

DIRECTORS' REPORT

The Directors present their report together with the audited financial statements of the Group for the year ended 31 December 2006.

GROUP REORGANIZATION

The Company was incorporated in the Cayman Islands on 27 May 2004 as an exempted company with limited liability under the Companies Law of the Cayman Islands. Pursuant to the reorganization as disclosed in the prospectus of the Company dated 30 June 2006 (the "Prospectus"), to rationalize the structure of the Group in preparation for the listing of the Company's shares on the Main Board of the Stock Exchange, the Company became the holding company of all other companies now comprising the Group on 13 June 2006 (the "Reorganization"). Further details of the Reorganization are set out in note 1 to the financial statements.

The shares of the Company were listed on the Stock Exchange on 13 July 2006.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The Group is principally engaged in the provision of supply chain services for its supply of apparel and accessories to international brands, and distribution and retailing of apparel and footwear. Particulars of the Company's principal subsidiaries are set out in note 40 to the financial statements.

RESULTS AND APPROPRIATION

The results of the Group for the year ended 31 December 2006 are set out in the consolidated income statement on page 55 of this annual report.

An interim dividend of HK3.0 cents per share, amounting to a total of about HK\$7.6 million, was paid to shareholders of the Company on 2 November 2006.

Directors' Report

The Board recommends the payment of a final dividend of HK7.0 cents per share, payable on or about 21 May 2007 to the shareholders whose names appear on the Company's register of members on 9 May 2007, which together with the interim dividend payment amounts to a total of about HK\$25.3 million, and the retention of the remaining profit for the year. The proposed final dividend is subject to the shareholders' approval at the forthcoming annual general meeting of the Company.

RESERVES

The distributable reserves of the Company as at 31 December 2006, calculated in accordance with the provisions of Companies Law of the Cayman Islands, amounted to HK\$112.2 million, of which HK\$17.7 million have been proposed as final dividend for the year.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The Company issued 250,080,000 shares (inclusive of those shares issued upon the exercise of the over-allotment option) at HK\$1.70 per share by way of placing and public offer (as set out in details in the Prospectus) on 13 July 2006. The net proceeds, after deduction of related issuance expenses, amounted to HK\$101.6 million. These proceeds were applied during the year in accordance with the proposed applications set out in the Prospectus as follows:

| | Per Prospectus | Utilized | Balance as at 31 December 2006 |
|---|---------------------------|-----------------|---|
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Expansion of existing joint ventures and establishment of new joint ventures as well as to fund strategic alliances | 48,000 | 36,500 | 11,500 |
| Acquisition of production machinery and equipment | 15,000 | 400 | 14,600 |
| Implementation of information management system | 8,000 | 2,900 | 5,100 |
| Repayment of bank borrowings | 23,200 | 23,200 | – |
| General working capital | 7,400 | 7,400 | – |
| | 101,600 | 70,400 | 31,200 |

The unutilized balance was placed by the Company in short term bank deposits. The Directors are of the opinion that the proceeds will be applied in the coming years to their intended uses as set out in the Prospectus.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 15 to the financial statements.

BORROWINGS

Details of the Group's borrowings at the balance sheet date are set out in note 29 to the financial statements.

SHARE CAPITAL

Details of the movements in the share capital during the year are set out in note 31 to the financial statements.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the share option scheme disclosures in note 37 to the financial statements, at no time during the year was the Company, its holding company, any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS

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

Executive directors

| | |
|--|-----------------------------|
| Mr. Ngok Yan Yu (<i>Chairman</i>) | |
| Mr. Lam Hon Keung, Keith (<i>Deputy chairman</i>) | (appointed on 15 June 2006) |
| Ms. Tang Chui Yi, Janny (<i>Chief executive officer</i>) | |
| Mr. Wong Ming Yeung | (appointed on 15 June 2006) |
| Mr. Antonio Piva | (appointed on 15 June 2006) |
| Mr. Marcello Appella | (appointed on 15 June 2006) |

Non-executive director

| | |
|-----------------|-----------------------------|
| Mr. Je Kin Ming | (appointed on 15 June 2006) |
|-----------------|-----------------------------|

Independent non-executive directors

| | |
|-----------------------------|-----------------------------|
| Mr. Lo Ming Chi, Charles | (appointed on 15 June 2006) |
| Mr. Pao Ping Wing | (appointed on 15 June 2006) |
| Mr. Kwan Hung Sang, Francis | (appointed on 15 June 2006) |

In accordance with article 87 of the Articles of Association of the Company, Mr. Ngok Yan Yu, Ms. Tang Chui Yi, Janny, Mr. Je Kin Ming and Mr. Pao Ping Wing will retire from office by rotation and, being eligible offer themselves for re-election at the forthcoming annual general meeting.

