

## **DIRECTORS' REPORT**

The directors present their annual report and the audited financial statements for the year ended 31st March, 2005.

### ***PRINCIPAL ACTIVITIES***

The Company is an investment holding company. The principal activities of the Group are the manufacture and sale of knitted fabrics and dyed yarns, provision of dyeing, bleaching, setting and finishing services and garment products.

### ***RESULTS***

The results of the Group for the year ended 31st March, 2005 are set out in the consolidated income statement on page 19 of the annual report.

The directors do not recommend the payment of a dividend and proposed that the profit for the year be retained.

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

Details of the movements in the property, plant and equipment of the Group during the year are set out in note 13 to the financial statements.

### ***SUBSIDIARIES***

In October 2004, the Group has disposed of its entire equity interest in Sweetime Limited ("Sweetime") and in the shareholder's loans of approximately HK\$5,797,000 for a cash consideration of HK\$5,800,000 to Mr. Chiu Ka Lun ("Mr. Chiu"), a director of South Season Industrial Company Limited ("South Season"). Sweetime is an investment holding company which has a 70% direct interest in South Season, which is engaged in trading of garments.

The disposal of Sweetime was completed on 27th October, 2004, details of which were set out in the circular to the shareholders of the Company dated 19th November, 2004.

Details of the Company's principal subsidiaries at 31st March, 2005 are set out in note 34 to the financial statements.

# DIRECTORS' REPORT

## **SHARE CAPITAL**

Details of movements in the share capital of the Company during the year are set out in note 23 to the financial statements.

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

## **DIRECTORS**

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

### ***Executive directors:***

Mr. Li Man Ching (*Chairman*)

Ms. Li Mei Lin (*Deputy Chairman*)

Mr. Li Man Shun

Mr. Fung Chi Ki

Mr. Li Man Tak (resigned on 31st May, 2004)

### ***Independent non-executive directors:***

Mr. Lau Chung Man, Louis

Mr. Tsui Wing Yin

Mr. So Kin Wah (appointed on 1st April, 2004)

In accordance with Article 110(A) of the Company's Bye-laws, Mr. Li Man Ching, Ms. Li Mei Lin and Mr. Lau Chung Man, Louis shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

The term of office for each independent non-executive director is the period up to his retirement by rotation in accordance with the Company's Bye-laws.

# DIRECTORS' REPORT

## ***DIRECTORS' SERVICE CONTRACTS***

Messrs. Mr. Li Man Ching, Ms. Li Mei Lin and Mr Lau Chung Man, Louis have entered into service contracts with the Company for the term commencing 1st March, 2004, 1st March 2004 and 1st March, 1999, respectively. All their appointments shall continue thereafter, subject to termination by either party giving at least three months' prior notice to the other party.

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

## ***DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND UNDERLYING SHARES***

At 31st March, 2005, the interests of the directors, the chief executives and their associates in the shares and underlying shares of the Company and its associated corporation, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Future Ordinance ("SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited ("the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"), were as follows:

### ***Long position***

Name of director	Number of ordinary shares		Interest in underlying shares pursuant to share option	Aggregated interest	Percentage of the issued share capital of the Company
	Personal interests	Other interests			
Ms. Li Mei Lin	-	163,748,000	1,500,000	165,248,000	42.5%
Mr. Li Man Shun	-	163,748,000	-	163,748,000	42.1%
Mr. Fung Chi Ki	-	-	1,933,200	1,933,200	0.5%

*Note:* Ms. Li Mei Lin and Mr. Li Man Shun beneficially own 30,600 shares and 29,700 shares, respectively, in Rayten Limited, representing, 34 per cent and 33 per cent, respectively, of the issued share capital of Rayten Limited, which in turn owns 163,748,000 shares of HK\$0.10 each in the Company.

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### ***DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND UNDERLYING SHARES (continued)***

Other than as disclosed above, none of the directors, chief executives, nor their associates had any interests or short position in any shares, underlying shares or debentures of the Company or any of its associated corporation as at 31st March, 2005.

### ***SHARE OPTION SCHEME***

Details of the Company's share options scheme are set out in note 24 to the financial statements.

