

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 December 2004.

Group reorganisation

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 26 November 2003 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a reorganisation scheme to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies now comprising the Group on 24 August 2004 (the "Group Reorganisation"). Further details of the Group Reorganisation and the subsidiaries acquired pursuant thereto are set out in notes 1 and 15 to the financial statements and in the prospectus of the Company dated 14 September 2004 (the "Prospectus").

The Company's shares have been listed on the Stock Exchange since 23 September 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 15 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 December 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 28 to 77.

The directors recommend the payment of a final dividend of HK1.6 cents per ordinary share in respect of the year, to shareholders on the register of members on 23 May 2005. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the capital and reserves section of the balance sheet.

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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 in September 2004, after deduction of related issue expenses, amounted to approximately HK\$186.2 million. These proceeds were partially utilised during the year ended 31 December 2004 in accordance with the proposed applications set out in the Prospectus, as follows:

- approximately HK\$29.5 million was used for the expansion of production capacity, of which approximately HK\$12.1 million was used for the acquisition of additional fabric dyeing tanks, and approximately HK\$17.4 million was used for the construction of factory buildings for such an expansion;
- approximately HK\$27.3 million was used for the installation of an additional power and steam generator;
- approximately HK\$4 million was used for the purchase of additional machinery required for the yarn dyeing operation;
- approximately HK\$1.5 million was used for the expansion of the marketing distribution network;
- approximately HK\$1 million was used for product development; and
- approximately HK\$3 million was applied as additional general working capital of the Group.

The remaining net proceeds at 31 December 2004, of approximately HK\$119.9 million, were placed as bank deposits in Hong Kong. The directors intend to use the net proceeds in the manner as disclosed in the Prospectus.

Summary financial information

A summary of the published results and assets and liabilities of the Group for the last four financial years, as extracted from the audited financial statements and the prospectus of the Company dated 14 September 2004, is set out on page 78. 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 14 to the financial statements.

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Share capital and share options

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 24 and 25 to the financial statements, respectively.

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 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

The listing of the Company's shares commenced on 23 September 2004. Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period from 23 September 2004 to 31 December 2004.

Reserves

Details of movements in the reserves of the Company and of the Group during the year are set out in note 26(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

Distributable reserves

At 31 December 2004, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to HK\$535,974,000, of which HK\$10,240,000 has been proposed as a final dividend for the year. The amount of HK\$535,974,000 includes the Company's share premium account and capital reserve of HK\$524,436,000 in aggregate at 31 December 2004, 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.

Charitable contributions

During the year, the Group made charitable contributions totalling HK\$521,000.

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Major customers and suppliers

In the year under review, sales to the Group's five largest customers accounted for 60.9% (2003: 65.4%) of the total sales for the year and sales to the largest customer included therein amounted to 30.8% (2003: 36.2%). Purchases from the Group's five largest suppliers accounted for 39.3% (2003: 27.5%) of the total purchases for the year and purchases to the largest supplier included therein amounted to 10.9% (2003: 6.9%).

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/or five largest suppliers during the year.

Directors

The directors of the Company during the year were:

Executive directors:

Mr. Tai Chin Chun	(appointed on 17 February 2004)
Mr. Tai Chin Wen	(appointed on 17 February 2004)
Madam Cheung So Wan	(appointed on 17 February 2004)
Madam Wong Siu Yuk	(appointed on 17 February 2004)

Independent non-executive directors:

Mr. Chong Chau Lam	(appointed on 30 March 2004)
Madam Chu Hak Ha, Mimi	(appointed on 30 March 2004)
Mr. Chan Yuk Tong	(appointed on 30 March 2004)

In accordance with article 87 of the Company's articles of association, Mr. Tai Chin Wen and Madam Cheung So Wan will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting. The independent non-executive directors are appointed for terms of three years.

The Company has received annual confirmations of independence from Mr. Chong Chau Lam, Madam Chu Hak Ha, Mimi and Mr. Chan Yuk Tong, and as at the date of this report still considers them to be independent.

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Directors' and senior management's biographies

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 14 to 17 of the annual report.

Directors' service contracts

Each of the executive directors and the independent non-executive directors has a service contract with the Company for a term of three years which commenced on 1 September 2004 and is subject to termination by either party giving not less than seven days' and one month's written notice, respectively.

Under the service contracts, after each complete year of service, the remuneration payable to each of the executive directors may, subject to the discretion of the Board, be increased by not more than 20% and the executive directors are entitled to a discretionary bonus provided that the total amount of bonuses payable to all directors for that year shall not exceed 5% of the consolidated profit after tax of the Group.