The Company has received annual confirmations of independence pursuant to Rule 3.13 of the Listing Rules from each of the independent non-executive Directors and still considers them to be independent.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the Directors and senior management are set out on pages 17 to 23 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for a term of three years commencing from 15 June 2006, and will continue thereafter until terminated by either party thereto giving to the other not less than three months' prior notice in writing.

Each of the non-executive Director and independent non-executive Directors has entered into letter of appointment with the Company and is appointed for a period of three years commencing from 15 June 2006.

Save as disclosed above, none of the Directors has entered into any service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company, its holding company or any of its subsidiaries or fellow subsidiaries was a party, and in which a Director had a material interest, whether directly or indirectly, subsisted at the year-end or at any time during the year.

NON-COMPETITION UNDERTAKING

The independent non-executive Directors have reviewed the compliance with the non-competition undertaking by the controlling shareholders on their existing or future competing business and the independent non-executive Directors are of the view that none of the controlling shareholders nor the Directors have any interest in business, apart from the Group's business, which competes or is likely to compete, directly or indirectly with the Group's business.

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

As at 31 December 2006, the interests or short positions of the Directors in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

(a) Shares of the Company

| Name of director | Capacity | Number of shares held | Approximate percentage of shareholdings |
|-----------------------------|--------------------------------------|--------------------------------|--|
| Mr. Ngok Yan Yu | Interest of a controlled corporation | 131,437,890 <i>(Note 1)</i> | 51.97% |
| Ms. Tang Chui Yi, Janny | Interest of a spouse | 131,437,890 <i>(Note 2)</i> | 51.97% |
| Mr. Lam Hon Keung, Keith | Interest of a controlled corporation | 1,594,710 <i>(Note 3)</i> | 0.63% |
| Mr. Marcello Appella | Interest of a controlled corporation | 3,588,030 <i>(Note 4)</i> | 1.41% |
| Mr. Je Kin Ming | Interest of a controlled corporation | 5,980,050 <i>(Note 5)</i> | 2.36% |
| Mr. Kwan Hung Sang, Francis | Beneficial owner | 280,000 | 0.11% |

Directors' Report

Notes:

1. These shares of the Company were held by Charm Hero Investments Limited ("Charm Hero"), which was wholly owned by Mensun Limited ("Mensun"), which was in turn wholly owned by Mr. Ngok Yan Yu, a controlling shareholder and the chairman of the Company. As such, Mr. Ngok Yan Yu was deemed or taken to be interested in the shares of the Company held by Charm Hero for the purposes of the SFO.
2. Ms. Tang Chui Yi, Janny was an executive director of the Company and the spouse of Mr. Ngok Yan Yu. As such, Ms. Tang Chui Yi, Janny was deemed or taken to be interested in the shares of the Company beneficially owned by Mr. Ngok Yan Yu for the purposes of the SFO.
3. These shares of the Company were held by Polybest Group Limited ("Polybest"), which was wholly owned by Mr. Lam Hon Keung, Keith, an executive director of the Company. As such, Mr. Lam Hon Keung, Keith was deemed or taken to be interested in the shares of the Company held by Polybest for the purposes of the SFO.
4. These shares of the Company were held by Sycomore Limited ("Sycomore"), which was owned as to 50% by Mr. Marcello Appella, an executive director of the Company, and 50% by Mrs. Maguy, Alice, Juliette, Marie Pujol ep. Appella, the spouse of Mr. Marcello Appella. As such, Mr. Marcello Appella was deemed or taken to be interested in the shares of the Company held by Sycomore for the purposes of the SFO.
5. These shares of the Company were held by Capital Way Management Limited ("Capital Way"), which was wholly owned by Walter International Corporation, which was in turn wholly owned by Mr. Je Kin Ming, a non-executive director of the Company. As such, Mr. Je Kin Ming was deemed or taken to be interested in the shares held by Capital Way for the purposes of the SFO.

