

Report of the Directors

The Directors are pleased to present their report together with the audited financial statements for the financial year ended 31 December 2006.

PRINCIPAL BUSINESS ACTIVITIES

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

The Group's principal business activities during the financial year 2006 were garment manufacturing for export and retailing branded fashion apparel in Mainland China.

An analysis of the Group's performance for the financial year ended 31 December 2006 by business and geographical segments is set out in note 5 to the financial statements.

RESULTS AND APPROPRIATIONS

The Group's consolidated results for the financial year ended 31 December 2006 are set forth in the consolidated income statement on page 66 of this annual report.

An interim dividend of HK5.4 cents per Share and a special dividend of HK1.0 cent per Share were paid to the shareholders during the year. At a meeting held on 28 March 2007, the Directors proposed a special dividend of HK2.6 cents per Share in addition to a final dividend of HK4.4 cents per Share. Upon the approval to be obtained from the forthcoming Annual General Meeting to be held on 8 May 2007, the final dividend and the special dividend will be payable on or about on 15 May 2007 to the shareholders whose name appear on the register of members of the Company at close of business on Friday, 27 April 2007.

The register of members of the Company will be closed from Saturday, 28 April 2007 to Friday, 4 May 2007, both days inclusive, during which no transfer of Shares will be effected. In order to qualify for the final dividend to be considered at the forthcoming Annual General Meeting, all transfer documents accompanied by the relevant Share certificates must be lodged with the Company's branch share registrar in Hong Kong, 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 Friday, 27 April 2007.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 153 and 154 of this annual 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 financial statements.

DONATIONS

During the financial year 2006, the Group made charitable donations of approximately HK\$0.2 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 16 to the financial statements.

RESERVES

Details of the movements in the reserves of the Company and the Group during the financial year 2006 are set forth in note 17 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2006, the Company's reserves available for distributions amounted to HK\$1,543.6 million.

MAJOR CUSTOMERS AND SUPPLIERS

During the financial year 2006, sales made to the Group's top five customers and the largest customer accounted for approximately 49.8% and 17.6% of the total sales. The Group purchased less than 30% of its goods and services from its five largest suppliers.

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.

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DIRECTORS

The Directors during the year and up to the date of this annual report were:-

Executive Directors:-

Mr. TING Man Yi (*Chairman*)

Mr. TING Hung Yi (*Chief Executive Officer*)

Mr. DING Jianer

Mr. WONG Sin Yung

Mr. CHEUNG Ting Yin, Peter (appointed on 3 August 2006)

Independent non-executive Directors:-

Dr. CHENG Chi Pang

Mr. WONG Chi Keung

Mr. LEUNG Man Kit

In accordance with article 87 of the Company's articles of association (the "**Articles**"), Mr. TING Man Yi, Mr. TING Hung Yi and Mr. DING Jianer will retire and being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

In accordance with article 86(3) of the Articles, Mr. CHEUNG Ting Yin, Peter will retire and being eligible, offer himself 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 26 to 33 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of Mr. TING Man Yi, Mr. TING Hung Yi, Mr. DING Jianer and Mr. WONG Sin Yung entered into a service agreement on 18 November 2005 with the Company and Mr. CHEUNG Ting Yin, Peter entered into a service agreement on 3 August 2006 with the Company. Each of these agreements is for an initial term of three years 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 Director, terminate the service agreement by giving to the other not less than six month's prior written notice.

The annual salary and bonus (as referred to below) of each of Mr. TING Man Yi, Mr. TING Hung Yi, Mr. DING Jianer, Mr. WONG Sin Yung and Mr. CHEUNG Ting Yin, Peter for the financial year ended 31 December 2006 was HK\$5.3 million, HK\$5.3 million, HK\$2.8 million, HK\$1.2 million and HK\$0.9 million, respectively. The annual salary and bonus 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 4% 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

Save for the sale and purchase agreement dated 5 September 2006, particulars of which are set forth under "Connected transactions" below, 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.

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 2006, 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

Name of Directors	Capacity	Number of Shares <i>(Note 1)</i>	Approximate percentage of interest in the Company
Mr. TING Man Yi	Interest of controlled corporation	1,490,000,000 (L) <i>(Note 2)</i>	72.11%
Mr. TING Hung Yi	Interest of controlled corporation	1,490,000,000 (L) <i>(Note 3)</i>	72.11%
Mr. DING Jianer	Interest of controlled corporation	1,490,000,000 (L) <i>(Note 4)</i>	72.11%

Notes:-

- The letters “L” stand for the Director’s long position in the Shares.
- 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.
- 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.

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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.

