

Report of the Directors

The directors present their report and the audited financial statements of the Company and of the Group for the year ended 31 March 2004.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 16 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 2004 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 18 to 50.

An interim dividend of HK0.45 cents per ordinary share and a special dividend of HK0.75 cents per ordinary share were paid on 12 January 2004.

The directors do not recommend the payment of any final dividend in respect of the year.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The proceeds from the Company's issue of new shares at the time of its listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in November 2002, after deduction of related issuance expenses, amounted to approximately HK\$28.1 million. These proceeds were partly applied up to 31 March 2004 in accordance with the proposed applications set out in the Company's listing prospectus dated 23 October 2002 (the "Prospectus"), as follows:

- approximately HK\$12.5 million for the development and expansion of the Group's distribution network, including franchised and authorised distributors, and its sales control computer systems, in the People's Republic of China (the "PRC");
- approximately HK\$5.0 million for the design, development and promotion of the Group's "LeRoi" products; and
- approximately HK\$4.0 million for the development of a new line of the Group's products specially designed for ladies aged between 16 and 25.

The remaining net proceeds as at 31 March 2004 of approximately HK\$6.6 million were deposited in a current account with a bank in Hong Kong. The directors are of the opinion that the remaining proceeds will be applied in future for their intended uses as set out in the Prospectus.

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SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the Company's prospectus dated 23 October 2002 and the audited financial statements and reclassified as appropriate, prepared on the basis set out therein and in note 4 to the financial statements, is set out on pages 51 to 52 of this annual report. This summary does not form part of the audited financial statements.

FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note 15 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

There were no movements in either the Company's authorised or issued share capital during the year. No share options were granted by the Company during the year (note 24).

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association 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 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 Company and of the Group during the year are set out in note 25 to the financial statements and in the consolidated summary statement of changes in equity, respectively.

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DISTRIBUTABLE RESERVES

At 31 March 2004, the Company's reserves available for distribution, calculated in accordance with the Companies Law (Revised) of the Cayman Islands, amounted to HK\$58,963,000. This includes the Company's share premium account in the amount of HK\$58,932,000, which may be distributed, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for less than 30% of the total sales for the year. In addition, the Group made 100% of its total purchases from two suppliers and purchases from the largest supplier included therein amounted to 77%.

None of the directors of the Company or any of their associates or 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 the Group's five largest customers and suppliers.

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Mr. So Chi Hiu
Ms. Yeung Sau Han, Agnes
Mr. So Yuen Chun

Independent non-executive directors:

Mr. Lok Shing Kwan, Sunny
Mr. Wong Wing Hang, Henry

Subsequent to the balance sheet date, on 21 June 2004, Mr. So Yuen Chun resigned as an executive director of the Company. On 30 July 2004, Mr. Ng Cheuk Fan, Keith and Mr. Lim Kwok Choi were appointed as executive directors of the Company. On 30 September 2004, Mr. Chiang Chi Kin, Stephen was appointed as independent non-executive director and audit committee member of the Company.

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DIRECTORS (Continued)

In accordance with article 87 of the Company's articles of association, Mr. Lok Shing Kwan, Sunny will retire from office by rotation and, being eligible, will offer himself for re-election at the forthcoming annual general meeting. In accordance with article 86(3) of the Company's articles of association, Mr. Ng Cheuk Fan, Keith, Mr. Lim Kwok Choi and Mr. Chiang Chi Kin, Stephen will retire from office and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting. Two of the independent non-executive directors are not appointed for specific terms but are subject to retirement by rotation in accordance with the Company's articles of association.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Executive directors

Mr. So Chi Hiu, aged 53, is the chairman of the Company and founder of the Group. Mr. So has over 26 years of experience in the design, manufacturing and sale of garments. He is responsible for the Group's overall strategy formulation. Before setting up the Group, Mr. So was a garment technician.

Ms. Yeung Sau Han, Agnes, aged 38, is the design director of the Company. Ms. Yeung graduated from the Hong Kong Polytechnic (now the Hong Kong Polytechnic University) with a higher diploma in fashion design. Before joining the Group in 1998, Ms. Yeung worked in various garment companies for 10 years. She is responsible for the design operations of the Group. She is the sister-in-law of Mr. So Chi Hiu.

Mr. So Yuen Chun, aged 32, was the finance director of the Company. He graduated from City University of Hong Kong with a higher diploma in accounting. He is a member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. Before joining the Group in 1999, he worked in the audit and accounting field for five years. He is the nephew of Mr. So Chi Hiu and Ms. Yeung Sau Han, Agnes. Mr. So Yuen Chun resigned as an executive director of the Company on 21 June 2004.

Mr. Ng Cheuk Fan, Keith, aged 43, who graduated from the University of Alberta, Canada with a Bachelor degree in commerce, majoring in accounting. He also received a Master of Commerce degree in Professional Accounting from the University of New South Wales, Australia. Mr. Ng is a member of CPA Australia and the Hong Kong Institute of Certified Public Accountants. Mr. Ng has over 17 years of accounting experience and previously served as an executive director of Fujian Group Limited between April 1996 and July 2001 and Fu Hui Holdings Limited between May 1999 and September 2001, both being companies listed on the Stock Exchange. He was appointed as an executive director of the Company on 30 July 2004.

