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LEROI HOLDINGS LIMITED

利來控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 221)

CLARIFICATION ANNOUNCEMENT AND RESUMPTION OF TRADING OF SHARES

On 27 February 2004, the ICAC issued the Press Release stating, among other things, that twenty persons, including two executive directors of different publicly listed companies, had been arrested for alleged corruption in relation to suspected share price manipulation and share placement.

The Board wishes to clarify certain matters relating to the Press Release and the Articles and to provide an update on the current status of the Group's business.

With a view to restoring the credibility of the Board and safeguarding the interests of the shareholders of the Company, the Company has undertaken to restructure the management of the Company after the Incident. Certain executive Directors have resigned or been re-designated. As a result, the composition of the Board has been strengthened both in terms of the number of Directors and the level of expertise since the Incident.

During 2005, the Group has improved its corporate governance by adopting the practices recommended and/or required by the CG Code. Such improvements include the adoption of the revised terms of reference of the audit committee, setting up a remuneration committee and formalising the responsibilities of the Directors and senior management.

The Board has engaged SHINEWING to perform certain agreed-upon procedures to independently verify the findings of the Incident and to review the internal control system of the Company.

Based on the findings in the SW Reports, the Board confirmed that the impact of the Incident was the delay in the publication of 2004 final results and the decrease in the number of the franchisees, and therefore the Board concluded that the Incident does not relate to day-to-day operations of the Group nor its management, all the Directors consider that the Incident currently does not bring about any material adverse effect on the operation or management of the Group and the Board is not aware of any major areas of non-compliance of internal control systems and procedures as laid down by the management of the Group with reference to COSO Framework and the CG Code. The Board believes that the present internal control system is effective and adequate. The findings of SHINEWING as set out in the SW Reports, were in line with the findings of the Board as summarised above.

To conclude, the business, operations and financial positions of the Group have not been materially and adversely affected by the Incident. The Board believes that the present management of the Group has demonstrated its ability to manage and control the business and operation of the Group, and that the Incident will have no further material adverse impact on the current and future operations of the Group. The Directors consider that all conditions and issues relating to the Incident have fully been addressed prior to the resumption of trading in the shares of the Company.

At the request of the Company, trading in the shares of the Company was suspended with effect from 9:30 a.m. on Friday, 27 February 2004 pending the publication of this announcement. Application has been made to the Stock Exchange for resumption of trading in the shares of the Company with effect from 9:30 a.m. on 29 December 2006.

Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

Background and Reasons of Suspension

On 27 February 2004, the ICAC issued a press release (the “**Press Release**”) stating, among other things, that twenty persons, including two executive directors of different publicly listed companies, had been arrested for alleged corruption in relation to suspected share price manipulation and share placement. In order to protect the interest of the shareholders, the Board requested for suspension of trading of shares on 27 February 2004 pending the publication of this clarification announcement.

The Board wishes to clarify certain matters relating to the Press Release and the Articles and to provide an update on the current status of the Group’s business.

The Board confirms that the Former Executive Director was arrested by the ICAC on 26 February 2004 (the “**Incident**”). According to the Press Release, the Former Executive Director was arrested for suspected corruption in relation to share placement (the “**Allegation**”). The Company was not informed by the Former Executive Director of details of his arrest and any allegations made against him by the ICAC. As far as the Company is aware, the Former Executive Director has been released and has not been charged with any criminal offence in relation to the Allegation since the Incident.

The Board has engaged SHINEWING on 5 May 2006 to perform certain agreed-upon procedures to independently verify the findings of the Company by adopting the following principal methodologies in relation to the review of the impact of the Incident to the Company:

1. interviewing the senior management of the Company for the purpose of ascertaining any knowledge of the Allegations prior to the Incident;
2. review the books and records (including accounting, agreements, contracts, correspondence and other legal documentation) of the relevant Group companies from 1 June 2003 to 31 May 2004; and
3. perform independent litigation, media, and other public record searches of the Incident.

SHINEWING was also engaged by the Company to review the internal control system of the Group covering at least the requirements of the CG Code.

Impact of the Incident on the Internal and Business Operations

The impact of the Incident in the internal control of the Company was the delay in the publication of 2004 final results for a period of approximately three months until 21 October 2004 due to the suspended duties of the Former Executive Director who was in charge of the financial functions of the Group on 17 March 2004.

For the business operation, the number of franchisees decreased from 110 in February 2004 to 67 in the month of September 2004. Among other factors, the decline might have been attributable to the adverse publicity brought about by the Incident and the suspension of trading in the Shares. The rising cost of operation (in particular, costs of operation for franchisees in the PRC, such as rental and staff salary, had substantially increased, and in some cases rental had been doubled), increased competition due to CEPA (which had attracted more competitors into the PRC market) and the imposition of the macroeconomic control by the PRC government which had affected internal consuming power, may have also been the cause of the reduction in the number of PRC franchisees during the months following the Incident.

