

## REPORT OF THE DIRECTORS

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The directors present their annual report and the audited financial statements of the Company for the year ended 31 March 2005.

### PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Company's subsidiaries are set out in note 16 to the financial statements.

### RESULTS

The results of the Group are set out in the consolidated income statement on page 17.

The directors of the Company do not recommend the payment of a dividend.

### MAJOR SUPPLIERS AND CUSTOMERS

The largest supplier of the Group by itself and together with the other four largest suppliers accounted for approximately 14% and 55%, respectively, of the Group's purchases for the year under review.

The largest customer of the Group by itself and together with the other four largest customers accounted for approximately 30% and 78%, respectively, of the Group's turnover for the year under review.

None of the directors, their associates or any shareholder which, to the knowledge of the directors, owns more than 5% of the Company's share capital has a beneficial interest in the Group's five largest suppliers or customers.

### PRINCIPAL SUBSIDIARIES

The details of the Company's principal subsidiaries are set out in note 16 to the financial statements.

### SHARE CAPITAL

The details of the Company's share capital are set out in note 25 to the financial statements.

### PROPERTY, PLANT AND EQUIPMENT

During the year, the Group spent approximately HK\$26,308,000 on acquisition of property, plant and equipment, of which approximately HK\$14,529,000 was related to acquisition of subsidiaries. The details of the movements in property, plant and equipment of the Group during the year are set out in note 14 to the financial statements.

### DIRECTORS

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

#### Executive directors:

Koon Wing Yee - Chairman and Chief Executive Officer (re-designated from President to Chairman on 5 May 2005)  
Tsang Yiu Kai - Vice Chairman (re-designated from Vice President to Vice Chairman on 5 May 2005)  
Lui Yuk Chu

#### Independent non-executive directors:

Kan Ka Hon  
Kwong Jimmy Cheung Tim  
Lau Sin Ming (appointed on 20 September 2004)

In accordance with the Company's Bye-law 102(B), Mr. Lau Sin Ming holds office until the forthcoming annual general meeting of the Company and, being eligible, offers himself for re-election.

In accordance with the Company's Bye-law 99, Mr. Tsang Yiu Kai retires by rotation and, being eligible, offers himself for re-election.

None of the directors has a service contract which is not determinable by the Company within one year without payment of compensation (other than statutory compensation). The independent non-executive directors are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's Bye-laws.

The Company has received annual confirmation from each of the independent non-executive directors as regards their independence to the Company and considers that each of the independent non-executive directors is independent to the Company.

### DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS

Pursuant to Chapter 14A of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the following connected transactions of the Company are required to be disclosed in the annual report of the Company:

1. On 5 March 2004, Best Ability Limited, a wholly-owned subsidiary of the Company, as purchaser entered into an agreement with Easyknit International Trading Company Limited ("EITC"), a wholly-owned subsidiary of Easyknit International Holdings Limited ("Easyknit"), as vendor whereby Best Ability Limited conditionally agreed to purchase from EITC all the issued shares of Po Cheong International Enterprises Limited ("Po Cheong") at a consideration of HK\$65,000,000 (the "Acquisition"). The consideration for the Acquisition has been subsequently adjusted downwards to HK\$38,879,778 (the "Adjustment"). Po Cheong, together with its subsidiary, is principally engaged in the business of bleaching and dyeing.

Easyknit is a controlling shareholder of the Company. EITC, being an associate (as defined under the Listing Rules) of Easyknit, is a connected person of the Company. The Acquisition constituted a major and connected transaction for the Company under the Listing Rules and was approved by the independent shareholders at the special general meeting of the Company held on 10 May 2004. Completion of the Acquisition took place on 17 May 2004. Details of the Acquisition and the Adjustment are set out in the circular of the Company dated 23 April 2004 and the joint announcement of Easyknit and the Company dated 16 June 2005, respectively.

