

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 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 10 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 results for the year ended 31 March 2006 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 20.

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

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 is set out on pages 58 of this annual report. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 7 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 15).

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.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 18 to the financial statements and in the consolidated statement of changes in equity respectively.

DISTRIBUTABLE RESERVES

At 31 March 2006, the Company's reserves available for distribution, calculated in accordance with the Companies Law (Revised) of the Cayman Islands amounted to HK\$36,759,000. 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.

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MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for less than 14% of the total sales for the year. In addition, the Group made 99% of its total purchases from its largest supplier.

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. Hung Man Sing *(appointed on 22 March 2005 as independent non-executive director and audit committee member and re-designated as executive director and Chairman of the Company on 6 May 2005)*

Mr. So Chi Hiu *(resigned on 6 May 2005)*

Ms. Yeung Sau Han, Agnes

Mr. Ng Cheuk Fan, Keith

Mr. Lim Kwok Choi

Independent non-executive directors

Mr. Lok Shing Kwan, Sunny

Mr. Chiang Chi Kin, Stephen

Mr. Chan Kin Sang

Mr. Hung Man Sing *(appointed on 22 March 2005 as independent non-executive director and audit committee member and re-designated as executive director and Chairman of the Company on 6 May 2005)*

In accordance with article 87 of the Company's articles of association, Mr. Ng Cheuk Fan, Keith, and Mr. Chiang Chi Kin, Stephen, will retire from office by rotation and being eligible, will offer themselves for re-election at the forthcoming annual general meeting. All of the independent non-executive directors are appointed for specific terms but are subject to retirement by rotation in accordance with the Company's articles of association.

DIRECTORS' BIOGRAPHIES

Executive directors

Mr. Hung Man Sing, aged 52, is the chairman of the Company. Mr. Hung has over 20 years of experience in the garment industry and is the product & logistic consultant of Shenzhen Apparel Research & 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.

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Ms. Yeung Sau Han, Agnes, aged 40, 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 45, 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 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 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.

Mr. Lim Kwok Choi, aged 43, 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.

Independent non-executive directors

Mr. Lok Shing Kwan, Sunny, aged 41, has over 15 years of experience in financial reporting, internal control and overall administration of corporate affairs. He also has more than 10 years of experience in the accounting field and possesses accounting experience in the People's Republic of China. He is fellow member of Hong Kong Institute of Certified Public Accountants and a member of CPA Australia.

Mr. Chiang Chi Kin, Stephen, aged 37, 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.

Mr. Chan Kin Sang, aged 55, is currently a Partner of Messrs. Peter K.S. Chan & Co., Solicitors and Notaries. Mr. Chan has been a practising 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.

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DIRECTORS' SERVICE CONTRACTS

All the executive directors, except for Mr. So Chi Hiu, have entered into service contracts with the Company for a term of three years from 1 October 2005, which will continue thereafter until terminated by either party giving not less than three months' notice in writing to the other party. On 6 May 2005, Mr. So Chi Hiu resigned as an executive director and his service contract was terminated 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 service contracts, 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 ultimate holding company, or any subsidiaries of its ultimate holding company was a party during the year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 March 2006, no directors have any interests and short positions 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").

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the share option scheme disclosures in note 15 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 ultimate holding company or any subsidiaries of its ultimate holding company a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

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SHARE OPTION SCHEME

Details of the share option scheme of the Company are set out in note 15 to the financial statements.

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

At 31 March 2006, to the best knowledge of the directors 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 ("Taco") (Note 1 & 5)	Directly beneficially owned	424,024,000	52.37
So Chi Hiu (Note 1)	Deemed	424,024,000	52.37
Gain Better Investment Limited ("GBIL") (Note 2&4)	Directly beneficially owned	255,000,000	29.67
Wai Yuen Tong Medicine Holdings Limited ("WYTH") (Note 2&4)	Deemed	255,000,000	29.67
Wang On Group Limited ("WOG") (Note 3&4)	Deemed	255,000,000	29.67
Martin Currie China Hedge Fund Limited	Directly beneficially owned	93,176,000	11.51
Martin Currie Investment Management Limited (Note 6)	Deemed	93,176,000	11.51
PAM(L) Equities Asian Growth (Investment Fund)	Directly beneficially owned	74,560,000	9.21

Notes:

1. Taco, 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.
2. GBIL, a company incorporated in the British Virgin Islands, a wholly owned subsidiary of WYTH. GBIL will hold 255,000,000 Shares subject to the completion of the (i) sale and purchase agreement dated 27 January 2006 between Taco and GBIL and (ii) subscription agreement dated 27 January 2006 between GBIL and the Company. Out of 255,000,000 shares, 50,000,000 shares are issuable upon conversion of the convertible notes held by GBIL.
3. As GBIL is a wholly-owned subsidiary of WYTH, WYTH was therefore deemed to have an interest in the shares in which GBIL was interested.
4. WOG owned 49% interest in the issued share capital of WYTH and therefore deemed to have an interest in the share in which WYTH was interested.
5. Subject to the completion of the sale and purchase agreement dated 27 January 2006 between Taco and GBIL, Taco will dispose 205,000,00 shares to GBIL.
6. Martin Currie Investment Management Limited was the investment manager of Martin Currie China Hedge Fund Limited.

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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

There are no 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.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 March 2006.

CORPORATE GOVERNANCE

The Company’s corporate governance principles and practices are set out in the Corporate Governance Report on pages 12 to 15 to the annual report.

AUDITORS

HLB Hodgson Impey Cheng were appointed as auditors of the Company on 27 June 2005 to fill the casual vacancy left by the resignation of Ernst & Young which resigned on 30 May 2005.

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

24 July 2006