However, the reduction in the number of franchisees has been stabilized since September 2004. As at the date of this announcement, the Group has a total of 62 distribution outlets comprising 49 franchisees, 1 authorised distributors and 11 consignment counters (which are all managed and operated by the Company) throughout various prime department stores across the PRC.

Based on the matters set out in this announcement, the Board confirmed that the impact of the Incident was the delay in the publication of 2004 final results and the decrease in the number of the franchisees, and therefore the Board concluded that the Incident does not relate to day-to-day operations of the Group nor its management, all the Directors consider that the Incident currently does not bring about any material adverse effect on the operation or management of the Group.

Actions taken by the then Board after the Incident

A meeting of the then Board (then comprising Mr. So, Ms. Yeung Sau Han, Agnes and the Former Executive Director as executive Directors, and Mr. Lok Shing Kwan, Sunny and Mr. Wong Wing Hang, Henry as INEDs) was held on 1 March 2004 to enquire into the Allegation. The then Board (including the then Audit Committee members) reviewed all the information the Company had received in relation to the placing exercise conducted by Taco (details are set out hereinbelow), information in relation to the trading of the Shares, and bank statements and management accounts of the Company for a period of three months prior to the Incident. The then Directors further confirmed during the meeting that none of them had any participation or involvement or knowledge of the Allegation. The then Directors, other than Mr. So, who is and was at all material times the controlling shareholder of the Company, further confirmed that none of them had any direct or indirect interest in the Shares and that none of them had dealt in the Shares for the six months prior to the Incident. Accordingly, the then Board was satisfied that the Company was not in any way related to the Incident.

The Company had not raised any fund through the securities market or otherwise by issuing any Shares or any instruments convertible into Shares since its initial public offerings on 7 November 2002 up to the date of the Incident. Until recently, the Company had on 27 January 2006 entered into a conditional subscription agreement with Gain Better Investments Limited (“**GBIL**”) a company incorporated in the British Virgin Islands with limited liability, and is an indirect wholly owned subsidiary of Wai Yuen Tong Medicine Holdings Limited (“**WYT**”), a company incorporated in Bermuda with limited liability and the shares of which are listed on the Stock Exchange, for a proposed issue of up to HK\$10,000,000 convertible notes (the “**Notes**”). Details of the conditional subscription agreement were announced by the Company on 24 April 2006 and a circular dispatched to the Shareholders dated 30 May 2006.

Based on a detailed review of the information available to the Company, the Board was satisfied that there were no irregularities in relation to the three private share placing exercises all carried out by Taco since the listing of the Shares up to the date of the Incident and that all material information in relation thereto was sufficiently disclosed by the Company in a timely manner. Details of the three private share placements are set out as follows:

- i. On 1 September 2003, Taco reached a sales confirmation with SBI E2-Capital Securities Limited for the placing of 60,000,000 existing Shares to not less than six professional and institutional investors at a placing price of HK\$0.37 per Share (the “**First Private Placement**”). The placing price of HK\$0.37 per Share represented a discount at the rate of approximately 9.76% of the closing price of HK\$0.41 per Share as quoted on the Stock Exchange on 1 September 2003. SBI E2-Capital, its ultimate beneficial owner(s), the investors and their respective associates are not connected with the Directors, chief executives, substantial shareholders of the Company or any of its subsidiaries or any of their respective associates (as defined under the Listing Rules). Upon notification by Taco, the Company made an announcement on 2 September 2003 with regard to the First Private Placement.

SHAREHOLDING OF THE COMPANY IMMEDIATELY BEFORE AND AFTER THE FIRST PRIVATE PLACEMENT

Shareholders	Immediately before the Placing		Immediately after the Placing	
	<i>No. of Shares</i>	<i>Percentage</i>	<i>No. of Shares</i>	<i>Percentage</i>
Taco	607,200,000	75.00%	547,200,000	67.59%
Public	202,400,000	25.00%	262,400,000	32.41%
	<u>809,600,000</u>	<u>100.00%</u>	<u>809,600,000</u>	<u>100.00%</u>

- ii. Taco entered into an agreement for the placing of 36,000,000 existing Shares to Martin Currie Investment Management Limited on 6 January 2004 at a placing price of HK\$0.255 per Share (the “**Second Private Placement**”). The placing price of HK\$0.255 per Share represented a discount at the rate of approximately 5.56% of the closing price of HK\$0.27 per Share as quoted on the Stock Exchange on 6 January 2004. Martin Currie Investment Management Limited was the investment manager of Martin Currie China Hedge Fund Limited, and both of them were institutional investors with a wide spread of investments other than in the Company and were third parties independent to the Company and were not connected persons (as defined under the Listing Rules) of the Company at the time of the Second Private Placement. Neither of them was or is a controlling shareholder of the Company nor had or has any representative on the Board or involvement in the daily operations of the Company. Neither of them has disposed of its interests in the Company. Upon notification by Taco, the Company made an announcement on 7 January 2004 with regard to the Second Private Placement.

