

Report of Directors

The directors present their report and the audited financial statements of the Company and of the Group for the year ended 31 March 2005.

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 31 March 2005 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 49 to 94.

An interim dividend of HK4.5 cents per ordinary share was paid on 2 December 2004. The directors recommend the payment of a final dividend of HK6 cents per ordinary share in respect of the year, to shareholders on the register of members on 11 August 2005. 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.

Use of proceeds from the initial public offering of the Company and the issue of new shares and a convertible note of the Company

The proceeds from the issue of new shares of the Company at the time of its listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 22 August 2003, after deduction of related expenses, amounted to approximately HK\$21 million. Up to 31 March 2005, these proceeds were fully applied in accordance with the proposed applications set out in the Company's listing prospectus dated 12 August 2003 (the "Prospectus"), as follows:

	HK\$ (in million)
Acquisition of additional factory buildings	10
Acquisition of new machinery and fixtures and fittings	6
Marketing and promotion	3
General working capital	2
	21

The proceeds from the issue of new shares and a convertible note by the Company in April 2004, after deduction of related expenses, amounted to approximately HK\$343 million. As at 31 March 2005, the Group had utilised approximately HK\$89 million, which was in line with the proposed applications set out in the circular of the Company dated 24 March 2004 (the "Circular"), as follows:

	HK\$ (in million)
Acquisition of additional factory buildings	32
Acquisition of new machinery and fixtures and fittings	17
General working capital	40
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The remaining net proceeds of approximately HK\$254 million at 31 March 2005 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 Circular.

Summary financial information

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

Results

	Year ended 31 March				
	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
Turnover	451,446	325,411	242,330	218,704	178,191
Profit before tax	103,261	35,597	34,275	31,630	23,281
Tax	(9,200)	(3,511)	(3,444)	(3,502)	(3,246)
Net profit from ordinary activities attributable to shareholders	94,061	32,086	30,831	28,128	20,035

Assets and liabilities

	As at 31 March				
	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
Non-current assets	137,269	56,186	45,234	14,600	10,910
Current assets	419,691	118,162	47,865	42,094	29,323
Current liabilities	(53,226)	(77,136)	(47,333)	(33,685)	(25,097)
Net current assets	366,465	41,026	532	8,409	4,226
Non-current liabilities	(1,466)	(6,850)	(7,774)	(910)	(1,010)
	502,268	90,362	37,992	22,099	14,126

Note:

The summary of the consolidated results of the Group for each of three years ended 31 March 2003 and of the assets and liabilities of the Group as at 31 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. The consolidated results of the Group for each of the two years ended 31 March 2005 and the consolidated assets and liabilities of the Group as at 31 March 2004 and 2005 are those set out on pages 49 to 94 of the annual report.

Fixed assets

Details of movements in the fixed assets of the Group during the year are set out in note 13 to the financial statements.

Share capital

Details of movements in the share capital of the Company during the year, together with the reasons therefor, are set out in note 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

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

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 31 March 2005, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands, amounted to HK\$429,644,000, of which HK\$25,620,000 has been proposed as a final dividend

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for the year. The amount of HK\$429,644,000 includes the Company's share premium account and capital reserve, of HK\$403,020,000 in aggregate at 31 March 2005, 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.

Major customers and suppliers

In the year under review, sales to the Group's five largest customers accounted for approximately 99.1% of the Group's total sales for the year and sales to the largest customer included therein accounted for approximately 70.2%.

Purchases from the Group's five largest suppliers accounted for approximately 57.1% of the Group's total purchases for the year and purchases from the largest supplier included therein accounted for approximately 22.6%.

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 year were:

Executive Directors:

Mr. Chung Yuk Sing
 Ms. Tsang Yuk Ni
 Mr. Chung Tung Sau
 Ms. Tsang Sau Fan
 Mr. Ku Yu Sun, Edward *(Appointed on 16 April 2004)*
 Mr. Kuo Tai Yu *(Appointed on 16 April 2004)*

Non-Executive Director:

Mr. Ong Chor Wei

Independent Non-Executive Directors:

Mr. Chan Cheuk Ho
 Mr. Li Chi Chung
 Mr. Cheng Yung Hui, Tony *(Appointed on 30 September 2004)*

In accordance with article 86(3) of the Company's articles of association, Mr. Cheng Yung Hui, Tony will hold office until the forthcoming annual general meeting of the Company and, being eligible, offer himself for re-election at the forthcoming annual general meeting.

In accordance with article 87 of the Company's articles of association, Mr. Chung Tung Sau and Mr. Li Chi Chung will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The Company has received annual confirmations of independence from Mr. Chan Cheuk Ho, Mr. Li Chi Chung and Mr. Cheng Yung Hui, Tony, and still considers them to be independent as at the date of this report.