(b) Shares of the associated corporations of the Company

| Name of director | Name of associated corporation | Capacity | Number of shares held | Approximate percentage of shareholdings |
|----------------------------|--|--------------------------------------|------------------------------|--|
| Mr. Ngok Yan Yu | Complete Expert Limited ("Complete Expert") | Trustee | 20 <i>(Note 1)</i> | 20% |
| | Charm Hero | Interest of a controlled corporation | 20 <i>(Note 2)</i> | 100% |
| Ms. Tang Chui Yi, Janny | Complete Expert | Interest of a spouse | 20 <i>(Note 3)</i> | 20% |
| | Charm Hero | Interest of a spouse | 20 <i>(Note 3)</i> | 100% |

Notes:

1. Pursuant to a declaration of trust dated 1 September 2004, Mr. Ngok Yan Yu, a controlling shareholder and the chairman of the Company, held 20 shares in Complete Expert, being 20% of its entire issued share capital, in trust for Hembly Garment Manufacturing Limited, an indirect wholly owned subsidiary of the Company.
2. Charm Hero was wholly owned by Mensun, which was wholly owned by Mr. Ngok Yan Yu.
3. Ms. Tang Chui Yi, Janny was an executive director of the Company and the spouse of Mr. Ngok Yan Yu. As such, Ms. Tang Chui Yi, Janny was deemed or taken to be interested in the shares beneficially owned by Mr. Ngok Yan Yu for the purposes of the SFO.

(c) Share options of the Company

The interests of the Directors in the share options of the Company are set out as follows:

| Name of director | Number of share options granted | Exercisable period | Outstanding share options held as at 31 December 2006 | Approximate percentage of issued share capital of the Company |
|--|--|--|--|--|
| Mr. Ngok Yan Yu <i>(Note 2)</i> | 1,000,000 | 14/9/2006-13/9/2009 <i>(Note 1)</i> | 1,000,000 | 0.39% |
| Ms. Tang Chui Yi, Janny <i>(Note 2)</i> | 800,000 | 14/9/2006-13/9/2009 <i>(Note 1)</i> | 800,000 | 0.31% |
| Mr. Lam Hon Keung, Keith | 500,000 | 14/9/2006-13/9/2009 <i>(Note 1)</i> | 500,000 | 0.19% |
| Mr. Wong Ming Yeung | 500,000 | 14/9/2006-13/9/2009 <i>(Note 1)</i> | 500,000 | 0.19% |
| Mr. Antonio Piva | 500,000 | 14/9/2006-13/9/2009 <i>(Note 1)</i> | 500,000 | 0.19% |
| Mr. Marcello Appella | 500,000 | 14/9/2006-13/9/2009 <i>(Note 1)</i> | 500,000 | 0.19% |
| Mr. Je Kin Ming | 500,000 | 14/9/2006-13/9/2009 <i>(Note 1)</i> | 500,000 | 0.19% |

All of the above share options were granted on 14 September 2006, with an exercise price of HK\$2.60 and none of the above share options granted was exercised during the period under review.

Notes:

1. 20% of the share options granted to the Directors would vest on 14 September 2006 and be exercisable from 14 September 2006 to 13 September 2009. Another 30% of the granted share options would vest on 14 September 2007 and be exercisable from 14 September 2007 to 13 September 2009. The remaining 50% of the granted share options would vest on 14 September 2008 and be exercisable from 14 September 2008 to 13 September 2009.
2. Ms. Tang Chui Yi, Janny is the spouse of Mr. Ngok Yan Yu. As such, Ms. Tang Chui Yi, Janny and Mr. Ngok Yan Yu were deemed or taken to be interested in the share options of each other for the purposes of the SFO. The aggregate family interest in share options is 1,800,000 which represents approximate 0.71% of the issued share capital of the Company as at 31 December 2006.

Details of the share option scheme are disclosed in note 37 to the financial statements.

Save as disclosed above, as at 31 December 2006, none of the Directors, chief executives of the Company or their associates had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Model Code.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2006, the following shareholders (other than the Directors or chief executive of the Company whose interests and short positions in the shares or underlying shares of the Company as disclosed above) had interests or short positions in the shares and underlying shares of the Company which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

| Name of shareholders | Capacity | Number of shares held | Approximate percentage of shareholdings |
|---------------------------------------|--------------------------------------|--------------------------------|--|
| Charm Hero | Beneficial owner | 131,437,890 | 51.97% |
| Mensun | Interest of a controlled corporation | 131,437,890 <i>(Note 1)</i> | 51.97% |
| New World Development Company Limited | Interest of a controlled corporation | 30,199,320 <i>(Note 2)</i> | 11.94% |
| Credit Suisse Group | Interest of a controlled corporation | 22,252,000 <i>(Note 3)</i> | 8.79% |
| Evolution Capital Management, LLC | Interest of a controlled corporation | 13,630,000 <i>(Note 4)</i> | 5.38% |

