

The Directors are pleased to present their first report together with the audited financial statements of the Company for the period from 31 May 2005 (being the date of incorporation of the Company) to 31 December 2005 and the audited consolidated financial statements of the Group for the financial year ended 31 December 2005.

REORGANISATION

The Company was incorporated in the Cayman Islands on 31 May 2005 as an exempted company with limited liability under the Companies Law (Cap. 22, Law 3 of 1961, as combined and revised) of the Cayman Islands.

On 30 August 2005 and 9 September 2005, pursuant to the Reorganisation (as defined in the prospectus of the Company dated 30 November 2005 (the “**Prospectus**”)), Witpower Investments Limited, Skyyear Holdings Limited, Oceanroc Investments Limited and Joyocean Investments Limited acquired, through exchanges of shares, the entire issued share capital of certain companies now comprising the Group in which the equity holders have direct interests.

On 18 November 2005, pursuant to the Reorganisation (as defined in the Prospectus), the Company acquired the entire issued share capital of Witpower Investments Limited, Skyyear Holdings Limited, Oceanroc Investments Limited, Joyocean Investments Limited and Manfame Investments Limited through share exchanges and became the holding company of the members now comprising the Group.

Dealings in the Shares commenced on the Main Board on 15 December 2005.

PRINCIPAL BUSINESS ACTIVITIES

The principal business activities of the Company are investment holding. Details of the principal business activities of the subsidiaries of the Company are set forth in note 9 to the consolidated financial statements.

The Group’s principal business activities during the financial year 2005 were garment manufacturing for export and retailing branded fashion apparel in Mainland China.

RESULTS AND APPROPRIATIONS

The Group’s consolidated results for the financial year ended 31 December 2005 are set forth in the consolidated income statement on page 56 of this report.

Report of the Directors

During the financial year ended 31 December 2005, a dividend of HK\$80.0 million out of the profits of certain companies now comprising the Group for the financial year 2004, and a further special dividend of HK\$161.0 million for the financial year 2004, were approved by their respective board of directors. Such dividends were settled by the internal sources of funding and partly offset by amounts due to the then shareholders before the listing of Shares on the Main Board of the Stock Exchange.

At a meeting held on 11 April 2006, the Directors proposed a final dividend of HK4.6 cents per Share in respect of the financial year ended 31 December 2005. Upon the approval to be obtained from the forthcoming Annual General Meeting to be held on 30 May 2006, the final dividend will be payable on or about 20 June 2006 to the Shareholders whose names appear on the register of members of the Company at close of business on 30 May 2006. Such dividend represented HK\$91,540,000 for the 1,990,000,000 Shares issued and outstanding as at 31 December 2005 and an additional amount of approximately HK\$3,450,000 for the 75,000,000 Shares issued in January 2006 under the over-allotment arrangement as disclosed in note 19 to the consolidated financial statements.

The register of members of the Company will be closed from Wednesday, 24 May 2006 to Tuesday, 30 May 2006, both days inclusive, during which no transfer of Shares will be effected. To qualify for the final dividend to be considered at the forthcoming Annual General Meeting, Shareholders must ensure that all transfer documents accompanied by the relevant Share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:00 p.m. on Tuesday, 23 May 2006.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last four financial years is set out on pages 139 and 140 of this report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in Note 6 to the consolidated financial statements.

DONATIONS

During the financial year 2005, the Group made charitable donations of approximately HK\$1.7 million.

SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in the share capital of and the share option granted by the Company are set forth in Note 19 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the financial year 2005 are set forth in Note 20 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2005, the Company's reserves available for distributions amounted to HK\$1,326.9 million.

USE OF NET PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

As dealings in the Shares on the Main Board commenced on 15 December 2005, the Group had not utilized any of the net proceeds from the initial public offering of the Shares as at 31 December 2005 for the business expansion and construction of production facilities of the Group.

As at 31 December 2005, all the net proceeds were deposited with a licensed bank in Hong Kong as short-term deposits with interest rate of approximately 4.5%. Nevertheless, there is no change in the proposed use of net proceeds stated in the Prospectus. Subsequent to 31 December 2005, the Group has already used part of the net proceeds to repay the bank borrowings of approximately HK\$5.8 million and to invest into the following projects for the business expansion:–

- (i) approximately HK\$43.0 million to complete the construction of a new apparel production plant in Hangzhou with an estimated capacity of two million pieces of apparel. This new apparel production plant is expected to commence its production in the second half of 2006; and
- (ii) approximately HK\$8.0 million to complete the construction of a product design, development and exhibition centre. This centre is expected to put into use in the second half of 2006.