SHAREHOLDING OF THE COMPANY IMMEDIATELY BEFORE AND AFTER THE SECOND PRIVATE PLACEMENT

Shareholders	Immediately before the Placing		Immediately after the Placing	
	<i>No. of Shares</i>	<i>Percentage</i>	<i>No. of Shares</i>	<i>Percentage</i>
Taco	559,640,000	69.13%	523,640,000	64.68%
Martin Currie China Hedge Fund Limited	48,600,000	6.00%	48,600,000	6.00%
Martin Currie Investment Management Limited	–	–	36,000,000	4.45%
Public	201,360,000	24.87%	201,360,000	24.87%
	<u>809,600,000</u>	<u>100.00%</u>	<u>809,600,000</u>	<u>100.00%</u>

- iii. Taco disposed of 99,616,000 existing Shares to four investors through the Stock Exchange on 12 February 2004 at a placing price of HK\$0.34 per Share (the “**Third Private Placement**”). To the best of the Directors’ knowledge, information and belief and having made all reasonable enquiries, these four investors, and their respective ultimate beneficial owners, were not connected persons (as defined in the Listing Rules) of the Company and were independent of the Company and its connected persons and each of these four investors, and their respective ultimate beneficial owners, were not connected with each other; and no single investor had acquired 5% or more in the issued share capital of the Company following the said placement. The placing price of HK\$0.34 per Share represented a discount at the rate of approximately 6.85% of the closing price of HK\$0.365 per Share as quoted on the Stock Exchange on 11 February 2004. Upon notification by Taco, the Company made an announcement on 12 February 2004 with regard to the Third Private Placement.

SHAREHOLDING OF THE COMPANY IMMEDIATELY BEFORE AND AFTER THE THIRD PRIVATE PLACEMENT

Shareholders	Immediately before the Placing		Immediately after the Placing	
	<i>No. of Shares</i>	<i>Percentage</i>	<i>No. of Shares</i>	<i>Percentage</i>
Taco	523,640,000	64.68%	424,024,000	52.37%
Martin Currie China Hedge Fund Limited	48,600,000	6.00%	48,600,000	6.00%
Martin Currie Investment Management Limited	36,000,000	4.45%	36,000,000	4.45%
Public	201,360,000	24.87%	300,976,000	37.18%
	<u>809,600,000</u>	<u>100.00%</u>	<u>809,600,000</u>	<u>100.00%</u>

- iv. Subsequent to the Incident and the Articles, Taco had entered into a conditional share purchase agreement (the “**S&P Agreement**”) on 27 January 2006 with GBIL for the sale and purchase of 205,000,000 Shares for a total consideration of HK\$37,500,000, equivalent to about HK\$0.183 per Share. Details of the S&P Agreement were announced by the Company on 24 April 2006 and a circular dispatched to the Shareholders dated 30 May 2006.

Taco is, and was at all material times, beneficially wholly owned by Mr. So, who was the former chairman and executive Director of the Company until 6 May 2005 following his resignation (as announced in the Company's announcement of 9 May 2005). Currently, Taco remains the controlling shareholder of the Company interested in 424,024,000 Shares representing approximately 52.37% of its issued share capital, in which 205,000,000 Shares will be disposed of under the S&P Agreement subject to the conditions thereto being fulfilled. As far as the Board is aware, Taco's interest has not been mortgaged, charged or otherwise subjected to any options, third party rights or encumbrances.

SHAREHOLDING OF THE COMPANY AS AT THE DATE OF THIS ANNOUNCEMENT

Shareholders	<i>No. of Shares</i>	<i>Percentage</i>
Taco	424,024,000	52.37%
Martin Currie China Hedge Fund Limited	93,176,000	11.51%
Public	292,400,000	36.12%
	<u>809,600,000</u>	<u>100.00%</u>

The Board also reviewed information relating to the trading of the Shares on the Stock Exchange including obtaining the share registers from the Hong Kong branch share registrar and the trading price and trading volume of the Shares during the relevant period, i.e. from the listing of the Shares to the date of the Incident. Based on the review of such information, the Board was satisfied that no abnormalities were found in the trading of the Shares, nor did the Board identify any unusual or suspicious trading of the Shares that warranted further enquiry being made.