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DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES (Continued)

Executive directors (continued)

Mr. Lim Kwok Choi, aged 41, who holds a Master of Business Administration degree and a postgraduate diploma in management from the Asia International Open University (Macau). He has over 10 years of experience in banking and finance, hotel management and import/export trade working as senior management for both private and listed companies. Mr. Lim previously served as a non-executive director of First Natural Foods Holdings Limited from 2002 to 2003, which is a company listed on the Stock Exchange. He was appointed as an executive director of the Company on 30 July 2004.

Independent non-executive directors

Mr. Lok Shing Kwan, Sunny, aged 38, has over 11 years of experience in finance, accounting, corporate and taxation affairs. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a member of CPA Australia. Mr. Lok is also an independent non-executive director of Cosmopolitan International Holdings Limited, a company listed on the Stock Exchange.

Mr. Wong Wing Hang, Henry, aged 36, is a solicitor of the High Court of Hong Kong. Mr. Wong is also a partner of Michael Li & Co., a law firm in Hong Kong.

Mr. Chiang Chi Kin, Stephen, aged 35, is a Qualified Solicitor of the High Court of Hong Kong since 1998 and has over 6 years of experience in corporate and commercial law. Since 2002, he had held management positions with two companies listed on Stock Exchange responsible primarily for legal and company secretarial matters. From August 2003 to May 2004, he was the Executive Director of GP NanoTechnology Group Limited, a company listed on the GEM Board of the Stock Exchange, responsible for legal and compliance matters and business development. He was appointed as an independent non-executive director and audit committee member of the Company with effect from 30 September 2004.

Senior management

Mr. Shui Fuk Yip, aged 41, is the quality control manager of the Group. Mr. Shui joined the Group in 1990. He has over 16 years of experience in quality control in fashion manufacturing. He is the brother-in-law of Mr. So Chi Hiu.

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DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES (Continued)

Senior management (continued)

Ms. Wong Hung Ying, aged 40, is the sales and marketing manager of the Group. Ms. Wong joined the Group in 1994. She has over 11 years of experience in sales and marketing.

Mr. Ng Kwok Kin, aged 53, is the administrative manager of the Group. Mr. Ng joined the Group in 1996. Mr. Ng has over 7 years of experience in administration.

DIRECTORS' SERVICE CONTRACTS

Mr. So Chi Hiu, Mr. So Yuen Chun and Ms. Yeung Sau Han, Agnes have entered into service contracts with the Company for an initial term of three years commencing from 1 October 2002, which will continue thereafter until terminated by either party giving not less than three months' notice in writing to the other party. Subsequent to the balance sheet date, on 21 June 2004, the service agreement with Mr. So Yuen Chun was terminated and Mr. So Yuen Chun resigned as an executive director on 21 June 2004.

Apart from the foregoing, 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 of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Apart from the transactions disclosed in note 28 to the financial statements, no director had a material interest, either direct or indirect, 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 year.

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DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 March 2004, the interests and short positions of the directors in the share capital of the Company or its associated corporations (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 for Securities Transactions by Directors of Listed Companies (the "Model Code"), were as follows:

(a) Long positions in ordinary shares of the Company:

Name of director	Nature of interest	Number of shares held	Percentage of the Company's issued share capital
Mr. So Chi Hiu	Deemed (Note)	424,024,000	52.37

Note: These shares were held by Taco Holdings Limited, a company incorporated in the British Virgin Islands, the entire issued share capital of which is held and beneficially owned by Mr. So Chi Hiu.

(b) Associated Corporation

As mentioned above, Mr. So Chi Hiu beneficially owns the entire issued share capital, represented by 1,000 shares of Taco Holdings Limited, the Company's holding company.

In addition to the above, Mr. So Chi Hiu has non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, none of the directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the share option scheme disclosures in note 24 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Report of the Directors

SHARE OPTION SCHEME

Details of the share option scheme of the Company are set out in note 24 to the financial statements.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 March 2004, the following interests of 5% or more of the issued share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Taco Holdings Limited (Note 1)	Directly beneficially owned	424,024,000	52.37
Martin Currie China Hedge Fund Limited	Directly beneficially owned	93,176,000	11.51
Martin Currie Investment Management Limited (Note 2)	Deemed	93,176,000	11.51
UBS AG	Directly beneficially owned	93,176,000	11.51
PAM(L) Equities Asian Growth (Investment Fund)	Directly beneficially owned	74,560,000	9.21

Notes:

1. The interest in the name of Taco Holdings Limited was also disclosed as interest of Mr. So Chi Hiu in the above section headed "Directors' Interests and Short Positions in Shares and Underlying Shares".
2. Martin Currie Investment Management Limited was the investment manager of Martin Currie China Hedge Fund Limited.

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

CONNECTED TRANSACTIONS

Save as disclosed in note 28 to the financial statements, there are no other transactions which should be disclosed as connected transactions in accordance with the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

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DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year and up to the date of this report, no directors were considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules, other than those businesses of which the directors of the Company were appointed as directors to represent the interests of the Company and/or the Group.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules throughout the accounting period covered by the annual report, except that two of the independent non-executive directors of the Company are not appointed for specific terms, but are subject to retirement by rotation at the annual general meetings in accordance with the Company's memorandum and articles of association.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three independent non-executive directors of the Company. The present members of the audit committee are Mr. Lok Shing Kwan, Sunny, Mr. Wong Wing Hang, Henry and Mr. Chiang Chi Kin, Stephen.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

So Chi Hiu

Chairman

Hong Kong

21 October 2004