

# report of the directors

The directors have pleasure in presenting their report and the audited financial statements of the Company and of the Group for the year ended 31 March 2007.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the Company's subsidiaries are set out in note 29 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

## RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 March 2007 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 44 to 104.

The directors have declared an interim dividend of HK0.7 cent per ordinary share which was paid on 23 March 2007. The directors of the Company do not recommend the payment of a final dividend in respect of the year ended 31 March 2007.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed on Thursday, 30 August 2007 and Friday, 31 August 2007, during these two days no transfer of shares of the Company will be registered. In order to qualify for attending and voting at the annual general meeting of the Company to be held on Friday, 31 August 2007, unregistered holders of shares of the Company should ensure that all transfers of shares of the Company accompanied by the relevant share certificates and the appropriate transfer forms must be lodged with the Company's Share Registrar in Hong Kong, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 29 August 2007.

# report of the directors

## SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out below.

### Results

	Year ended 31 March				
	2007	2006	2005	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	<b>1,774,007</b>	1,343,852	913,844	739,677	579,652
Profit before taxation	<b>158,063</b>	138,467	118,973	137,116	24,525
Taxation	<b>(23,765)</b>	(17,628)	(11,709)	(10,832)	(2,793)
Minority interests	<b>(11,206)</b>	(17,433)	(11,279)	(12,412)	2,095
Profit attributable to equity holders of the Company	<b>123,092</b>	103,406	95,985	113,872	23,827

### Assets and liabilities

	At 31 March				
	2007	2006	2005	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total assets	<b>2,223,454</b>	1,797,830	1,223,090	919,485	615,548
Total liabilities	<b>(955,793)</b>	(750,147)	(494,915)	(346,785)	(264,113)
Minority interests	<b>(22,994)</b>	(21,588)	(7,355)	(10,536)	2,383
Total equity attributable to equity holders of the Company	<b>1,244,667</b>	1,026,095	720,820	562,164	353,818

## **FIXED ASSETS AND INVESTMENT PROPERTIES**

Details of movements in fixed assets and investment properties of the Group and of the Company during the year are set out in notes 12 and 14 respectively to the financial statements.

## **SHARE CAPITAL, SHARE OPTIONS AND WARRANTS**

Details of movements in the Company's share capital, share options and warrants during the year, together with the reasons therefore, are set out in notes 26 and 27 to the financial statements.

Details of the Company's share option scheme are set out in note 27 to the financial statements.

## **PRE-EMPTIVE RIGHTS**

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

## **PURCHASE, REDEMPTION OR SALE 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.

## **RESERVES**

Details of movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity and in note 28 to the financial statements respectively.

## **DISTRIBUTABLE RESERVES**

As at 31 March 2007, the Company's reserves available for cash distribution and/or distribution in specie, comprising the contributed surplus and retained profits, amounted to approximately HK\$41,370,000. In addition, the Company's share premium account in the amount of approximately HK\$470,460,000 may be distributed in the form of fully paid bonus shares.

# report of the directors

## MAJOR CUSTOMERS AND SUPPLIERS

Sales to the five largest customers of the Group accounted for approximately 28% of the Group's total turnover for the year. In particular, sales to the largest customer of the Group accounted for approximately 8% of the Group's total turnover for the year.

Purchases from the five largest suppliers of the Group accounted for approximately 59% of the Group's total purchases for the year. In particular, purchases from the Group's largest supplier accounted for approximately 21% of the Group's total purchases for the year.

As far as the directors are aware, neither the directors of the Company nor any of their associates nor any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in any of the Group's five largest customers or five largest suppliers.

## DIRECTORS

The directors of the Company during the year were:

Executive directors:

Mr. Leung Ngok

Mr. Leung Shing

Mr. Lee Ka Yiu (retired on 5 September 2006)

Mr. Leung Siu Kan, Stephen (appointed on 5 September 2006)

Independent non-executive directors:

Mr. Jia Luqiao

Mr. Wong Kong Hon (ceased on 6 July 2007)

Mr. Yang Dong Hui

Mr. Wong Kai Cheong

In accordance with clause 87 of the Company's bye-laws, Mr. Jia Luqiao and Mr. Yang Dong Hui, the existing directors of the Company, will retire at the forthcoming annual general meeting of the Company and, being eligible, will offer themselves for re-election at the said meeting.

The Company has received annual confirmation of independence from each of Mr. Jia Luqiao, Mr. Wong Kai Cheong and Mr. Yang Dong Hui and as at the date of this report still considers them to be independent pursuant to Rule 3.13 of the Listing Rules.

## DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

### Executive directors

Mr. Leung Ngok, aged 48, is the Chairman, Chief Executive Officer and Chairman of the Executive Committee and Remuneration Committee of the Company. He founded the Group in 1983 and is responsible for the overall strategic planning and formulation of corporate policies of the Group. Prior to the founding of the Group, Mr. Leung was a production manager of a garments retailing company. Mr. Leung has over 24 years of experience in the apparel manufacturing and distribution business. Mr. Leung is the elder brother of Mr. Leung Shing, an executive director.

Mr. Leung Shing, aged 45, is the Deputy Chairman and a member of the Executive Committee of the Company and co-founder of the Group. Mr. Leung is responsible for the overall strategic planning, sales, retail and distribution operations as well as the business development and administration of the Group. Prior to the founding of the Group, Mr. Leung was a shop manager of a garments retailing company. Mr. Leung has over 24 years of experience in the retail services industry. Mr. Leung is the younger brother of Mr. Leung Ngok, an executive director.

Mr. Leung Siu Kan, Stephen, aged 59, is an executive director and a member of the Executive Committee of the Company and the Group's PRC Business Operation Manager. He is responsible for the operation management of business in the PRC. He has more than twenty years of experiences in retail and management of apparel and garment operations.

### Independent non-executive directors

Mr. Jia Luqiao, aged 67, is an independent non-executive director and a member of both the Audit Committee and Remuneration Committee of the Company. After graduated from the Capital University of Economics and Business in 1964, Mr. Jia taught at the university. From 1973 to 1992, Mr. Jia worked at Tianjin Institute of Textile Science and Technology (currently renamed as Tianjin Polytechnic University) for the positions of teacher, dean, head of department, deputy president and president respectively. Mr. Jia was the president of the Beijing Institute of Clothing Technology from August 1992 to 1994. Mr. Jia was the president of the China Textile Academy from 1995 to 2003. Since November 2003, Mr. Jia has been the chairman of the Development and Strategic Committee of the China Textile Academy.

Mr. Yang Dong Hui, aged 62, is an independent non-executive director and a member of the Audit Committee of the Company. Mr. Yang graduated from Tsinghua University in 1970 and is currently the vice president of China National Textile Industry Council (中國紡織工業協會). He has been the president of National Association of Domestic Textile Products Industry (中國家用紡織品行業協會) since 1999. Mr. Yang is also an independent non-executive director of Kingdom Holdings Limited, a listed company in Hong Kong.

Mr. Wong Kai Cheong, aged 45, is an independent non-executive director, the Chairman of the Audit Committee and a member of the Remuneration Committee of the Company. Mr. Wong is an accountant practising in Hong Kong with more than 15 years of experience in auditing, corporate finance and consultancy. He is a member of the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants. Mr. Wong is also an independent non-executive director of Coastal Greenland Limited, Continental Holdings Limited and Radford Capital Investment Limited, all of which are listed companies in Hong Kong.

# report of the directors

## Senior Management

Mr. Ng Chi Yin, aged 41, is the Financial Controller, Qualified Accountant and the Secretary of the Company. Mr. Ng is responsible for the accounting and financial control functions of the Group. He joined the Group in 1999. Mr. Ng holds a bachelor degree in Business Administration majoring in Accounting from the Chinese University of Hong Kong. Before joining the Group, Mr. Ng worked in an international accounting firm and has over 12 years of experience in auditing, accounting and finance. He is a member of the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants.

Mr. Low John Meng, aged 42, is the Group's Corporate Finance Manager and responsible for the development of the Group's investment business and treasury functions. Mr. Low joined the Group in 2002 and holds a bachelor degree in Economics from the Macquarie University, Australia. He has over 14 years of experience in banking and finance.

Ms. Yim Yuk Lam, aged 47, is the Group's Hong Kong Apparels General Manager and responsible for the sales and marketing of the Group's apparels business in Hong Kong. Ms. Yim joined the Group in 2002. She has 20 years of experiences in retail and management of apparels. She is the wife of Mr. Leung Ngok, the Chairman of the Group.

Ms. Cheung Wai Yu, aged 35, is the Group's Administration Manager and responsible for office administration. Ms. Cheung holds a bachelor degree in Industry Economics from Tam Kang University, Taiwan and joined the Group in 1996. Ms. Cheung worked for the retail operations department of a British conglomerate prior to joining the Group.

Mr. Ding Yi, aged 45, is the Group's Business Promotion Manager in the PRC and responsible for marketing in the PRC. Mr. Ding joined the Group in 2002. He holds both a bachelor degree and master degree in Science from Tongji University. He has over 13 years of experience in business development and corporate management.

Mr. Ye Zheming, aged 45, is the Group's Investment Management Manager in the PRC and responsible for financial management in the PRC. Mr. Ye joined the Group in 2004. He holds a bachelor degree in Economics from Hebei College of Geology (河北地質學院) and obtains the professional title of National Senior Economist (國家高級經濟師). Mr. Ye has 23 years of experience in financial and operation management in textile corporations in mainland China.