(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 (Note 1)	41.5%
Mr. TING Hung Yi	In Holdings	Personal interest	1	100%
	Longerview	Corporate interest	405 (Note 2)	40.5%
Mr. DING Jianer	Willport	Personal interest	1	100%
	Longerview	Corporate interest	180 (Note 3)	18.0%

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 2006, 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 (Note 1)	Approximate percentage of interest in the Company
Longerview	Beneficial owner	1,490,000,000 (L) (Note 2)	72.11%
Firmsuccess	Interest of controlled corporation	1,490,000,000 (L) (Note 2)	72.11%
In Holdings	Interest of controlled corporation	1,490,000,000 (L) (Note 3)	72.11%
Willport	Interest of controlled corporation	1,490,000,000 (L) (Note 4)	72.11%

Notes:-

1. The letters "L" stands for the substantial Shareholders' long position in the Shares.
2. 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.
3. 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.

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- 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.

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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.

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

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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 annual 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;

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(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.

Details of the share option outstanding as at 31 December 2006 were as follows:

	Options held at 1 January 2006	Grant during the year	Options exercised during the year	Options lapsed during the year	Options held at 31 December 2006
Ms. Li Yuet Mei, Xera	10,000,000	-	1,250,000	-	8,750,000

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTEREST IN COMPETING BUSINESS

As at 31 December 2006, 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 articles of association 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

The Company has not redeemed any of its listed securities during the financial year 2006. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the financial year 2006.

CONNECTED TRANSACTIONS

(1) Connected transaction

On 5 September 2006, Concept Creator Fashion Limited (“**Concept Creator Fashion**”), a wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement (“**Agreement**”) with Mr. DING Xinger (being an elder brother of Mr. TING Man Yi, Mr. TING Hung Yi and Mr. DING Jianer, the executive Directors), Mr. YE Ai Min, Ms. JIN Xiao Ying and Mr. FU Xiao Bo (“**Vendors**”), under which, Concept Creator Fashion agreed to acquire 92% of the registered capital in 浙江華鼎集團有限責任公司 (Zhejiang China Ting Group Company Limited) (“**Zhejiang China Ting**”) from the Vendors at a total consideration of RMB174,292,768 (“**Acquisition**”). Before completion of the Acquisition, Mr. DING Xinger, Mr. YE Ai Min, Ms. JIN Xiao Ying and Mr. FU Xiao Bo held 82%, 6%, 6% and 6% of the registered capital in Zhejiang China Ting respectively. After completion of the Acquisition, Mr. DING Xinger, Mr. FU Xiao Bo, Mr. YE Ai Min and Ms. JIN Xiao Ying held 2%, 3%, 3% and nil of the registered capital in Zhejiang China Ting respectively.

Pursuant to the then lease agreements entered into between Zhejiang China Ting and members of the Group, Zhejiang China Ting leased to such members of the Group certain office premises, factory plant, staff quarters and guest house for an annual rental of RMB13.94 million. With the increasing demand for industrial land in Zhejiang Province, the PRC, the Directors expected that the price of land in Zhejiang Province, the PRC and the amount of rental payment to Zhejiang China Ting upon expiry of the terms of the then existing lease agreements would continue to increase in the future. The Directors therefore considered that the Group would not be required to continue to pay substantial amount of rental each year as a result of the Acquisition, and the Acquisition would achieve the effective control of the relevant properties without going through the procedure of revising the building ownership certificates of such properties.

Following completion of the Acquisition, Zhejiang China Ting became a 92% owned subsidiary of the Company and hence, the then existing lease agreements entered into between Zhejiang China Ting and members of the Group, as disclosed in the prospectus of the Company dated 30 November 2005 and sub-paragraphs (2)(a) to (2)(d) below, ceased to be non-exempt continuing connected transactions for the Company and were terminated.

The Directors (including the independent non-executive Directors) confirmed that the transactions contemplated under the Agreement are fair and reasonable and in the interests of the Group and its shareholders as a whole and in the ordinary and usual course of business of the Company and the terms of the Agreement are on normal commercial terms.

(2) Continuing Connected Transactions

During the financial year 2006, the Group entered into the following non-exempt continuing connected transactions:-

- (a) A lease agreement dated 9 September 2005 was entered into between Zhejiang China Ting and Hangzhou Fuding Fashion Company Limited ("**Hangzhou Fuding**"), a member of the Group. Zhejiang China Ting 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 2006, the aggregate amount payable by Hangzhou Fuding to Zhejiang China Ting for the lease amounted to HK\$1.0 million (Financial year ended 31 December 2005: HK\$327,700). The lease agreement was terminated after the completion of the Acquisition which was described in the above paragraph headed "Connected Transaction".

- (b) A lease agreement dated 9 September 2005 was entered into between Zhejiang China Ting and Hangzhou China Ting Fashion Company Limited ("**Hangzhou China Ting Fashion**"), a member of the Group. Zhejiang China Ting 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. 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 2006, the aggregate amount payable by Hangzhou China Ting Fashion to Zhejiang China Ting for the lease amounted to HK\$1.3 million (Financial year ended 31 December 2005: HK\$317,800). The lease agreement was terminated after the completion of the Acquisition which was described in the above paragraph headed "Connected Transaction".