The Board has been periodically monitoring and reviewing the bank statements of the Group. Due to the occurrence of the Incident, the Board decided to focus more on reviewing the three-month period prior to the Incident. Apart from the usual transactions arising from the ordinary course of business of the Group, the Board did not identify any irregularities in the movement of the Company's funds which might indicate that the Company or any of its Directors would have been involved in or had any knowledge of the Allegation.

Enquiries were also made of the Allegation with the relevant personnel, including the directors and all senior management (only comprising the quality control manager and administrative manager) within the Company by way of private interviews. The Board was also satisfied that no one was involved in or had any knowledge of the Allegation prior to the Incident.

Based on the above and upon careful study of the Press Release, the then Directors (including the then independent non-executive Directors, Mr. Lok Shing Kwan, Sunny and Mr. Wong Wing Hang, Henry) were satisfied and convinced that the action of the ICAC did not relate to the operation or financial aspect of the Group.

To strengthen the Group's business relationship and ties with its customers and suppliers and to restore their confidence in dealing with the Group, the Company had organised a couple of site visits for all Directors (including all INEDs) to visit and inspect the production facilities of the Group's subcontractors in Dongguan and a number of franchisees in the PRC.

All of the then INEDs attended these site visits and inspection, and based on enquiries made during the said visits, each of them was satisfied that the production facilities of the Group were in normal operation.

Actions taken by the Audit Committee

The Audit Committee held regular meetings with the management of the Company to discuss issues relating to the compliance and internal control functions of the Group in light of the Incident. The Audit Committee was also provided with regular briefings of the Company's operation and advises the Board on significant issues before the Board taking any decision.

During the review of the Group's financial statements for the year ended 31 March 2004 ("**2004 Final Results**"), the Audit Committee, then comprising three INEDs, namely Mr. Lok Shing Kwan, Sunny, Mr. Wong Wing Hang, Henry and Mr. Chiang Chi Kin, Stephen, had held lengthy discussions with the management and the Auditors of the Company regarding the findings of the Auditors in their audit of such financial statements and the internal control system of the Company. Based on the discussion, the Audit Committee was satisfied that there had been no fundamental flaw in the internal control system of the Group or material deficiency in the Group's compliance functions save and except that there had been a delay in the publication of the 2004 Final Results which was announced by the Company on 30 July 2004, 25 August 2004 and 23 September 2004 respectively due to reasons as specified in the aforesaid announcements.

The present Audit Committee, comprising the three INEDs, namely Mr. Lok Shing Kwan, Sunny, Mr. Chan Kin Sang and Mr. Chiang Chi Kin, Stephen had reviewed all the information the Company had received in relation to the placing exercise conducted by Taco, information in relation to the trading of the Shares, and bank statements and management accounts of the Company for a period of three months prior to the First Private Placement and three months after the Incident and the SW Reports.

The present Audit Committee examined the methodology and basis of SHINEWING's findings set out in the SW Reports and is satisfied that a comprehensive and effective review had been undertaken by SHINEWING. The present Audit Committee recommended the Board to accept and adopt the SW Reports and the findings therein contained.

The present Audit Committee noted SHINEWING's Internal Control Review Report and is satisfied that the Company has applied the principles as set out in the CG Code and believes the present internal control system is effective and adequate. The present Audit Committee also noted that SHINEWING recommended the Board to strengthen the internal control system by increasing the frequency of stock taking, performing monthly and annual budgets for acquisition of fixed assets and establishing a formal risk assessment process. The present Audit Committee recommended the Internal Control Review Report be adopted by the Board and SHINEWING's recommendations to strengthen the internal control systems be considered and implemented by the Board as soon as practicable where appropriate.

In addition to the information and materials reviewed, the present Audit Committee also noticed that:

1. the Group have been carrying on its business operations in its usual and ordinary course in the two years since the Incident without any noticeable or significant disruption;
2. no further contact with the Company or the Board have been made by the ICAC since the Incident; and
3. no charge has been made against the Former Executive Director as shown from public records and information available; and
4. the Company has published three audited consolidated financial statements since the Incident, and no unusual transactions were identified in any of the three audited consolidated financial statements.

In view of and based upon the above, the present Audit Committee is satisfied that the Incident does not relate to day-to-day operations of the Group nor its management, and the Incident has not, save as already disclosed in this announcement, brought about any material adverse effect on the operation or management of the Group.

Further Measures taken by the Present Board

The Company took various steps to strengthen the operation of the Group following the Incident and to stabilize and promote the Group's business which at all times remains the design, distribution and sales of lady apparels to the PRC market, targeting the age group between 20 to 40.

