



DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 March 2001.

Principal Activities

The Company is an investment holding company. Its subsidiaries are principally engaged in the provision of fabric knitting, dyeing and finishing services and the production and sale of finished knitted fabric.

Results

The results of the Group for the year ended 31 March 2001 are set out in the consolidated income statement on page 24. The directors do not recommend the payment of a dividend and propose that the profit for the year be retained.

Share Capital

Details of movements in the share capital of the Company during the year are set out in note 16 to the financial statements.

Reserves

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

Financial Summary

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 8.

Property, Plant and Equipment

During the year, the Group acquired property, plant and equipment at a total cost of approximately HK\$49 million to expand its business. Details of movements in the property, plant and equipment of the Group during the year are set out in note 8 to the financial statements.

Investment Properties

Details of movements in the investment properties of the Group during the year are set out in note 9 to the financial statements.



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Directors and Service Contracts

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Mr. Li Ming Hung (*Chairman*)

Mr. Chen Tien Tui (*Managing Director*)

Mr. So Kam Wah

Mr. Lee Yuen Chiu, Andy (appointed on 10 April 2001)

Mr. Choi Lin Hung (appointed on 10 April 2001)

Independent non-executive directors:

Mr. Kan Ka Hon

Mr. Phaisalakani Vichai (Andy Hung)

In accordance with the Company's Bye-laws, Mr. Lee Yuen Chiu, Andy and Mr. Choi Lin Hung, who have been appointed since the last Annual General Meeting and before the date of this report, will retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election. All other directors continue in office.

The directors being proposed for re-election at the forthcoming annual general meeting do not have service contracts with the Company or any of its subsidiaries which are not determinable by the Group within one year without payment of compensation other than statutory compensation.

The independent non-executive directors have been appointed for a term subject to retirement by rotation as required by the Company's Bye-laws.

Directors' Interests in Contracts and Connected Transactions

During the year, the Group had transactions with related parties as follows:

Name of company	Notes	Nature of transactions	Amount HK\$'000
Denin Trading Company Limited	(i)	Purchases of raw materials by the Group	2,528
Verdure Enterprises Limited	(ii)	Operating lease rental paid by the Group	108



DIRECTORS' REPORT

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Directors' Interests in Contracts and Connected Transactions *(Continued)*

In addition, during the year, Pearl Garden Pacific Limited (note iii) and Madian Star Limited (note iv), two controlling shareholders of the Company, together subscribed for an aggregate of 11,520,000 new shares in the Company at the price of HK\$1.00 each, details of which are disclosed in note 16 (ii).

Furthermore, at 24 May 2001, Pearl Garden Pacific Limited (note iii) and Madian Star Limited (note iv), two controlling shareholders of the Company, together subscribed for an aggregate of 55,296,000 new shares in the Company at the price of HK\$0.25 each, details of which are disclosed in note 26 (ii).

Notes:

- (i) A company in which Mr. Chen Tien Tui has a 33 $\frac{1}{3}$ % beneficial interest.
- (ii) A company in which the wife and two sisters of Mr. Li Ming Hung jointly hold the entire beneficial interest.
- (iii) The entire issued share capital of Pearl Garden Pacific Limited is owned by a discretionary trust, the object of which include Mr. Li Ming Hung and his family.
- (iv) The entire issued share capital of Madian Star Limited is owned by a discretionary trust, the object of which include Mr. Chen Tien Tui and his family.

In the opinion of the independent non-executive directors of the Company, these transactions were carried out on normal commercial terms in the ordinary course of business of the Group.

Other than as disclosed above, no other contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly and indirectly, subsisted at the end of the year or at any time during the year.



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Directors' Interests in Securities

At 31 March 2001, the interests of the directors in the shares of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Hong Kong Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

Name of director	Number of shares of HK\$0.01 each	
	Personal interests	Other interests
Mr. Li Ming Hung (Note (1))	—	60,000,000
Mr. Chen Tien Tui (Note (2))	161,600	60,000,000
Mr. Phaisalakani Vichai (Andy Hung)	400,000	—

Notes:

- (1) These shares were owned by Pearl Garden Pacific Limited, a company beneficially owned by a discretionary trust the objects of which include Mr. Li Ming Hung and his family.
- (2) The shares described as "other interests" were owned by Madian Star Limited, a company beneficially owned by a discretionary trust the objects of which include Mr. Chen Tien Tui and his family.

No director held an interest in the securities of any subsidiaries of the Company or any of its associated corporations as defined in the SDI Ordinance as at 31 March 2001 except for the following:

- (a) One nominee share in each of Victory City Company Limited and Grace Link Enterprises Limited held by Mr. Li Ming Hung in trust for the Group;
- (b) Each of Messrs. Li Ming Hung and Chen Tien Tui holds 4,000,000 non-voting deferred shares in Victory City Company Limited; and
- (c) Each of Messrs. Li Ming Hung and Chen Tien Tui holds 1,300 redeemable non-voting preference shares in Victory City Overseas Limited.

Other than as disclosed above, none of the directors, or their associates, had any interests in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance, and none of the directors, or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.



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Substantial Shareholders

At 31 March 2001, the register of substantial shareholders maintained by the Company under Section 16(1) of the SDI Ordinance showed that, other than the interests disclosed above in respect of the directors, the Company has not been notified of any interests representing 10% or more of the Company's issued share capital.

Directors' Rights to Acquire Shares or Debentures

Other than the share option scheme of the Company as detailed in note 16 to the financial statements, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company or their associates to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate. No option has been granted under this scheme up to the date of this report.

Purchase, Sale or Redemption of the Company's Listed Securities

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

Code of Best Practice

The Company has complied throughout the year ended 31 March 2001 with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Pre-Emptive Rights

There is no provision for pre-emptive rights under the Company's Bye-laws although there are no restrictions against such rights under the laws in Bermuda.

Donations

During the year, the Group made charitable donations totalling HK\$73,000.

Post Balance Sheet Events

Details of the significant post balance sheet events are set out in note 26 to the financial statements.



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Auditors

A resolution to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Li Ming Hung

CHAIRMAN

Hong Kong

11 July 2001