MAJOR CUSTOMERS AND SUPPLIERS

During the financial year 2005, sales made to the Group's top five customers and the largest customer accounted for approximately 59.8% and 21.1% of the total sales for the financial year. The Group's top five suppliers and the largest supplier together accounted for approximately 13.3% and 4.7% of the total raw materials purchased for the financial year.

Report of the Directors

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

DIRECTORS

The Directors since 31 May 2005 (being the date of incorporation of the Company) and up to the date of this report were:–

Executive Directors:–

Mr. TING Man Yi (*Chairman*) (appointed on 17 June 2005)

Mr. TING Hung Yi (*Chief Executive Officer*) (appointed on 17 June 2005)

Mr. DING Jianer (appointed on 17 June 2005)

Mr. WONG Sin Yung (appointed on 15 August 2005)

Independent non-executive Directors:–

Dr. CHENG Chi Pang (appointed on 18 November 2005)

Mr. WONG Chi Keung (appointed on 18 November 2005)

Mr. LEUNG Man Kit (appointed on 18 November 2005)

In accordance with article 86 of the Company's articles of association (the "**Articles**"), Mr. TING Man Yi, Mr. TING Hung Yi, Mr. DING Jianer, Mr. WONG Sin Yung, Dr. CHENG Chi Pang, Mr. WONG Chi Keung and Mr. LEUNG Man Kit will retire and being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

The Company received from each of Dr. CHENG Chi Pang, Mr. WONG Chi Keung and Mr. LEUNG Man Kit a confirmation of his independence and the Company still considers all of them to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set forth on pages 24 to 30 of this report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service agreement on 18 November 2005 with the Company. Each service agreement is of an initial term of three years commencing from 18 November 2005 and shall continue thereafter until terminated in accordance with the terms of the service

agreement. Under the service agreement, either party may, after the expiry of the relevant first year of service of the relevant executive Directors, terminate the service agreement by giving to the other not less than six months' prior written notice.

The annual salary of each of Mr. TING Man Yi, Mr. TING Hung Yi, Mr. DING Jianer and Mr. WONG Sin Yung from 18 November 2005 to 17 November 2006 shall be HK\$3.0 million, HK\$3.0 million, HK\$2.0 million and HK\$0.8 million, respectively. As from 18 November 2006, the annual salary of each executive Director shall be determined by the Board and subject to the annual review by the remuneration committee of the Company, provided that any increment of which shall not be more than 15% of the annual salary received by each executive Director for the immediate preceding year.

Each of the executive Directors is also entitled to a management bonus, the amount of which is determined with reference to the audited consolidated net profits of the Group after taxation and minority interests but before extraordinary items (the "**Net Profits**") as the Board may, in its absolute discretion, approve, provided that the aggregate amount of the management bonus payable to all executive Directors in respect of any financial year shall not exceed 2% of the Net Profits for the relevant financial year.

Each of the independent non-executive Directors has signed a letter of appointment dated 18 November 2005 with the Company under which each of them has agreed to act as an independent non-executive Director for a period of three years, commencing from 18 November 2005, unless terminated in accordance with the terms and conditions specified therein. The initial annual fee payable to Dr. CHENG Chi Pang, Mr. WONG Chi Keung and Mr. LEUNG Man Kit is HK\$300,000, HK\$200,000 and HK\$200,000, respectively.

Save for the annual remuneration mentioned above, none of the independent non-executive Directors is expected to receive any other remuneration for holding their office as an independent non-executive Director. Save as disclosed above, there is no service contract, which is not determinable by the Company or its subsidiaries within one year without payment of compensation (other than statutory compensation), entered into with any of the executive Director proposed for re-election at the forthcoming Annual General Meeting.

DIRECTORS' INTERESTS IN CONTRACTS

No Director had a material 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 financial year.