In addition to the matters set out in the following sections of this announcement, the present Board had also reviewed all the information the Company had received in relation to the placing exercises conducted by Taco, information in relation to the trading of the Shares, and bank statements and management accounts of the Company for a period of three months prior to the First Private Placement and three months after the Incident and did not identify any suspicious trading of Shares or irregular movement of the Company's funds that warranted further investigation.

Change of the Management Board

With a view to restoring the credibility of the Board and safeguarding the interests of the shareholders of the Company, the Company has undertaken to restructure the management of the Company after the Incident. Certain executive Directors have resigned or been re-designated. As a result of such board restructuring, the composition of the Board has been strengthened both in terms of the number of Directors and the level of expertise since the Incident. Set out below are details of the movement and changes of the Directors since the Incident.

	Date of Appointment	Date of Resignation	Date of Relevant Announcements
Executive Directors			
Ms. Yeung Sau Han, Agnes	appointed on 31 July 2002		appointed before listing
Mr. So Chi Hiu	appointed on 31 July 2002	resigned on 6 May 2005	9 May 2005
Mr. So Yuen Chun	appointed on 31 July 2002	resigned on 21 June 2004	23 June 2004
Mr. Ng Cheuk Fan, Keith	appointed on 30 July 2004		30 July 2004
Mr. Lim Kwok Choi	appointed on 30 July 2004		30 July 2004
Mr. Hung Man Sing	appointed on 6 May 2005		9 May 2005
INEDs			
Mr. Lok Shing Kwan, Sunny	appointed on 26 August 2002		appointed before listing
Mr. Wong Wing Hang, Henry	appointed on 26 August 2002	resigned on 22 March 2005	22 March 2005
Mr. Chiang Chi Kin, Stephen	appointed on 30 September 2004		4 October 2004
Mr. Hung Man Sing	appointed on 22 March 2005 and re-designated as executive Director and Chairman on 6 May 2005		22 March 2005 and 9 May 2005
Mr. Chan Kin Sang	appointed on 6 May 2005		9 May 2005

Since the listing of the Shares and immediately following the Incident, there were three executive Directors overseeing the daily operation of the Group. Among them, Mr. So, who was stationed in the PRC, was responsible for business development and the PRC operation, Ms. Yeung Sau Han, Agnes, the Head of Design and Administration was responsible for the design function while the Former Executive Director was in charge of the financial functions of the Group. The Former Executive Director was suspended of his duties on 17 March 2004 and had subsequently resigned as an executive Director with effect from 21 June 2004.

The Company commenced to seek suitable replacement of the Former Executive Director as soon as 17 March 2004, and Mr. Ng was appointed the Financial Controller of the Company with effect from 17 May 2005 and Executive Director of the Company with effect from 30 July 2005. At the same time, an additional executive Director, Mr. Lim Kwok Choi, was appointed to oversee the corporate development of the Group. The business model and operation cycle of the Group does not require elaborate Board decisions, since the day-to-day operations of the Group are routine in nature and are conducted and closely monitored by the senior management teams comprising the Financial Controller and the Head of Design and Administration. In the event that any unforeseen or urgent matters should arise, Board meeting will be convened to discuss and consider such matters. The Group did not experience any significant disruption to its operation during the period immediately after the Incident save and except that publication of the Company's financial results for the year ended 31 March 2004 was subsequently delayed for a period of approximately three months (please refer to the announcements by the Company on 30 July 2004, 25 August 2004 and 23 September 2004 respectively for further details).

On 22 March 2005, Mr. Hung was appointed as an INED and was later re-designated as executive Director on 6 May 2005. Mr. Hung gradually assumed and took over all duties and responsibilities of Mr. So, including the Group's business development and PRC operation. After Mr. Hung became Chairman and with the stable composition of the Board, Mr. So faded out from the management of the Company completely after his formal resignation from the Board with effect from 6 May 2005.

The Board currently consists of four executive Directors and three INEDs and the decision making process of the Group since the Incident involves the four executive Directors who manage the day-to-day operation of the Group, monitor and control all material transactions including the following:

1. Mr. Hung is to supervise the overall operation of the Group and the remaining 3 executive Directors have to prepare the weekly reports to him. In addition, Mr. Hung is the Chairman and will lead the Board to work collaboratively and effectively, discharges its responsibilities and discusses all key issues in a timely manner, and he is also responsible to implement and report to the Board on the Company's strategy and overseeing the realisation by the Company of the objectives set by the Board.;
2. all legal and financial matters will be monitored by Mr. Ng, the Financial Controller, and are required to be reported to the Board;
3. all administration and designs matters will be monitored by Ms. Yeung Sau Hang, Agnes, the Head of Design and Administration and are required to be reported to the Board;
4. the development of business channels and franchise business are handled by the Mr. Lim Kwok Choi, the Business Investment Manager; and
5. all ad hoc issues, annual budget, business and investment strategies and other issues relating to major capital expenditure/acquisition will have to be considered by the Audit Committee and tabled for discussion and approval in a full board meeting.