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- (c) A lease agreement dated 9 September 2005 and entered into between Zhejiang China Ting and Hong Kong Fuhowe Fashion Company Limited ("**Hong Kong Fuhowe**"), a member of the Group, Zhejiang China Ting 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 China Ting. For the financial year ended 31 December 2006, the aggregate amount payable by Hong Kong Fuhowe to Zhejiang China Ting for the lease amounted to HK\$2.8 million (Financial year ended 31 December 2005: HK\$903,100). The lease agreement was terminated after the completion of the Acquisition which was described in the above paragraph headed "Connected Transaction".
- (d) A lease agreement dated 9 September 2005 was entered into between Zhejiang China Ting and Hong Kong Fuhowe. Zhejiang China Ting 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 2006, the aggregate amount payable by Hong Kong Fuhowe to Zhejiang China Ting for the lease amounted to HK\$5.5 million (Financial year ended 31 December 2005: HK\$1,802,900). The lease agreement was terminated after the completion of the Acquisition which was described in the above paragraph headed "Connected Transaction".
- (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, which is owned by Mr. DING Minger (who is a director of one of the subsidiaries of the Company and is the eldest brother of Mr. TING Man Yi, Mr. DING Jianer and Mr. TING Hung Yi, all being executive Directors) as to 58%, 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 2006, the aggregate amount payable by Zhejiang Huali to Yuhang Huaming Group for the lease amounted to HK\$824,917 (Financial year ended 31 December 2005: 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 other 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 2006, the aggregate amount payable by Hangzhou Fuding to Yuhang Huaming Group for the lease amounted to HK\$597,311 (Financial year ended 31 December 2005: 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. Hangzhou Fuze is owned by two individuals, namely Mr. FEI Bin Song and Mr. QIU Jian Ping. Mr. FEI Bin Song has been nominated a director of Jiangsu Fuze Textile Company Limited ("**Jiangsu Fuze**", a 52% owned subsidiary of the Company), by virtue of Hangzhou Fuze's 26.2% equity interest in this joint venture. For the financial year ended 31 December 2006, the aggregate purchase of silk fabric by members of the Group from Hangzhou Fuze amounted to HK\$0.3 million (Financial year ended 31 December 2005: HK\$3.8 million), which was below the annual cap of HK\$5.8 million (Financial year ended 31 December 2005: 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. Hangzhou Huaze is owned by two individuals, namely, Ms. QIU Li Juan and Mr. LU Yong Gen. Ms. QIU Li Juan has been nominated as a director of Jiangsu Fuze by virtue of Hangzhou Huaze's 21.8% equity interest in this joint venture. For the financial year ended 31 December 2006, the aggregate purchase of velour by members of the Group from Hangzhou Huaze amounted to HK\$2.0 million (Financial year ended 31 December 2005: HK\$6.3 million), which was below the annual cap of HK\$7.4 million (Financial year ended 31 December 2005: HK\$6.4 million).

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- (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, which is owned by Ms. ZHOU Shi Min (who is the spouse of Mr. DING Jianer, being an executive Director) as to 75%, 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 2006, the aggregate purchase of plastic bags and hangers by the Group from Huasheng Accessories amounted to HK\$9.9 million (Financial year ended 31 December 2005: HK\$7.5 million), which was below the annual cap of HK\$10.6 million (Financial year ended 31 December 2005: 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. Zhejiang Huayue is owned by Haiyan Feixiang Handicraft and Embroidery Products Company Limited (“**Haiyan Feixiang**”) and Manfame Investments Limited (“**Manfame**”, a wholly owned subsidiary of the Company), as to 45% and 55% respectively. As Haiyan Feixiang is a substantial shareholder of Zhejiang Huayue which is a subsidiary of the Company, Haiyan Feixiang is a connected person of the Company under the Listing Rules. Haiyan Feixiang is owned by five individuals, namely, Ms. LIU Lian Ying, Ms. SUN Yun Zhen, Ms. YANG Shui Zhen, Mr. CHEN Ai Feng and Mr. SUN Xian Ming as to 1.33%, 0.93%, 10%, 47.27% and 40.47% respectively. Ms. LIU Lian Ying and Ms. SUN Yun Zhen have been nominated as directors of Zhejiang Huayue by virtue of the 45% equity interest held by Haiyan Feixiang in Zhejiang Huayue. As such, Zhejiang Huayue is also a connected person of the Company under the Listing Rules. For the financial year ended 31 December 2006, the aggregate purchase of silk fabric by members of the Group from Zhejiang Huayue amounted to HK\$55.2 million (Financial year ended 31 December 2005: HK\$54.3 million), which was below the annual cap of HK\$90.0 million (Financial year ended 31 December 2005: HK\$61.9 million).

Report of the Directors

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;
- (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 as set out in note 32(a) to the financial statements, being the significant related party transactions of the Group, constituted continuing connected transactions of the Group. The disclosure requirements in respect of these continuing connected transactions, details of which are set out in sub-paragraph (i) above, have been complied with in accordance with the Listing Rules.

Report of the Directors

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 annual 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 33 to the 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 for the financial year ended 31 December 2006.

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, 28 March 2007