Notes:

1. These shares of the Company are held by Charm Hero, which was wholly owned by Mensun. As such, Mensun was deemed or taken to be interested in the shares of the Company held by Charm Hero for the purposes of the SFO.
2. These shares of the Company held by Smart Fame Holdings Limited, a wholly owned subsidiary of New World Industrial Holdings Limited, which was in turn wholly owned by New World Enterprise Holdings Limited, which was in turn wholly owned by New World Development Company Limited. Therefore, New World Industrial Holdings Limited, New World Enterprise Holdings Limited and New World Development Company Limited were deemed to be beneficially interested in the said shares of the Company held by Smart Fame Holdings Limited for the purposes of the SFO.
3. These shares of the Company were held by Credit Suisse Securities (Europe) Limited, a wholly owned subsidiary of Credit Suisse Investment Holdings (UK), which was in turn owned as to about 98.07% and about 1.93% respectively by Credit Suisse Investments (UK) and Credit Suisse First Boston Management AG respectively. Credit Suisse Investment (UK) and Credit Suisse First Boston Management AG were both wholly owned subsidiaries of Credit Suisse (International) Holding AG, which was wholly owned subsidiary of Credit Suisse, which was in turn a wholly owned subsidiary of Credit Suisse Group. Therefore, Credit Suisse Group, Credit Suisse, Credit Suisse (International) Holding AG, Credit Suisse Investments (UK) and Credit Suisse Investment Holdings (UK) were deemed or taken to be beneficially interested in the said shares of the Company held by Credit Suisse Securities (Europe) Limited for the purposes of the SFO.
4. These shares were held as Segregated Portfolio "M" by Evolution Master Fund Ltd. SPC, as their beneficial owner and were held by Evolution Capital Management, LLC as their investment manager. Therefore Evolution Capital Management, LLC was deemed or taken to be beneficially interested in the said shares of the Company held by Evolution Master Fund Ltd. SPC for the purposes of the SFO.

Save as aforesaid and as disclosed in the "Interests and Short Positions of the Directors in Shares, Underlying Shares and Debentures of the Company and its Associated Corporations" section of this annual report, the Company has not been notified by any person who had any interest or short position in the shares or underlying shares of the Company as at 31 December 2006 which are required to be notified to the Company pursuant to Part XV of the SFO or which are recorded in the register required to be kept by the Company under Section 336 of the SFO.

CONNECTED TRANSACTIONS

During the year, the Group had the following continuing connected transactions, certain details of which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

The following continuing connected transactions are exempt from the independent shareholders' approval requirements under Rule 14A.34 of the Listing Rules and the respective amounts have not exceeded the relevant annual caps previously approved by the Stock Exchange and as disclosed in the Prospectus.

Morgan Timepiece Master License Agreement

On 9 March 2004, Pro-Brilliance International Development Limited ("Pro-Brilliance"), a non-wholly owned subsidiary of the Company, and Morgan SA ("Morgan"), entered into a master license agreement ("Morgan Timepiece Master License Agreement") for a term from 9 March 2004 to 30 June 2009 (both dates inclusive), with an option to renew for a further five years upon subsequently agreed terms, pursuant to which Morgan grants to Pro-Brilliance an exclusive license, with the right to grant sub-license, to use the trademark of *Morgan* in connection with the manufacture, marketing, sale, distribution, promotion and advertising of clocks and watches for women (but excluding jewellery). Under the Morgan Timepiece Master License Agreement, Pro-Brilliance shall pay royalties to Morgan in accordance with the disclosures as set out in the Prospectus. Morgan is a substantial shareholder of a subsidiary of the Company and is therefore a connected person of the Company under Chapter 14A of the Listing Rules.

On the same day, Morgan, Pro-Brilliance and a sub-licensee entered into a tripartite agreement (as supplemented by a letter dated 22 April 2004) ("MT Sub-license Agreement") for the granting of the aforesaid exclusive right to the sub-licensee, which term and renewal option are concurrent with that of the Morgan Timepiece Master License Agreement. Pursuant to the MT Sub-license Agreement, Morgan and Pro-Brilliance have agreed that the sub-licensee shall pay royalties directly to Morgan as to 80% and directly to Pro-Brilliance as to 20%. Therefore, there is no transaction between Morgan and Pro-Brilliance.