Despite of the Incident, the Board and the management of the Group are, and were at all material times, in charge of the Group's business and continuing to strengthen the operation of the Group. Both Mr. So Chi Hiu and the Former Executive Director do not have any involvement in the Group's management and affairs in any capacity since their respective resignation.

Being perfectly aware of the importance of corporate governance and upon the advice of the Company's advisers and the Audit Committee, the Board has imposed measures and taken steps to further strengthen its corporate governance functions. Valuable advice was taken from the Group's Auditors, financial and legal advisers, such advice was thoroughly discussed and deliberated at the meetings of the Board.

Mr. Ng was appointed by the Board as the Compliance Officer of the Group to review and update the Company on any new development in the Listing Rules and other laws, regulations and codes as well as to advise the Group on its compliance of the above in respect of transactions entered into by the Group. The Internal Control Manual of the Group has since been substantively revised and updated. Taking into account of new development in corporate governance such as the CG Code, a Remuneration Committee (now comprising Mr. Lok Shing Kwan, Sunny, Mr. Chan Kin Sang and Mr. Chiang Chi Kin, Stephen) was established and a revised terms of reference for the Audit Committee was approved and adopted by the Board on 26 July 2005 to take into account and to ensure compliance with the provisions set out in the CG Code, the principal duties of which include the review and supervision of the Group's financial reporting system and internal control procedures, review of the Group's financial information and review of the relationship with the external auditors of the Company.

In addition, the Group's audited final results for the year ended 31 March 2006 and 31 March 2005 have been released timely and the auditors of the Company issued unqualified audit opinion on those financial statements of the Company and its subsidiaries for the year ended 31 March 2006 and 31 March 2005 respectively.

Apart from the delay in the publication of the 2004 financial results, there has been no record of breach of the Listing Rules by the Company since listing of the Shares and the Company has since generally complied with its financial reporting obligations under the Listing Rules and published timely financial results.

Taking into account of the above, the Board is satisfied that the Group has in existence a reliable internal control system which is sufficient to reveal any material abnormalities and discrepancies, and to ensure compliance by the Group with the relevant laws and rules and regulations.

Business Review

In order to complement the Group's franchise business and in line with the Group's plan to open its own directly managed sales network, 9 consignment counters have been set up in various prime department stores across the PRC as at 30 June 2006. As at the date of this announcement, the number of consignment counters have increased to 11.

As far as the operation of the Group is concerned, the Board confirms that the existing franchisees are operating in the usual manner and continue to place orders with the Company and the volume of orders appears normal as compared with previous years. The product design and development team, which forms an integral part of the Group's operation, continues to churn out new product designs for the coming seasons.

Financial Position

Based on the latest management accounts, as at 30 June 2006 there are no bank borrowings by the Group and trade debts amounted to approximately HK\$4.6 million. The Board noted that in the latest Audited Accounts for the year ended 31 March 2006, the auditors have made provisions for impairment of trade receivables in the sum of HK\$11.3 million and for obsolete inventories in the sum of HK\$20.7 million. Insofar as trade receivables of HK\$37.2 million at the end of the relevant financial year are concerned and up to 30 June 2006, a total amount of HK\$13.4 million has been received by the Group.

Internal Control System and Corporate Governance

Since the Incident, the Group has implemented additional internal control procedures in respect of purchasing sales, cash disbursements and the cheque payments.

Review conducted by SHINEWING of the Company's Incident

SHINEWING was engaged on 5 May 2006 to conduct an independent review of the steps taken by, and the basis of, the Board to satisfy that the Incident does not relate to, or affect the operations of, the Group. The findings of SHINEWING as set out in the report issued on 30 September 2006, were in line with the findings of the Board.

In carrying out the independent review, SHINEWING have:

1. interviewed with middle to senior management of the Company who held the position with the Company and are still working in the Company on 6 May 2006. All of them confirmed that they had no knowledge of the Allegation prior to the Incident;
2. performed testing on cash and bank payments and receipts of the Company from 1 June 2003 to 31 May 2004, and no unexplained and/or irregular cash and bank payments and receipts were found;
3. performed litigation, media, and other public record searches on 17 May 2006 and found that no allegation whatsoever had been made that the Allegation had anything to do with the business or the operations of the Company; and
4. performed media search on 23 May 2006 and found that there are no press releases/news stated that the business or operations of the Company were the subject of the Allegation other than the Articles.

Based on the findings of SHINEWING, the present Board was satisfied that the Group was not in anyway related to the Incident, and the Incident did not have any material impact (financial or otherwise) on the Group.