Mr. Ding Wei, aged 38, is the Group's Business Development Manager in the PRC and responsible for expansion and operation of the Group's apparels new business in the PRC. Mr. Ding joined the Group in April 2005. He has a bachelor degree in Business Administration awarded by Shaanxi Mechanical Institute (陝西機械學院) and the title of Internationally Registered Business Administrator (Senior) awarded by Beijing International Accreditation and Registration Institute. Mr. Ding has twelve years of experiences in expansion and management for retail and wholesale of branded apparels in the PRC.

Mr. Su Zhijun, aged 42, is the Chief Engineer in Production Technology of the Group's Texnology Nano business, responsible for the management of production technology and craft of Texnology Nano. Mr. Su joined the Group in 2003. He holds a bachelor degree in Textile and Chemical Engineering from Wuhan Textile Engineering College (武漢紡織工學院) and obtains the professional title of Textile Dying Engineer (紡織整染工程師). Mr. Su has 14 years of experience in the technology research and development and management in textile dyeing corporations in mainland China.

# report of the directors

## SHARE OPTION SCHEME

A summary of the movement of share options granted under the share option scheme of the Company during the year is as follows:

Name or category of participants	Date of grant	Exercise period	Exercise price per share HK\$	Closing price before the date of grant HK\$	Number of share options outstanding at 1 April 2006	Number of share options granted during the year	Number of share options exercised during the year	Number of share options cancelled/lapsed during the year	Number of share options outstanding at 31 March 2007
<b>Directors</b>									
Mr. Leung Shing	6 November 2006	6 November 2006 – 5 November 2009	0.255	0.25	Nil	25,000,000	Nil	Nil	25,000,000
Mr. Leung Siu Kan, Stephen	6 November 2006	6 November 2006 – 5 November 2009	0.255	0.25	Nil	25,000,000	Nil	Nil	25,000,000
<b>Other employees</b>									
In aggregate	6 November 2006	6 November 2006 – 5 November 2009	0.255	0.25	Nil	115,500,000	Nil	Nil	115,500,000
<b>Suppliers</b>									
In aggregate	6 November 2006	6 November 2006 – 5 November 2009	0.255	0.25	Nil	12,000,000	Nil	Nil	12,000,000
					Nil	177,500,000	Nil	Nil	177,500,000

Details of the share option scheme of the Company are set out in note 27 to the financial statements.

## DIRECTORS' SERVICE CONTRACTS

Each of Mr. Leung Ngok and Mr. Leung Shing, the executive directors of the Company, is engaged on a service contract with the Company which will continue unless and until terminated by either party by not less than 6 months' written notice whereas Mr. Leung Siu Kan, an executive director of the Company, is engaged on a service contract for a term of 3 years.

Save as disclosed above, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

# report of the directors

## DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year and up to the date of this report, no director is considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

## DIRECTORS' INTERESTS IN CONTRACTS

Other than those transactions disclosed in note 34 to the financial statements, no director of the Company had a significant beneficial interest, either direct or indirect, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

## DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 March 2007, the interests of the directors of the Company in the shares and underlying shares of the Company (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as 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:

(1) Interests in shares of the Company

<b>Name of director</b>	<b>Long/short position</b>	<b>Capacity</b>	<b>Number of ordinary shares of the Company interested</b>	<b>Percentage of the Company's issued share capital</b>
Mr. Leung Ngok	Long	Beneficial owner	109,221,000	3.72%
	Long	Founder of a discretionary trust	1,026,557,179 (Note)	34.94%

*Note:* These shares were owned by ACE Target Inc. as trustee of The Target Unit Trust, a unit trust of which all of the units in issue are owned by Trident Trust Company (B.V.I.) Limited as trustee of The Leung Ngok Family Trust, a discretionary trust of which the objects include Mr. Leung Ngok's family members.

Accordingly, Mr. Leung Ngok, as founder of The Leung Ngok Family Trust, was deemed to be interested in the shares owned by ACE Target Inc. in its capacity as the trustee of The Target Unit Trust under Part XV of the SFO.



# report of the directors

(2) Interests in underlying shares of the Company - physically settled unlisted equity derivatives

<b>Name of director</b>	<b>Long/short position</b>	<b>Capacity</b>	<b>Number of underlying shares in respect the share options granted</b>	<b>Percentage of the underlying shares over the Company's issued share capital</b>
Mr. Leung Shing	Long	Beneficial owner	25,000,000	0.85%
Mr. Leung Siu Kan, Stephen	Long	Beneficial owner	25,000,000	0.85%

Details of the above share options as required to be disclosed by the Listing Rules are set out in the above section headed "Share Option Scheme" and note 27 to the financial statements.