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 16 to 17 of the annual report.

Directors' service contracts

Other than Mr. Chung Tung Sau who has entered into a service contract with Eagle Nice Development Limited ("Eagle Nice Development"), the principal terms of which are set out in the circular to the shareholders of the Company accompanying the annual report, 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' remuneration

The directors' fee are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group.

Directors' interests in contracts

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.

Directors' and chief executive's interests and short positions in shares, underlying shares and debentures

As at 31 March 2005, the interests and short positions of the directors and chief executive in the share capital, underlying shares and debentures of the Company or 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 directors 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 Issuers (the "Model Code"), were as follows:

(i) The Company

Name of director	Capacity/Nature of interest	Number of Shares held		Percentage of issued share capital of the Company
		Long position	Short position	
Chung Yuk Sing	Interest of a controlled corporation/ Corporate	126,500,000 (Note)	–	29.63%
Tsang Sau Fan	Beneficial owner/ Personal	1,500,000	–	0.35%

Note:

These shares are held by Time Easy Investment Holdings Limited ("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.

(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	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%
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%

Notes:

- Pursuant to an option agreement dated 28 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 is taken to have a short position in his/her non-voting deferred shares in Eagle Nice Development under the SFO.
- Pursuant to an option agreement dated 28 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 is taken to have a short position in his/her non-voting deferred shares in Far East under the SFO.

Save as disclosed above, as at 31 March 2005, none of the directors or chief executive had an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and Stock Exchange pursuant to the Model Code.

Directors' 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 directors or their respective spouse or children under the age of 18, 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.

Share option scheme

On 6 August 2003, the Company has conditionally adopted a 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 Company's board of directors (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 31 March 2005, no share options had been granted under the share option scheme.

Substantial shareholders' interests and short positions in shares and underlying shares

As at 31 March 2005, 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 and 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 Long position	Short position	Percentage of issued share capital of the Company
Time Easy	Beneficial owner/ Personal	126,500,000 (Note 1)	–	29.63%
Pou Chen Corporation ("PCC")	Interest of a controlled corporation/Corporate	192,000,000 (Note 2)	–	44.96%
Wealthplus Holdings Limited ("Wealthplus")	Interest of a controlled corporation/Corporate	192,000,000 (Note 2)	–	44.96%
Yue Yuen Industrial (Holdings) Limited ("Yue Yuen")	Interest of a controlled corporation/Corporate	192,000,000 (Note 2)	–	44.96%
Pou Hing Industrial Co. Ltd. ("Pou Hing")	Interest of a controlled corporation/Corporate	192,000,000 (Note 2)	–	44.96%
Great Pacific Investments Limited ("Great Pacific")	Beneficial owner/ Personal	192,000,000 (Note 2)	–	44.96%

Notes:

- 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.
- PCC owns the entire interest in Wealthplus, which in turn owns approximately 47.4% interest in Yue Yuen. Yue Yuen owns the entire interest in Pou Hing which in turn owns the entire interest in Great Pacific.

Saved as disclosed above, as at 31 March 2005, no person, other than the directors and chief executive of the Company, whose interests are set out in the section headed "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, had an interest or 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 and recorded in the register kept by the Company pursuant to Section 336 of the SFO.

Sufficiency of public float

Based on the information that is publicly available to the Company and within the knowledge of the directors, the directors confirmed that at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

Directors' interests in a 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:

Name of director	Name of company	Nature of competing business	Nature of interest
Mr. Ku Yu Sun, Edward ("Mr. Ku")	Yuen Thai Industrial Company Limited ("Yuen Thai") (Note)	Garment Manufacturing	As a director

Note:

Yuen Thai is a company incorporated in Hong Kong on 24 September 2003 and is held as to 50% by Yue Yuen and its subsidiaries (the "Yue Yuen Group") and 50% by a subsidiary of Luen Thai Holdings Limited, a company listed on the Stock Exchange since 2004. 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 businesses, any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

Post balance sheet event

Details of the significant post balance sheet event 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 recommended by paragraph 7 of the Code, but are subject to retirement by rotation in accordance with the Company's articles of association.

Model Code for Securities Transactions

The Company has adopted the Model Code as the Company's code of conduct for dealings in securities of the Company by the directors. Based on specific enquiry of the Company's directors, the directors confirmed that they have complied with the required standard set out in the Model Code, throughout the accounting period covered by the annual report.

Audit committee

The Company has an audit committee which was established on 6 August 2003 and is in compliance with Rule 3.21 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three 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

Chung Yuk Sing

Chairman

Hong Kong
8 July 2005