2. On 15 June 2004, the Company entered into an agreement (the "LTC Agreement") with Mr. Louie Tsz Chung ("Mr. Louie") and an agreement (the "KPF Agreement") with Ms. Koon Po Fun ("Ms. Koon"), pursuant to which, amongst other things, the Group has agreed to sell fabrics and provide bleaching and dyeing services to companies (the "LTC Companies") controlled by Mr. Louie (the "LTC Transactions") and companies (the "KPF Companies") controlled by Ms. Koon (the "KPF Transactions") respectively for the period from 17 May 2004 to 31 March 2007 subject to respective caps. In addition, under the terms of the LTC Agreement and the KPF Agreement, the Company has agreed to grant trade credit to the LTC Companies and the KPF Companies in respect of the LTC Transactions and the KPF Transactions respectively. Such trade credit is unsecured and interest free with a credit period of 60 days.

Mr. Louie is the nephew of Ms. Lui Yuk Chu, a director of the Company, and Ms. Koon is the sister of Mr. Koon Wing Yee, a director of the Company. Pursuant to the Listing Rules, Mr. Louie has been deemed to be a connected person of the Company and Ms. Koon is a connected person of the Company. The LTC Transactions and the KPF Transactions constitute non-exempt continuing connected transactions of the Company under the Listing Rules and were approved by the independent shareholders at the special general meeting of the Company held on 25 August 2004. Details of the LTC Transactions and the KPF Transactions are set out in the circular of the Company dated 26 July 2004.

The LTC Transactions and the KPF Transactions for the period from 17 May 2004 to 31 March 2005 amounted to approximately HK\$7,549,000 and approximately HK\$16,265,000, respectively.

The Board, including the independent non-executive directors of the Company, has reviewed and confirmed that the LTC Transactions and the KPF Transactions for the period from 17 May 2004 to 31 March 2005 were entered into:

- (i) in the ordinary and usual course of business of the Group;
- (ii) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and
- (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Details of other related party transactions undertaken up by the Group in the normal course of business during the year ended 31 March 2005, which do not constitute connected transactions of the Company required to be disclosed under the Listing Rules, are provided under note 13 to the financial statements.

Save as disclosed above, there was no other contract 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 or indirectly, subsisting at the end of the year or at any time during the year.

**CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS**

Other than the contracts disclosed in the section heading "Directors' Interest in Contracts and Connected Transactions", there was no contract of significance between the Company or its subsidiaries and a controlling shareholder or any of its subsidiaries subsisting during or at the end of the year. Furthermore, there was no contract of significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder or any of its subsidiaries.

**DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES, UNDERLYING SHARES AND CONVERTIBLE BONDS**

As at 31 March 2005, the interests and short positions of the directors and the chief executives of the Company and their respective associates in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company under 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:

Interests in the Company (long positions):

Name of director	Capacity	Number of ordinary shares held	Approximate percentage to issued ordinary shares of the Company
Mr. Koon Wing Yee ( <i>Note</i> )	Interest of spouse	128,259,324	35.93%
Ms. Lui Yuk Chu ( <i>Note</i> )	Beneficiary of a trust	128,259,324	35.93%

*Note:* The 128,259,324 shares related to the same block of shares in the Company. These shares were beneficially owned by Landmark Profits Limited which was a wholly-owned subsidiary of Easyknit. Magical Profits Limited was interested in approximately 36.74% of the issued share capital of Easyknit. Magical Profits Limited was wholly-owned by Accumulate More Profits Limited which in turn was wholly-owned by Trustcorp Limited as trustee of The Magical 2000 Trust (the beneficiaries of which include Ms. Lui Yuk Chu and her family members other than spouse). Mr. Koon Wing Yee, being the spouse of Ms. Lui Yuk Chu, was deemed to be interested in the 128,259,324 shares by virtue of the SFO.

Save as disclosed above, as at 31 March 2005, none of the directors or chief executives of the Company or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which had been recorded in the register 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.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

(a) Share option schemes of the Company:

Details of the Company's share option schemes are set out in note 26(a) to the financial statements.

No share options were granted to, or exercised by, the directors during the year. There was no outstanding option granted to the directors at the beginning and at the end of the year.

The total number of shares available for issue under the Company's share option schemes as at the date of this report is 5,625,000, representing approximately 1.6% of the issued capital of the Company as at that date.

(b) Share option schemes of subsidiaries:

Details of the share option schemes of subsidiaries are set out in note 26(b) to the financial statements.

No share options have been granted under the share option schemes of subsidiaries since their adoption.