In addition to the above, as at 31 March 2007, certain directors of the Company held shares in certain subsidiaries of the Company in a non-beneficial capacity, solely for the purpose of complying with the previous requirements of a minimum of two shareholders.

Save as disclosed above, as at 31 March 2007, none of the directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which were required to be 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 he was taken or deemed to have taken under such provisions of the SFO) or which were required to be entered into the register kept by the Company pursuant to Section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES

Apart from as disclosed under the heading "Directors' Interests in Shares and Underlying Shares" above and under the heading "Share Option Scheme", at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Company's directors, or chief executives or their spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporates.

# report of the directors

## SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 March 2007, the following interests of 5% or more in the shares and underlying shares of the Company were recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name of substantial shareholder	Long/short position	Capacity	Number of ordinary shares of the Company interested	Note	Percentage of the Company's issued share capital
ACE Target Inc.	Long	Trustee	1,026,557,179	(1)	34.94%
Trident Trust Company (B.V.I.) Limited	Long	Trustee	1,026,557,179	(1)	34.94%
Ms. Yim Yuk Lam	Long	Interest of spouse	1,135,778,179	(2)	38.66%
ABN AMRO Holding N.V.	Long	Interest of controlled corporation	208,333,333	(3)	
	Long	Custodian corporation/ approved lending agent	<u>546,000</u>	(4)	7.11%

### Notes:

- (1) Such interest was also disclosed as the interest of Mr. Leung Ngok in the above section headed "Directors' Interests in Shares and Underlying Shares".
- (2) Ms. Yim Yuk Lam was deemed to be interested in the 1,135,778,179 shares of the Company through interest of her spouse, Mr. Leung Ngok.
- (3) As ABN AMRO Bank N.V. ("ABN Bank") was wholly controlled by ABN AMRO Holding N.V. ("ABN Holding"), ABN Holding was deemed to be interested in the 208,333,333 shares of the Company in which ABN Bank had a direct interest.
- (4) As ABN AMRO Mellon Global Securities Services B.V. ("ABN Securities") was controlled as to 50% by ABN Bank, ABN Bank and ABN Holding were deemed to be interested in the 546,000 shares of the Company (in lending pool) in which ABN Securities had a direct interest.

Save as disclosed above, as at 31 March 2007, no persons, other than the directors of the Company whose interests are set out in the above section headed "Directors' Interests in Shares and Underlying Shares", had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

## CORPORATE GOVERNANCE

Details of the corporate governance are set out in the section headed "Corporate Governance Report" in this annual report.

## PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company, as at the date of this report, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

## EVENT AFTER THE BALANCE SHEET DATE

Details of the significant event after the balance sheet date of the Group are set out in note 35 to the financial statements.

## GENERAL DISCLOSURE OBLIGATION UNDER RULE 13.21 OF THE LISTING RULES

On 18 July, 2005, a wholly owned subsidiary of the Company (the "Borrower"), had entered into an agreement (the "Facility Agreement (A)") relating to a term loan facility of up to HK\$220,000,000 and a revolving facility of up to HK\$110,000,000 with a syndicate of banks (the "Lenders"). The termination date of Facility Agreement (A) is the date falling 36 months after the date of Facility Agreement (A). On 27 November 2006, the same Borrower had entered into an agreement ("Facility Agreement (B)") relating to a term loan facility of up to HK\$30,000,000 and a revolving facility of up to HK\$10,000,000 with a bank (the "Bank"). The termination date of Facility Agreement (B) is the date falling 30 months after the date of Facility Agreement (B).

Facility Agreement (A) and Facility Agreement (B) have imposed an obligation on the Borrower to procure that Mr. Leung Ngok (a director of the Company), his family members, related trusts and companies controlled by him shall at all times remain the direct or indirect beneficial owner of at least 30% of the total issued share capital of the Company and the beneficial owner of single largest shareholding block in the total issued share capital of the Company. A breach of the aforesaid obligation will constitute an event of default under Facility Agreement (A) and Facility Agreement (B). Upon the occurrence of an event of default under Facility Agreement (A) and Facility Agreement (B), the loans outstanding, together with the interest accrued thereon, be immediately due and payable.

As the above specific performance obligation as imposed under Facility Agreement (A) and Facility Agreement (B) continues to exist as at the year end, the Company is required to make the above disclosure pursuant to Rule 13.21 of the Listing Rules. In addition, the above performance obligation has been duly satisfied up to the year end.

## AUDITORS

RSM Nelson Wheeler will retire and a resolution for their re-appointment as auditors of the Company will be proposed at the Company's forthcoming annual general meeting.

On behalf of the Board

**Leung Ngok**

*Chairman*

Hong Kong, 27 July 2007