Review conducted by SHINEWING of the Company's internal control

SHINEWING was also engaged by the Company to review the internal control system of the Group according to the COSO Framework and evaluated the company secretarial record, board of directors' practice and annual report disclosure against the requirement of the CG Code. Their review covered the period from 1 April 2005 to 31 March 2006.

The internal control review covers principally corporate governance, financial structure, cashflow monitoring and operational procedures. The scope of work of SHINEWING, includes, among others, reviewing the current internal control procedures of the Group by way of walk-through tests, and, where appropriate, recommending to the Board to strengthen the internal control systems by increasing the frequency of stock taking, performing monthly and annual budgets for acquisition of fixed assets and establishing a formal risk assessment process.

Other than the aforesaid recommendations in the internal control system, the Board noted that the overall findings in the SW Reports indicated that SHINEWING has not identified any major areas of non-compliance with COSO Framework and the CG Code.

In addition, based on the findings set out in the SW Reports and the actions taken by the Board, the Board is satisfied that the Company has applied the principles as set out in the CG Code and the Code Provisions of the CG Code except the roles of chairman and chief executive officers were not separate and were not performed by separate individuals pursuant to CG Code A.2.1.

The Board wishes to set out further information relating its review of the Company's internal control systems in accordance with paragraph 3(d) of Appendix 23 of the Listing Rules which have also been reviewed by SHINEWING and their findings are as follows:

1. SHINEWING found that the Board has overall responsibilities for the establishment, maintenance and review of the Company's internal control system and the Group maintains an effective internal control system and will conduct review on the effectiveness of the system at least annually. Further, the Group has engaged an independent party to conduct a review under the same scope. However, the Company does not have an internal audit function.
2. The Board would hold meetings for management to provide explanation and information to the Board which enabled the Board to make an informed assessment of the handling and dissemination of price sensitive information and the Board will comply with the relevant provisions under the Listing Rules and other applicable laws and regulations.
3. As the Company does not have an internal audit function, the Group has established certain mechanism to monitor the function of its internal audit. The Group intends to employ a certified public accountants to review its internal control system on an annual basis.
4. The Group carries out its internal controls review annually.
5. The Directors have reviewed the effectiveness of the system of internal control of the Company and consider it effective and adequate.
6. The Directors assess the effectiveness of the system of internal control of the Company by employing and relying upon the external consultant's professional judgement.
7. The period of the review conducted by the Board was from 1 April 2005 to 31 March 2006.
8. The Board concluded that there were no significant areas of concern which may affect shareholders of the Company.
9. The Board was advised that no significant views or proposals were put forward by the Audit Committee.

For the period from 01 April 2005 to 31 March 2006 (the "Period"), the Audit Committee, upon the advise from the Board, reviewed the effectiveness of the Company's system of internal control over financial, operational and compliance issues and risk management processes. To formalise the review of the internal control system, the Audit Committee made reference to the globally recognized framework with modifications to include some control evaluation on data controls. No specific frauds, irregularities, internal control deficiencies or suspected infringement of laws, rules and regulations were found by the Audit Committee. The Audit Committee concluded that, in general, the Company has set up a sound control environment and installed necessary control mechanisms to monitor and correct non-compliance.

The Board, after considering the report from and consulting with the Audit Committee, is satisfied that the Company fully complied with the code provisions on internal controls as set forth in the CG Code during the Period.

The Board acknowledges its responsibility to ensure that a sound and effective internal control system is maintained, which includes a defined management structure with specified limits of authority, to:

1. achieve business objectives and safeguard assets against unauthorized use or disposition;
2. ensure maintenance of proper accounting records for the provisions of reliable financial information for internal use or publication; and

3. ensure compliance with relevant legislation and regulations.

The internal control system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and manage rather than eliminate risks of failure in operational systems, and to ensure achievement of the Group's objectives.

The Company has in place a system covering all areas of risks that may be faced by the Company. Each department head will report to the relevant Director in charge any risk that may arise during the course of their operation. Any risk that the relevant Director considers to be significant shall be submitted to the Board for consideration and evaluation. If the Board considers necessary, it will seek the view and recommendations from the Audit Committee and other professional parties. After considering and evaluating the risk and the advice from the Audit Committee, the Board shall formulate measures to manage, eliminate and prevent future occurrence of such risks.

The key procedures that the Board established to provide effective internal controls are as follows:

1. a distinct organization structure with defined line of authority and control responsibilities;
2. a comprehensive management accounting system is in place to provide financial and operational performance to the management and the relevant financial information for reporting and disclosure purpose; and
3. system and procedures are in place to identify, measure, manage and control risks including legal, credit, operational that may have any material impact to the Group.