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EMOLUMENT POLICY OF THE GROUP

The Company's policies concerning remuneration of the Directors are as follows:-

- (i) the amount of remuneration is determined by the remuneration committee of the Board on the basis of the relevant executive Director's experience, responsibility, workload and the time devoted to the Group;
- (ii) non-cash benefits may be provided to the executive Directors under their remuneration package; and
- (iii) the Directors may be granted, at the discretion of the Board with the endorsement of the remuneration committee of the Board, options pursuant to the share option scheme adopted by the Company, as part of their remuneration package.

The emolument policy of the Group is aimed at attracting, retaining and motivating talented individuals. The principle is to have performance based remuneration which reflects market standards. The employee's remuneration packages are generally determined based on their job nature and position with reference to market standards. Employees also receive certain welfare benefits. The Group's emolument policy will be adjusted depending on a number of factors, including changes to the market practice and stages of the Group's business development, so as to achieve the Group's operational targets.

INTERESTS AND/OR SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVE IN THE SHARES, UNDERLYING SHARES OR DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2005, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have taken under such provisions), or were required, pursuant to section 352 of the Securities and Futures Ordinance (“SFO”), to be entered in the register required to be maintained, or were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange, were as follows:–

(a) Beneficial interests in the Shares

<u>Name of Directors</u>	<u>Capacity</u>	<u>Number of Shares</u> <i>(Note 1)</i>	<u>Approximate percentage of interest in the Company</u>
Mr. TING Man Yi	Interest of controlled corporation	1,490,000,000 (L) <i>(Note 2)</i>	74.87%
		75,000,000 (S) <i>(Note 5)</i>	3.77%
Mr. TING Hung Yi	Interest of controlled corporation	1,490,000,000 (L) <i>(Note 3)</i>	74.87%
		75,000,000 (S) <i>(Note 5)</i>	3.77%
Mr. DING Jianer	Interest of controlled corporation	1,490,000,000 (L) <i>(Note 4)</i>	74.87%
		75,000,000 (S) <i>(Note 5)</i>	3.77%

Notes:–

- The letters “L” and “S” stand for the Director’s long position and short position, respectively, in the Shares.

Report of the Directors

2. Longerview Investments Limited (“**Longerview**”) is owned as to 41.5% by Firmsuccess Limited (“**Firmsuccess**”) which is wholly-owned by Mr. TING Man Yi. Longerview is a controlled corporation (within the meaning of the SFO) of Mr. TING Man Yi. As such, under the SFO, Mr. TING Man Yi is deemed to be interested in the 1,490,000,000 Shares held by Longerview.
3. Longerview is owned as to 40.5% by In Holdings Limited (“**In Holdings**”) which is wholly-owned by Mr. TING Hung Yi. Longerview is a controlled corporation (within the meaning of the SFO) of Mr. TING Hung Yi. As such, under the SFO, Mr. TING Hung Yi is deemed to be interested in the 1,490,000,000 Shares held by Longerview.
4. Pursuant to a shareholders’ agreement dated 18 November 2005 and entered into between Mr. TING Man Yi, Firmsuccess, Mr. TING Hung Yi, In Holdings, Mr. DING Jianer, Willport Investments Limited (“**Willport**”) and Longerview (collectively the “**Controlling Shareholders**”), each of the Controlling Shareholders (other than Longerview) has agreed to enter into pre-emptive arrangements in respect of their shareholding in Longerview. For the purpose of Part XV of the SFO, each of Mr. TING Man Yi, Mr. TING Hung Yi and Mr. DING Jianer is therefore deemed to have effective voting power in respect of the 1,490,000,000 Shares held by Longerview. As such, under the SFO, Mr. DING Jianer is also deemed to be interested in the 1,490,000,000 Shares held by Longerview.
5. Mr. TING Man Yi, Mr. TING Hung Yi and Mr. DING Jianer are also deemed to have a short position of 75,000,000 Shares pursuant to the Stock Borrowing Agreement entered into by Longerview on 9 December 2005 (as defined in the prospectus (the “**Prospectus**”) of the Company dated 30 November 2005).