Emolument policy and Directors' remuneration

The Group's emolument policies are formulated based on the performance of individual employees and are reviewed regularly. Subject to the Group's profitability, the Group may also provide discretionary bonuses to its employees as an incentive for their contribution to the Group. The primary goal of the remuneration policy with regard to the remuneration packages of the Group's executive directors is to enable the Group to retain and motivate executive directors by linking their compensation with performance as measured against corporate objectives achieved.

The principal elements of the Group's remuneration packages include basic salary, discretionary bonus and housing benefit.

Directors' interests in contracts

Save as disclosed in the related party transaction disclosures in note 31 to the financial statements, 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 year.

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Directors' interests and short positions in shares and underlying shares

At 31 December 2004, the interests and short positions of the directors in the share capital and underlying shares 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 Issuers (the "Model Code"), were as follows:

Long positions in ordinary shares of the Company:

Name	Notes	Capacity and nature of interest	Number of shares	Percentage of the Company's issued share capital
Mr. Tai Chin Chun	1	Through a controlled corporation	384,000,000	60
Mr. Tai Chin Wen	2	Through a controlled corporation	96,000,000	15
Madam Cheung So Wan	3	Through spouse	384,000,000	60
Madam Wong Siu Yuk	4	Through spouse	96,000,000	15

Long positions in shares of an associated corporation:

Name of director	Name of associated corporation	Relationship with the Company	Share	Number of shares	Capacity and nature of interest	Percentage of the associated corporation's issued share capital
Mr. Tai Chin Chun	Exceed Standard Limited ("Exceed Standard")	Ultimate holding company	Ordinary share	1 share of US\$1	Directly beneficially owned	100

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Directors' interests and short positions in shares and underlying shares *(continued)*

Notes:

1. The shares are held by Exceed Standard, a company incorporated in the British Virgin Islands (the "BVI") and beneficially owned by Mr. Tai Chin Chun, the chairman and an executive director of the Company. Mr. Tai Chin Chun is the younger brother of Mr. Tai Chin Wen and Madam Cheung So Wan is the spouse of Mr. Tai Chin Chun.
2. The shares are held by Power Strategy Limited ("Power Strategy"), a company incorporated in the BVI and beneficially owned by Mr. Tai Chin Wen.
3. Madam Cheung So Wan is deemed to be interested in these shares through the interest of her spouse, Mr. Tai Chin Chun.
4. Madam Wong Siu Yuk is deemed to be interested in these shares through the interest of her spouse, Mr. Tai Chin Wen.

The interests of the directors in the share options of the Company are separately disclosed in note 25 to the financial statements.

Save as disclosed above, as at 31 December 2004, 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 25 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.

Share option scheme

Details of the Company's share option scheme and share options outstanding at the balance sheet date are included in note 25 to the financial statements.

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Substantial shareholders' and other persons' interests in shares and underlying shares

As at 31 December 2004, the following interests of 5% or more of the issued share capital of the Company (other than the directors 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 (Note)	Number of ordinary shares held	Percentage of the Company's issued share capital
Exceed Standard	Directly beneficially owned	384,000,000	60
Power Strategy	Directly beneficially owned	<u>96,000,000</u>	<u>15</u>

Note: The relationship between Exceed Standard and Mr. Tai Chin Chun, as well as that between Power Strategy and Mr. Tai Chin Wen are disclosed under the heading "Directors' interests and short positions in shares and underlying shares" above.

The details of the share options outstanding during the year are separately disclosed in note 25 to the financial statements.

Save as disclosed above, as at 31 December 2004, no person, other than the directors of the Company, whose interests are set out in the section headed "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.

Sufficiency of public float

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

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Code of Best Practice

In the opinion of the directors, the Company has complied 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 (the “Listing Rules”), since the date of the listing of the Company’s shares on the Stock Exchange.

Model Code for Securities Transactions

The Company has adopted the Model Code as the Company’s code of conduct for dealings in securities of the Company by the directors. Based on specific enquiry of the Company’s directors, the directors have complied with the required standard set out in the Model Code since the date of the listing of the Company’s shares on the Stock Exchange.

Audit committee

The Company has an audit committee which was established in compliance with Rule 3.21 of the Listing Rules for the purpose 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.

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

Tai Chin Chun

Chairman

Hong Kong

21 April 2005