

## 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 2005.

### PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 14 to 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 2005 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 15 to 17.

The directors do not recommend the payment of any final dividend in respect of the year (2004: Nil).

### 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 fully applied up to 31 March 2005 in accordance with the proposed applications set out in the Company's listing prospectus dated 23 October 2002 (the "Prospectus"), as follows:

- approximately HK\$15.0 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 PRC;
- approximately HK\$5.0 million for the design, development and promotion of the Group's "LeRoi" products; and
- approximately HK\$7.0 million for the development of a new line of the Group's products specially designed for ladies aged between 16 and 25.
- approximately HK\$1.1 million as general working capital.

### 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 Prospectus and the audited financial statements and reclassified as appropriate, prepared on the basis set out therein, is set out on pages 42 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 13 to 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.

### 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 purchases, redeemed or sold any of the Company's listed securities during the year.

### RESERVES

Details of movements in the reserves of the Company during the year are set out in note 23 to financial statements and in the consolidated summary statement of changes in equity, respectively.

### DISTRIBUTABLE RESERVES

At 31 March 2005, the Company's reserves available for distribution, calculated in accordance with the Companies Law (Revised) of the Cayman Islands, amounted to HK\$55,816,000. 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 12% 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 88%.

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 and up to the date of this report were:

### Executive directors:

Ms Yeung Sau Han, Agnes	
Mr So Chi Hiu	(Resigned on 6 May 2005)
Mr So Yuen Chun	(Resigned on 21 June 2004)
Mr Ng Cheuk Fan, Keith	(Appointed on 30 July 2004)
Mr Lim Kwok Choi	(Appointed on 30 July 2004)
Mr Hung Man Sing	(Appointed on 6 May 2005)

### Independent non-executive directors:

Mr Lok Shing Kwan, Sunny	
Mr Wong Wing Hang, Henry	(Resigned on 22 March 2005)
Mr Chiang Chi Kin, Stephen	(Appointed on 30 September 2004)
Mr Hung Man Sing	(Appointed on 22 March 2005 and re-designated on 6 May 2005)
Mr Chan Kin Sang	(Appointed on 6 May 2005)

On 22 March 2005, Mr Hung Man Sing was appointed as an independent non-executive director and audit committee member of the Company. Subsequent to the balance sheet date, on 6 May 2005, he was re-designated as chairman and executive director of the Company.

In accordance with article 87 of the Company's articles of association, Ms Yeung Sau Han, Agnes will retire from office by rotation and, being eligible, will offer herself for re-election at the forthcoming annual general meeting. In accordance with article 86(3) of the Company's articles of association, Mr Hung Man Sing and Mr Chan Kin Sang will retire from office and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting. One of the independent non-executive directors are not appointed for specific terms but is subject to retirement by rotation in accordance with the Company's articles of association.

## DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

### Executive directors

Mr Hung Man Sing, aged 51, is the chairman of the Company. Mr Hung has over 20 years of experience in the garment industry and is the product and logistic consultant of Shenzhen Apparel Research and Development Center and Guangdong Association of Garment and Garment Article Industry. Mr Hung is also a director or a consultant of a number of fashion related companies. Mr Hung is responsible for the Group's overall strategy formulation. Mr Hung was appointed as an independent non-executive director of the Company on 22 March 2005 and re-designated as executive director and chairman of the Company on 6 May 2005.

### DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES (Continued)

#### Executive directors (Continued)

Ms Yeung Sau Han, Agnes, aged 39, 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 Ng Cheuk Fan, Keith, aged 44, 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 18 years of accounting experience and previously served as executive directors of companies listed on the Stock Exchange. He was appointed as an executive director of the Company on 30 July 2004.

Mr Lim Kwok Choi, aged 42, 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. He was appointed as an executive director of the Company on 30 July 2004.

#### Independent non-executive directors

Mr Lok Shing Kwan, Sunny, aged 39, has over 12 years of experience in corporate finance, accounting 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 a treasurer of Rotary Club of Hong Kong Bayview.

Mr Chiang Chi Kin, Stephen, aged 36, is a Qualified Solicitor of the High Court of Hong Kong since 1998 and has over 7 years of experience in corporate and commercial law. Since 2002, he had held management positions with two companies listed on the Stock Exchange responsible primarily for legal and company secretarial matters. From August 2003 to May 2004, he was an executive director of a company listed on the GEM Board of the Stock Exchange, responsible for legal and compliance matters and business development. Currently, he is the deputy general manager of a company listed on the Main Board of the Stock Exchange. Mr Chiang was appointed as an independent non-executive director and audit committee member of the Company on 30 September 2004.

Mr Chan Kin Sang, aged 53, is currently a Partner of Messrs. Peter K.S. Chan & Co., Solicitors and Notaries. Mr Chan has been a practicing solicitor in Hong Kong since 1982. Mr. Chan graduated from the University of Hong Kong with a Bachelor of Laws degree in 1979. He was admitted as a Notary Public in 1998 and a China-appointed Attesting Officer in 2002. He is also a fellow member of the Hong Kong Institute of Directors. Mr. Chan is currently an independent non-executive director of two Singapore listed companies, namely Sunray Holdings Limited, CHT (Holdings) Limited and three Hong Kong listed companies, namely Everbest Century Holdings Limited, China Force Oil & Grains Industrial Holdings Co. Limited and Golding Soft Limited. He is also an independent non-executive director of People's Food Holdings Limited, which is listed in both Hong Kong and Singapore. He was formerly an independent non-executive director of Earnest Investments Holdings Limited and an executive director of Massive Resources International Corporation Limited. He was appointed as an independent non-executive director and audit committee member of the Company with effect from 6 May 2005.

### **DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES (Continued)**

#### **Senior management**

Mr Shui Fuk Yip, aged 42, is the quality control manager of the Group. Mr Shui joined the Group in 1990. He has over 17 years of experience in quality control in fashion manufacturing. He is the brother-in-law of Mr So Chiu Hiu.

Mr Ng Kwok Kin, aged 54, is the administrative manager of the Group. Mr Ng joined the Group in 1996. Mr Ng has over 8 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. The service agreement with Mr So Yuen Chun was terminated with no compensation and Mr So Yuen Chun resigned as an executive director on 21 June 2004. Subsequent to the balance sheet date, on 6 May 2005, Mr So Chi Hiu resigned as an executive director and his service agreement was terminated with no compensation on the same date.

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 26 to financial statements, no director had a material interest, either directly or indirectly, in any contract of significance in relation to the Group's business to which the Company, its holding company, or any of its subsidiaries was a party during the year.

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 March 2005, 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 shares of the Company

Name of directors	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 owned 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 22 to 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 right in any other body corporate.

## SHARE OPTION SCHEME

Details of the share option scheme of the Company are set out in note 22 to financial statements.

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

At 31 March 2005, 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 of Company	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 26 to 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").

### 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 one of the independent non-executive directors of the Company is 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 Chiang Chi Kin, Stephen and Mr Chan Kin Sang.

### SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 March 2005.

### AUDITORS

Ernst & Young resigned as auditors of the Company on 30 May 2005. An extraordinary general meeting was held on 27 June 2005 and an ordinary resolution was passed that HLB Hodgson Impey Cheng be appointed as auditors of the Company to fill the casual vacancy left by the resignation of Ernst & Young until the conclusion of the next annual general meeting.

HLB Hodgson Impey Cheng 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

**Hung Man Sing**

*Chairman*

Hong Kong, 26 July 2005