(b) Beneficial interests in the shares of associated corporations

Name of Directors	Name of associated corporation	Nature of interest	Total number of ordinary shares	Approximate percentage of interest in the associated corporation
Mr. TING Man Yi	Firmsuccess	Personal interest	1	100%
	Longerview	Corporate interest	415 <i>(Note 1)</i>	41.5%
Mr. TING Hung Yi	In Holdings	Personal interest	1	100%
	Longerview	Corporate interest	405 <i>(Note 2)</i>	40.5%
Mr. DING Jianer	Willport	Personal interest	1	100%
	Longerview	Corporate interest	180 <i>(Note 3)</i>	18%

Notes:–

1. The 415 shares in Longerview are held by Firmsuccess, which is wholly-owned by Mr. TING Man Yi.
2. The 405 shares in Longerview are held by In Holdings, which is wholly-owned by Mr. TING Hung Yi.
3. The 180 shares in Longerview are held by Willport, which is wholly-owned by Mr. DING Jianer.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OR DEBENTURES OF THE COMPANY

So far as the Directors are aware, as at 31 December 2005, the persons, other than Directors and chief executive of the Company, having interests or short positions in the Shares or underlying shares or debentures of the Company, which were required to be entered into the register kept by the Company pursuant to section 336 of the SFO, were as follows:–

Name of substantial Shareholders	Capacity	Number of Shares <i>(Note 1)</i>	Approximate percentage of interest in the Company
Longerview	Beneficial owner	1,490,000,000 (L)	74.87%
		75,000,000 (S) <i>(Note 2)</i>	3.77%
Firmsuccess	Interest of controlled corporation	1,490,000,000 (L) <i>(Note 3)</i>	74.87%
		75,000,000 (S) <i>(Note 2)</i>	3.77%
In Holdings	Interest of controlled corporation	1,490,000,000 (L) <i>(Note 4)</i>	74.87%
		75,000,000 (S) <i>(Note 2)</i>	3.77%
Willport	Interest of controlled corporation	1,490,000,000 (L) <i>(Note 5)</i>	74.87%
		75,000,000 (S) <i>(Note 2)</i>	3.77%

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Notes:–

1. The letters “L” and “S” stand for the substantial Shareholders’ long position and short position, respectively, in the Shares.
2. Longerview had a short position of 75,000,000 Shares pursuant to the Stock Borrowing Agreement. Firmsuccess, In Holdings and Willport are also deemed to have a short position of 75,000,000 Shares pursuant to the Stock Borrowing Agreement.
3. Longerview is owned as to 41.5% by Firmsuccess. As such, Longerview is a controlled corporation (within the meaning of the SFO) of Firmsuccess. Firmsuccess is therefore deemed to be interested in the 1,490,000,000 Shares held by Longerview.
4. Longerview is owned as to 40.5% by In Holdings. As such, Longerview is a controlled corporation (within the meaning of the SFO) of In Holdings. In Holdings is therefore deemed to be interested in the 1,490,000,000 Shares held by Longerview.
5. Pursuant to a shareholders’ agreement dated 18 November 2005 and entered into between the Controlling Shareholders, each of the Controlling Shareholders (other than Longerview) has agreed to enter into pre-emptive arrangements in respect of their shareholding in Longerview. For the purpose of Part XV of the SFO, each of Firmsuccess, In Holdings and Willport is therefore deemed to have effective voting power in respect of the 1,490,000,000 Shares held by Longerview. As such, Willport is also deemed to be interested in the 1,490,000,000 Shares held by Longerview.

SHARE OPTION SCHEME AND PRE-IPO SHARE OPTION DEED

(a) Share Option Scheme

Pursuant to the written resolutions of the sole Shareholder passed on 18 November 2005, a share option scheme (the “**Share Option Scheme**”) was approved and adopted by the Company.

The purpose of the Share Option Scheme is to allow the Company to grant options to subscribe for Shares (the “**Options**”) to Participants (as defined below) as incentives or rewards for their contribution to the Group.

For the purpose of the Share Option Scheme, Participants include (i) employees of the Company (whether fulltime or part-time) or any of its subsidiaries; and (ii) Directors (whether executive Directors or non-executive Directors or independent non-executive Directors) or any director of its subsidiaries (together, the “**Participants**” and each a “**Participant**”).

The total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company shall not, in aggregate, exceed 199,000,000 Shares (the “**Scheme Mandate Limit**”), unless the Company obtains an approval from the Shareholders as set out below. Options lapsed shall not be counted for the purpose of calculating the Scheme Mandate Limit.