Details of the above arrangements are set out in the Prospectus.

For the year ended 31 December 2006, Pro-Brilliance did not directly pay any royalties to Morgan, instead, the sub-licensee paid about HK\$780,000 of royalties to Morgan.

Morgan Eyewear Master License Agreement

On 30 September 2004, Pro-Brilliance and Morgan entered into a master license agreement ("Morgan Eyewear Master License Agreement") for a term from 30 September 2004 to 30 June 2010 (both dates inclusive), with an option to renew for a further five years upon subsequently agreed terms, pursuant to which Morgan grants to Pro-Brilliance an exclusive license, with the right to grant sub-license, to use the trademark of *Morgan* in connection with the manufacture, marketing, sale, distribution, promotion and advertising of eyewear (sun and optical) for women. Under the Morgan Eyewear Master License Agreement, Pro-Brilliance shall pay royalties to Morgan in accordance with the disclosures as set out in the Prospectus. Morgan is a substantial shareholder of a subsidiary of the Company and is therefore a connected person of the Company under Chapter 14A of the Listing Rules.

On 28 October 2004, Morgan, Pro-Brilliance and a sub-licensee entered into a tripartite agreement (as supplemented by a letter dated 22 April 2004) ("ME Sub-license Agreement") for the granting of the aforesaid exclusive right to the sub-licensee, the term of which runs from 28 October 2004 to 30 June 2010 (both dates inclusive), with an option to renew for another five years upon subsequently agreed terms. Pursuant to the ME Sub-license Agreement, Morgan and Pro-Brilliance have agreed that the sub-licensee shall pay royalties directly to Morgan as to 80% and directly to Pro-Brilliance as to 20%. Therefore, there is no transaction between Morgan and Pro-Brilliance.

Details of the above arrangements are set out in the Prospectus.

For the year ended 31 December 2006, Pro-Brilliance did not pay any royalties to Morgan, instead, the sub-licensee paid about HK\$655,000 of royalties to Morgan.

For the purpose of the Listing Rules, the considerations of the transactions as described under the above sections headed "Morgan Timepiece Master License Agreement" and "Morgan Eyewear Master License Agreement" shall be aggregated together, which totally amounted to about HK\$1,435,000 for the year ended 31 December 2006.

Morgan Trademark License Contract

On 8 February 2006, M.D.T. (Nanjing) Garment Manufacturing Co., Limited, ("M.D.T. (Nanjing)"), a non-wholly owned subsidiary of the Company, and Morgan entered into a master license contract ("Morgan Trademark License Contract") for a term of one year commencing from 1 January 2006 to 31 December 2006, pursuant to which Morgan grants to M.D.T. (Nanjing) a non-exclusive right to use the trademark of *Morgan* for the manufacture and wholesale of the female ready-to-wear items designed and selected by Morgan ("Morgan products") in the PRC. The aforesaid wholesale of Morgan apparel products is restricted exclusively to distributors appointed and licensed by Morgan ("Distributors") within the PRC. In consideration of the license granted under the Morgan Trademark Contract, M.D.T. (Nanjing) shall pay to Morgan a monthly fee equal to 29% of the actual cash settlement of the monthly sales proceeds that it has received from the sale such Morgan apparel products to the Distributors. Morgan is a substantial shareholder of a subsidiary of the Company and is therefore a connected person of the Company under Chapter 14A of the Listing Rules.

Given the above transaction has not registered any activities for the relevant period, no payment has been made by M.D.T. (Nanjing) to Morgan for the year ended 31 December 2006.

Tenancy Agreement

On 1 March 2005, Hembly (Nanjing) Garment Manufacturing Co., Ltd. ("Hembly (Nanjing)"), a wholly-owned subsidiary of the Company, and M.D.T. (Nanjing) entered into a tenancy agreement ("Tenancy Agreement"), pursuant to which Hembly (Nanjing) agreed to lease to M.D.T. (Nanjing) the factory premises comprising a portion of office premises and staff dormitory with an area of approximately 5,263 sq.m. and a canteen with an area of approximately 1,200 sq.m. located in the PRC at a monthly rental of RMB103,623 (equivalent to about HK\$101,591), for a term of three years commencing from 10 March 2005 to 9 March 2008.