The following table discloses movements in the Company's share option scheme during the year:

Categories	Date of grant	Exercisable period	Exercise price per share HK\$	Number of share options		
				At 1.4.2004	Cancelled	At 31.3.2005
I. Directors/former director						
Ms. Li Mei Lin	17.9.2003	17.9.2003 to 16.9.2006	1.62	1,500,000	-	1,500,000
Mr. Li Man Tak *	17.9.2003	17.9.2003 to 16.9.2006	1.62	1,500,000	(1,500,000)	-
Mr. Fung Chi Ki	2.11.2002	2.11.2002 to 1.11.2012	0.51	1,933,200	-	1,933,200
				<u>4,933,200</u>	<u>(1,500,000)</u>	<u>3,433,200</u>
II. Employees in aggregate	18.8.2003 2.11.2002	1.3.2004 to 30.9.2006 2.11.2002 to 1.11.2012	1.67 0.51	3,865,000 15,465,600	(615,000) -	3,250,000 ** 15,465,600
				<u>19,330,600</u>	<u>(615,000)</u>	<u>18,715,600</u>
Total for all categories				<u>24,263,800</u>	<u>(2,115,000)</u>	<u>22,148,800</u>

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## **SHARE OPTION SCHEME (continued)**

- \* Mr. Li Man Tak resigned on 31st May, 2004 and the share options held was cancelled on 14th July, 2004.
- \*\* The maximum percentage of the share option that may be exercised is determined in the stages as follows:

	<b>Percentage of share options granted</b>
Within 1 year after completion of at least one year service	30%
Within 2 years after completion of at least one year service	another 30%
2 years after completion of at least one year service but before expiry	another 40%

Other than the share option scheme of the Company disclosed above, at no time during the year 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 the acquisition of shares in, or debentures of, the Company or any other body corporate.

## **SUBSTANTIAL SHAREHOLDERS**

Other than the interests disclosed above in respect of certain directors, the register of substantial shareholders maintained by the Company pursuant to section 336 of SFO discloses no person as having a notifiable interest or short position in the issued capital of the Company as at 31st March, 2005.

## **CONNECTED TRANSACTIONS**

On 31st May, 2004, a master supply agreement ("Master Supply Agreement") was entered into between South Season, a then non-wholly owned subsidiary, and Actex Textiles Limited ("Actex") for a period of three years from 1st April, 2004 to 31st March, 2007, with the cap amount of HK\$10,000,000 on the sales with Actex for each of the three years ended 31st March, 2007. Actex is a company owned as to 82% by Mr. Chiu and 18% by Mr. Lau Chi Wing, both of whom are also directors of South Season. The transactions under the Master Supply Agreement are regarded as connected transactions pursuant to Chapter 14A of the Rules Governing the Listing of Securities (the "Listing Rules") of the Stock Exchange.

## DIRECTORS' REPORT

### ***CONNECTED TRANSACTIONS (continued)***

On 27th October, 2004, a wholly owned subsidiary of the Company entered into a conditional sale and purchase agreement with Mr. Chiu to dispose of the entire equity interest in, and shareholder's loan with, Sweetime, which has a 70% interest in South Season. Mr. Chiu is a director and substantial shareholder of South Season. The transaction with Mr. Chiu constituted connected transaction under the Listing Rules of the Stock Exchange.

For the period from 1st April, 2004 and up to the date of disposal of Sweetime, South Season sold goods of approximately HK\$9,687,000 to Actex.

The independent non-executive directors confirm that the transactions have been entered into by the Group in the ordinary course of its business, on terms no less favourable than terms available to independent third parties, and in accordance with the terms of the agreement governing such transactions that are fair and reasonable and in the interests of the shareholders of the Group as a whole.

### ***EMOLUMENT POLICY***

The Group mainly determines staff remuneration in accordance with market terms and individual qualifications.

The emoluments of the directors of the Company are decided by the board of directors, as authorised by the shareholders at the annual general meeting, having regard to the Group's operating results, individual performance and comparable market statistics.

The Company maintains a share option scheme, pursuant to which, share options are granted to selected eligible participants, with a view to provide incentive to the options holders to participate and contribute the growth of the Group.

### ***PRE-EMPTIVE RIGHTS***

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

# **DIRECTORS' REPORT**

## ***CORPORATE GOVERNANCE***

The Company has complied throughout the year ended 31st March, 2005 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules on the Stock Exchange.

The Company has adopted the Model Code of conduct regarding securities transactions by directors. Having made specific enquiry of all directors, all directors confirmed they have complied with the required standard set out in the Model Code.

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of its independent non-executive directors are independent.

## ***SUFFICIENCY OF PUBLIC FLOAT***

The Company has maintained a sufficient public float throughout the year ended 31st March, 2005.

## ***AUDITORS***

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

On behalf of the Board



*CHAIRMAN*

Hong Kong, 26th July, 2005