The Company may seek approval of the shareholders in general meeting to refresh the Scheme Mandate Limit such that the total number of Shares in respect of which options may be granted under the Share Option Scheme and any other share option schemes of the Company in issue shall not exceed 10% (the “**Refreshed Limit**”) of the issued share capital of the Company as at the date of approval to refresh such limit. Options previously granted under the Share Option Scheme and any other share option schemes (including those outstanding, cancelled, lapsed in accordance with the Share Option Scheme or any other share option schemes or exercised Options) shall not be counted for the purpose of calculating the Refreshed Limit.

Notwithstanding the above, the maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company shall not exceed 30% of the total number of Shares in issue from time to time. No option may be granted under the Share Option Scheme and any other share option schemes of the Company if this will result in the aforesaid 30% limit being exceeded.

The maximum number of Shares issued and to be issued upon exercise of the options granted to each Participant (including both exercised and outstanding options) in any 12-month period up to and including the date of grant of the options shall not exceed 1% of the total number of Shares in issue. Any further grant of Options to a Participant which would result in the Shares issued and to be issued upon exercise of all options granted and to be granted to such Participant under the Share Option Scheme and any other share option schemes of the Company (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the Shares in issue shall be subject to the shareholders' approval in general meeting with such Participant and his associates (as defined in the Listing Rules) abstaining from voting.

An Option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period of not more than 10 years to be notified by the Board to each grantee. Such period shall commence on the date on which an offer of the grant of an Option is accepted or deemed to be accepted in accordance with the terms of the Share Option Scheme and expire on the last day of such period as determined by the Board.

An amount of HK\$1.00 is payable by the Participant to the Company on acceptance of the option offer as consideration for the grant. Unless otherwise determined by the Board and specified in the offer letter to be given to the Participant at the time of the offer of the Option, there is neither any performance target that needs to be achieved by the grantee before an Option can be exercised nor any minimum period for which an Option must be held before it can be exercised.

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The subscription price in respect of each Share issued under the Share Option Scheme will be a price determined by the Board and notified to a Participant and will be no less than the highest of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of offer to the Participant, which must be a day on which licensed banks are open for business in Hong Kong and the Stock Exchange is open for business of dealing in securities (a "Trading Day"); (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five consecutive Trading Days immediately preceding the date of offer to the Participant; and (iii) the nominal value of a Share.

The Share Option Scheme will remain valid for a period of 10 years commencing on the date on which the Share Option Scheme is conditionally adopted by the written resolutions of the sole Shareholder, after which period no further Options will be granted but in respect of all Options which remain exercisable at the end of such period, the provisions of the Share Option Scheme shall remain in full force and effect.

As at the date of this report, no option has been granted or agreed to be granted by the Company under the Share Option Scheme.

(b) Pre-IPO Share Option Deed

A share option deed was entered into between the Company and Ms. LI Yuet Mui, Xera ("**Ms. LI**"), a senior management staff of the Group, on 18 November 2005 (the "**Pre-IPO Share Option Deed**"), whereby the Company has granted Ms. LI an option to subscribe for certain number of Shares upon and subject to the terms and conditions set forth in the Pre-IPO Share Option Deed.

The purpose of the Pre-IPO Share Option Deed is to provide incentive and reward to Ms. LI for her contribution to the management and business growth of the Group.

The principal terms of the Pre-IPO Share Option Deed, as approved by the written resolutions of the sole Shareholder passed on 18 November 2005, are substantially the same as the terms of the Share Option Scheme except that:-

- (i) the subscription price for each Share subject to the option granted under the Pre-IPO Share Option Deed shall be the par value of each Share;
- (ii) the period within which Ms. LI may exercise the option under the Pre-IPO Share Option Deed is eight years from the Listing Date. During the exercise period, Ms. LI can exercise the option in each year no more than one-eighth of the total number of the Option Shares (as defined below) granted, provided that Ms. LI cannot exercise any option granted under the Pre-IPO Share Option Deed during the period of six months immediately after the Listing Date;

- (iii) the total number of the Shares subject to the Pre-IPO Share Option Deed shall be up to 10,000,000 Shares upon full exercise of the option under the Pre-IPO Share Option Deed; and
- (iv) save for the option which has been granted, no further options will be granted under the Pre-IPO Share Option Deed.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTEREST IN COMPETING BUSINESS

As at 31 December 2005, none of the Directors and their respective associates (as defined in the Listing Rules) or the controlling shareholders of the Company (as defined in the Listing Rules) had any interest in a business, which competes or may compete with the business of the Group.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the financial year 2005.