Save as disclosed above, at no time during the year ended 31 March 2005 was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company or the spouse or children under the age of 18 to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures), of the Company or any other body corporate, or had any right to subscribe for the securities or had exercised any such rights.

### SUBSTANTIAL SHAREHOLDERS

As at 31 March 2005, the persons (other than the directors or the chief executives of the Company) who 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 by the Company under Section 336 of the SFO were as follows:

**Long positions:**

Name of substantial shareholder	Capacity	Number of ordinary shares held	Approximate percentage to issued ordinary shares of the Company
Landmark Profits Limited ( <i>Notes i and ii</i> )	Beneficial owner	128,259,324	35.93%
Easyknit ( <i>Notes i and ii</i> )	Interest of controlled corporation	128,259,324	35.93%
Magical Profits Limited ( <i>Notes i and iii</i> )	Interest of controlled corporation	128,259,324	35.93%
Accumulate More Profits Limited ( <i>Notes i and iv</i> )	Interest of controlled corporation	128,259,324	35.93%
Trustcorp Limited ( <i>Note i</i> )	Trustee	128,259,324	35.93%
Au Yeung Man Yin	Beneficial owner	47,624,136	13.34%
Chan So Chun	Beneficial owner	37,191,000	10.42%

*Notes:*

- (i) The 128,259,324 shares related to the same block of shares in the Company. These shares were beneficially owned by Landmark Profits Limited which was a wholly-owned subsidiary of Easyknit. Magical Profits Limited was interested in approximately 36.74% of the issued share capital of Easyknit. Magical Profits Limited was wholly-owned by Accumulate More Profits Limited which in turn was wholly-owned by Trustcorp Limited as trustee of The Magical 2000 Trust (the beneficiaries of which include Ms. Lui Yuk Chu, a director of the Company, and her family members other than spouse).
- (ii) Mr. Koon Wing Yee, Mr. Tsang Yiu Kai and Ms. Lui Yuk Chu, being the directors of the Company, are also the directors of Landmark Profits Limited and Easyknit.
- (iii) Ms. Lui Yuk Chu, being a director of the Company, is also a director of Magical Profits Limited.
- (iv) Mr. Koon Wing Yee, being a director of the Company, is also a director of Accumulate More Profits Limited.

Other than as disclosed above, as at 31 March 2005, the Company had not been notified of any interests or short positions in the shares and underlying shares of the Company which were required to be recorded in the register kept by the Company under Section 336 of the SFO.

### **PURCHASE, SALE AND REDEMPTION OF SHARES**

There was no purchase, sale or redemption of the Company's shares by the Company or any of its subsidiaries during the year ended 31 March 2005.

### **CORPORATE GOVERNANCE**

In the opinion of the directors, the Company has complied throughout the year ended 31 March 2005 with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules in force immediately prior to 1 January 2005, except that the independent non-executive directors of the Company have not been appointed for specific terms as required by paragraph 7 of the Code but are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the provisions of the Company's Bye-laws.

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the directors. All directors of the Company have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the year ended 31 March 2005.

### **PRE-EMPTIVE RIGHTS**

There are no provisions for pre-emptive rights under the Company's Bye-laws, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders, but there are no restrictions against such rights under the laws in Bermuda.

## REPORT OF THE DIRECTORS

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### POST BALANCE SHEET EVENT

The details of a significant post balance sheet event are set out in note 36 to the financial statements.

### PUBLIC FLOAT

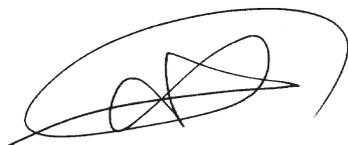
As at the date of this report, based on the information publicly available to the Company and within the knowledge of the directors of the Company, over 25% of the issued share capital of the Company was held by the public as required under the Listing Rules.

### AUDITORS

Messrs. Ernst & Young acted as auditors of the Company in respect of the financial year ended 31 December 2002. Messrs. Deloitte Touche Tohmatsu were appointed as auditors of the Company on 23 May 2003 to fill the casual vacancy created by the retirement of Messrs. Ernst & Young.

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



**Koon Wing Yee**

*Chairman and Chief Executive Officer*

Hong Kong, 23 June 2005