreement.

Save as disclosed above, no person was interested in or had a short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO as at 31st March, 2004.

**POST BALANCE SHEET EVENTS**

Details of the significant post balance sheet events of the Group are set out in note 32 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 to the Listing Rules throughout the accounting period covered by the annual report, except that the 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.

*Report of the Directors***AUDIT COMMITTEE**

The Company has an audit committee which was established on 6th August, 2003 and in accordance with 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. The annual results of the Group for the year ended 31st March, 2004 had been reviewed by the audit committee.

**AUDITORS**

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

ON BEHALF OF THE BOARD

**Chung Yuk Sing**

*Chairman*

Hong Kong

23rd July, 2004