CONTINUING CONNECTED TRANSACTIONS

During the financial year 2005, the Group entered into the following non-exempt continuing connected transactions:-

- (a) A lease agreement dated 9 September 2005 was entered into between Zhejiang Huading Group Company Limited ("**Zhejiang Huading Group**") and Hangzhou Fuding Fashion Company Limited ("**Hangzhou Fuding**"), a member of the Group. Zhejiang Huading Group has agreed to lease to Hangzhou Fuding a factory building for a period from 1 October 2005 to 31 December 2007. The annual rental for the factory building is fixed at RMB1,363,050 (equivalent to approximately HK\$1,310,625) during the term of the lease agreement. For the financial year ended 31 December 2005, the aggregate amount payable by Hangzhou Fuding to Zhejiang Huading Group for the lease amounted to HK\$327,700.
- (b) A lease agreement dated 9 September 2005 was entered into between Zhejiang Huading Group and Hangzhou China Ting Fashion Company Limited ("**Hangzhou China Ting Fashion**"), a member of the Group. Zhejiang Huading Group has agreed to lease to Hangzhou China Ting Fashion the office premises in Shanghai for a period from 1 October 2005 to 31 December 2007.

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The annual rental for the office tower is fixed at RMB1,322,000 (equivalent to approximately HK\$1,271,154) during the term of the lease agreement. For the financial year ended 31 December 2005, the aggregate amount payable by Hangzhou China Ting Fashion to Zhejiang Huading Group for the lease amounted to HK\$317,800.

- (c) A lease agreement dated 9 September 2005 and entered into between Zhejiang Huading Group and Hong Kong Fuhowe Fashion Company Limited (“**Hong Kong Fuhowe**”), a member of the Group, Zhejiang Huading Group has agreed to lease to Hong Kong Fuhowe the relevant portion of the office tower for a period from 1 October 2005 to 31 December 2007. The annual rental for the relevant portion of the office tower is fixed at RMB3,757,000 (equivalent to approximately HK\$3,612,500) (including management fee) during the term of the lease agreement, which will be payable on a monthly basis by Hong Kong Fuhowe to Zhejiang Huading Group. For the financial year ended 31 December 2005, the aggregate amount payable by Hong Kong Fuhowe to Zhejiang Huading Group for the lease amounted to HK\$903,100.
- (d) A lease agreement dated 9 September 2005 was entered into between Zhejiang Huading Group and Hong Kong Fuhowe. Zhejiang Huading Group has agreed to lease to Hong Kong Fuhowe the staff quarters comprise 16 six-storey buildings for general staff, one six-storey building for senior staff, one four-storey guest house and the ancillary buildings and facilities a period from 1 October 2005 to 31 December 2007. The annual rental for the staff quarters is fixed at RMB7,500,000 (equivalent to approximately HK\$7,211,538) during the term of the lease agreement. For the financial year ended 31 December 2005, the aggregate amount payable by Hong Kong Fuhowe to Zhejiang Huading Group for the lease amounted to HK\$1,802,900.
- (e) A lease agreement dated 9 September 2005 was entered into between Hangzhou Yuhang Huaming Garment Manufacturing Company Limited (“**Yuhang Huaming**”) and Zhejiang Huali Fashion Company Limited (“**Zhejiang Huali**”), a member of the Group. Yuhang Huaming agreed to lease to Zhejiang Huali the relevant portion of the factory building and staff quarters in for a period from 1 October 2005 to 31 December 2007. The annual rental for the relevant portion of the factory building and staff quarters is fixed at RMB846,610 (equivalent to approximately HK\$814,048) during the term of the lease agreement. For the financial year ended 31 December 2005, the aggregate amount payable by Zhejiang Huali to Yuhang Huaming Group for the lease amounted to HK\$203,500.
- (f) A lease agreement dated 9 September 2005 was entered into between Yuhang Huaming and Hangzhou Fuding. Yuhang Huaming has agreed to lease to Hangzhou Fuding the relevant portion of the another factory building and staff quarters for a period from 1 October 2005 to 31 December 2007. The annual rental for the relevant portion of the factory building and staff quarters is fixed at RMB613,020 (equivalent to approximately HK\$589,442) during the term of the lease agreement. For the financial year ended 31 December 2005, the aggregate amount payable by Hangzhou Fuding to Yuhang Huaming Group for the lease amounted to HK\$147,400.