M.D.T. (Nanjing) is wholly-owned by M.D.T. Sourcing (China) Limited ("M.D.T. (China)") which in turn owned as to 51% by the Company and 49% by Morgan. Thus, M.D.T. (Nanjing) is an associate of Morgan and is therefore a connected person of the Company in light of its capacity as an associate of a substantial shareholder of a subsidiary of the Company under Chapter 14A of the Listing Rules.

For the year ended 31 December 2006, the aggregate monthly rental paid by M.D.T. (Nanjing) to Hembly (Nanjing) was about RMB1,243,476 (equivalent to about HK\$1,219,092).

The following continuing connected transactions are non-exempt continuing connected transactions under Rule 14A.35 of the Listing Rules and the respective amounts have not exceed the relevant annual cap approved by the Stock Exchange as disclosed in the Prospectus.

Production and Outsourcing Agreement

On 26 August 2004, M.D.T. (China), owned as to 51% by the Company and 49% by Morgan, and Morgan entered into a production and outsourcing agreement (as supplemented by a supplemental agreement dated 15 June 2006) (collectively the "Production and Outsourcing Agreement") for a term of three years until 25 August 2007 and shall be renewed thereafter subject to mutual agreement of both parties. Pursuant to the Production and Outsourcing Agreement, Morgan grants to M.D.T. (China) (i) the non-exclusive right to produce feminine items of clothing bearing certain trademarks of *Morgan* for Morgan in the PRC, Hong Kong and Macau, and (ii) the non-exclusive right but with the first right of refusal to source finished products, fabrics, accessories components and other raw materials for Morgan in the PRC, Hong Kong and Macau.

Details of the above transaction are set out in the Prospectus.

Morgan is a substantial shareholder of a subsidiary of the Company and is therefore a connected person of the Company under Chapter 14A of the Listing Rules.

For the year ended 31 December 2006, M.D.T. (China)'s sales to Morgan amounted to about HK\$38,222,000.

The Stock Exchange has granted the Company a waiver for a period of three years period up to 31 December 2008 from strict compliance with: (i) the announcement requirement under Chapter 14A of the Listing Rules in respect of the Morgan Timepiece Master License Agreement, the Morgan Eyewear Master License Agreement, the Morgan Trademark License Contract and the Tenancy Agreement; and (ii) the announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the Production and Outsourcing Agreement.

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

1. in the ordinary and usual course of its business;
2. on normal commercial terms or on terms less favourable to the Company than terms available to or from independent third parties; and
3. in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Pursuant to Rule 14A.38 of the Listing Rules, the Board engaged the auditors of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditors have reported their factual findings on these procedures to the Board.

DISCLOSURE UNDER RULE 13.18 AND 13.21 OF CHAPTER 13 OF THE LISTING RULES

In compliance with the Rule 13.18 and 13.21 of the Listing Rules, the following disclosures are included in respect of a loan agreement dated 27 March 2007 relating to a term loan and revolving credit facility (the "Facilities") in an aggregate amount of HK\$200,000,000 (the "Loan Agreement") made available to the Group.

The Loan Agreement includes conditions to the effect that (a) Mr. Ngok Yan Yu and his spouse, Ms. Tang Chui Yi, Janny, shall altogether remain the single largest shareholder of the Company and beneficially own (directly or indirectly) at least an unencumbered 35% of the issue share capital of the Company; (b) Mr. Ngok Yan Yu remain the chairman of the Company; and (c) Mr. Ngok Yan Yu shall be actively involved in the management and business of the Group. A breach of any of the above conditions will constitute an event of default under the Loan Agreement. If such an event of default occurs, all amounts outstanding under the Facilities may become immediately due and payable.

PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float since the listing of the shares on the Stock Exchange and as at the date of this report.

MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, sales to the Group's five largest customers accounted for 58% of the Group's total sales for the year and sales to the Group's largest customer included therein accounted for 27%.

Purchase from the Group's five largest suppliers accounted for 17% of the Group's total purchase for the year and purchase from the Group's largest supplier included therein accounted for 3%.

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

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 24 to 32 of this annual report.

AUDITORS

The accounts for the year ended 31 December 2006 have been audited by Deloitte Touche Tohmatsu who retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company.

On behalf of the Board

Mr. Ngok Yan Yu

Chairman

Hong Kong, 29 March 2007