Taking into account of the findings set out in the SW Reports, and the findings upon the Board's own review of the effectiveness of the internal control system, the present Board considers that the Group has an effective internal control system and the existing internal control system is effective and adequate to reveal any material abnormalities and discrepancies and to ensure compliance by the Group with the relevant laws and rules and regulations and the Board has resolved to adopt SHINEWING's recommendations to strengthen the Company's internal control systems and will periodically review its internal control systems with assistance of independent professional parties, in particular, the Board has resolved to adopt their recommendations in September 2006 and has, so far, taken the following actions:

- i. increased the number of physical stock takes from once a year to twice a year, i.e. every six months at the end of the interim period and the financial year, and an interim stock take was taken on 1 October 2006;
- ii. annual and monthly budgets have been prepared for acquisition of fixed assets on 15 October 2006;
- iii. strategic and/or action plans, where appropriate, have been discussed and devised for each specific risk factor identified in management meetings and board meeting to facilitate follow up action and evaluation since October 2006; and
- iv. a member of the senior management has been designated to closely monitor the debt collection status and report to the Board on a quarterly basis in September 2006. The first report is to be submitted to the Board in January 2007. The Company is also seeking a suitable candidate to handle all matters in relation to debt collection on a full time basis.

The Board also considers that the Group has effective processes in reviewing its financial reporting and Listing Rule compliance.

General

The Directors have met regularly since the Incident to discuss the development of the matter and the effect brought about by the Incident. All Directors have also been closely monitoring the operation of the Group. The Company and the Directors has no involvement in the Incident and the Allegation.

The Board confirmed that the Incident does not relate to day-to-day operations of the Group nor its management, all the Directors consider that the Incident currently does not bring about any material adverse effect on the operation or management of the Group and the Board is not aware of any instances of major non-compliance with stated internal control systems and procedures as laid down by the management of the Group and the Board believes that the present internal control system is effective and adequate. The Directors consider that all conditions and issues relating to the Incident have fully been addressed prior to the resumption of trading in the shares of the Company and all the material information have been set out in this announcement.

Resumption of trading

At the request of the Company, trading in the shares of the Company was suspended with effect from 9:30 a.m. on Friday, 27 February 2004. Application has been made to the Stock Exchange for resumption of trading in the shares of the Company with effect from 9:30 a.m. on 29 December 2006.

Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

TERMS USED IN THIS ANNOUNCEMENT

“Articles”	the press articles which appeared in various newspapers on 28 February 2004
“Board”	board of Directors of the Company
“Company”	LeRoi Holdings Limited, a company incorporated in Cayman Islands with limited liability, whose securities are listed on the Stock Exchange
“CG Code”	the Code of Corporate Governance Practices set out in Appendix 14 of the Listing Rules
“COSO Framework”	a framework for internal control and provided evaluation tools to the business to evaluate the effectiveness of the internal control which was published by the Committee of Sponsoring Organisations of the Treadway Commission
“Directors”	directors of the Company
“Former Executive Director”	an executive Director who resigned in 2004
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“ICAC”	Independent Commission Against Corruption
“INEDs”	independent non-executive Directors
“Internal Control Review Report”	A report issued by SHINEWING on 30 September 2006 regarding their findings in the internal control review of the Group
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Hung”	Mr. Hung Man Sing, the present chairman of the Company
“Mr. Ng”	Mr. Ng Cheuk Fan, Keith, the executive director and financial controller of the Company
“Mr. So”	Mr. So Chi Hiu, the former executive director of the Company
“PRC”	the People’s Republic of China, for the purpose of this announcement, excluding Hong Kong
“Shares”	ordinary shares of HK\$0.01 each in the share capital of the Company

“SHINEWING”	SHINEWING (HK) CPA Limited, a registered corporate practice under section 28E of the Professional Accountants Ordinance Chapter 50 being an independent reporting accountant and not the Company’s statutory auditors
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“SW Reports”	two separate reports issued by SHINEWING on 30 September 2006 regarding their findings of the Incident after the agreed upon procedures were performed and the Internal Control Review Report
“Taco”	Taco Holdings Limited, a private company beneficially owned by Mr. So, the controlling shareholder of the Company presently interested in approximately 52.37% of the issued share capital of the Company

By Order of the Board
Hung Man Sing
Chairman

Hong Kong, 28 December 2006

As at the date hereof, Mr. Hung Man Sing, Ms. Yeung Sau Han, Agnes, Mr. Ng Cheuk Fan, Keith and Mr. Lim Kwok Choi are the executive Directors, and Mr. Lok Shing Kwan, Sunny, Mr. Chan Kin Sang and Mr. Chiang Chi Kin, Stephen are the independent non-executive Directors.

Please also refer to the published version of this announcement in International Herald Tribune.