- (g) A supply contract dated 1 November 2005 was entered into between Hangzhou Fuze Textile Technology Company Limited (“**Hangzhou Fuze**”) and members of the Group for a period from 1 October 2005 to 31 December 2007, whereby Hangzhou Fuze has undertaken to supply to members of the Group the required silk fabric at such prices which are not higher than the prices offered to independent third parties after taking into consideration the prevailing market rates for providing similar products from time to time. For the financial year ended 31 December 2005, the aggregate purchase of silk fabric by members of the Group from Hangzhou Fuze amounted to HK\$3.8 million, which was below the annual cap of HK\$5.0 million.
- (h) A supply contract dated 1 November 2005 was entered into between Hangzhou Huaze Textile Company Limited (“**Hangzhou Huaze**”) and members of the Group for a period from 1 October 2005 to 31 December 2007, whereby Hangzhou Huaze has undertaken to supply to members of the Group the required velour at such prices which are not higher than the prices offered to independent third parties after taking into consideration the prevailing market rates for providing similar products from time to time. For the financial year ended 31 December 2005, the aggregate purchase of velour by members of the Group from Hangzhou Huaze amounted to HK\$6.3 million, which was below the annual cap of HK\$6.4 million.
- (i) A supply contract dated 1 November 2005 was entered into between Hangzhou Huasheng Accessories Company Limited (“**Huasheng Accessories**”) and members of the Group for a period from 1 October 2005 to 31 December 2007, whereby Huasheng Accessories has undertaken to supply to members of the Group the required plastic bags and hangers at such prices which are not higher than the prices offered to independent third parties after taking into consideration the prevailing market rates for providing similar products from time to time. For the financial year ended 31 December 2005, the aggregate purchase of plastic bags and hangers by the Group from Huasheng Accessories amounted to HK\$7.5 million, which was below the annual cap of HK\$9.1 million.
- (j) A supply contract dated 1 November 2005 was entered into between Zhejiang Huayue Silk Products Company Limited (“**Zhejiang Huayue**”) and members of the Group for a period from 1 October 2005 to 31 December 2007, whereby Zhejiang Huayue has undertaken to supply to members of the Group the required silk fabric at such prices which are not higher than the prices offered to independent third parties after taking into consideration the prevailing market rates for providing similar products from time to time. For the financial year ended 31 December 2005, the aggregate purchase of silk fabric by members of the Group from Zhejiang Huayue amounted to HK\$54.3 million, which was below the annual cap of HK\$61.9 million.

The independent non-executive Directors have reviewed the above non-exempt continuing connected transactions of the Group and have confirmed that these transactions have been entered into:-

- (i) in the ordinary and usual course of business of the Group;
- (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties;

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- (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and
- (iv) have not exceeded the respective cap amounts set out in the relevant agreements referred to above.

The auditors of the Company have reported to the Directors that during the financial year:-

- (i) the above continuing connected transactions have been approved by the board of Directors;
- (ii) the above continuing connected transactions have been entered into in accordance with the terms of the agreements governing such transactions; and
- (iii) the respective cap amounts set out in the relevant agreements referred to above have not been exceeded.

The purchases of accessories from Huasheng Accessories and silk fabric from Hangzhou Fuze and Hangzhou Huaze as set out in Note 36(a) to the consolidated financial statements, being the significant related party transactions of the Group, constitute continuing connected transactions of the Group. The disclosure requirements in respect of these continuing connected transactions have been complied with in accordance with the Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

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

SUBSEQUENT EVENTS

Details of the significant subsequent events of the Group are set out in Note 39 to the consolidated financial statements.

AUDIT COMMITTEE

The Company has established an audit committee, comprising three independent non-executive Directors, with written terms of reference set out in "A Guide For The Formation Of An Audit Committee" published by the Hong Kong Institute of Certified Public Accountants adopted as the terms of reference of audit committee. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group and to provide comments and advice to the Board. The audit committee has reviewed the audited financial statements of the Company and audited consolidated financial statements of the Group for the financial year ended 31 December 2005.

AUDITORS

The financial statements have been audited by PricewaterhouseCoopers who will retire at the forthcoming Annual General Meeting of the Company and, being eligible, offer themselves for re-appointment.

On Behalf of the Board

TING Man Yi

Chairman

Hong Kong, 11 April 2006