

The directors present their annual report and the audited consolidated financial statements of the Company for the year ended 31 March 2006.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in the sourcing and export of cotton-based knitted garments for women, children and infants and property investments. During the year, there were no significant changes in the Group's principal activities.

RESULTS

The results of the Group are set out in the consolidated income statement on page 27.

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 24% and 85%, respectively, of the Group's purchases for the year.

The largest customer of the Group by itself and together with the other four largest customers accounted for approximately 38% and 72%, respectively, of the Group's turnover for the year.

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.

SHARE CAPITAL

The details of the Company's share capital are set out in note 35 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group spent approximately HK\$1,077,000 on acquisition of property, plant and equipment. The details of the movements in property, plant and equipment of the Group during the year are set out in note 18 to the consolidated financial statements.

INVESTMENT PROPERTIES

The Group's investment properties were revalued as at 31 March 2006 by a firm of independent professional property valuers and the gain arising on change in fair value of investment properties which had been credited directly to consolidated income statement, amounted to approximately HK\$189,730,000. Details of these are set out in note 19 to the consolidated financial statements.

PRINCIPAL SUBSIDIARIES

The details of the Company's principal subsidiaries at 31 March 2006 are set out in note 1 to the consolidated financial statements.

PRINCIPAL ASSOCIATES

The details of the Group's principal associates at 31 March 2006 are set out in note 21 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders at 31 March 2006 were as follows:

	2006 HK\$'000	2005 HK\$'000
Contributed surplus	269,306	269,306
Accumulated profits	687,536	627,880
	956,842	897,186

Under the laws in Bermuda, the contributed surplus account of a company is also available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

DIRECTORS

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

Executive directors:

Tse Wing Chiu, Ricky – <i>President and Chief Executive Officer</i>	(appointed as Vice President on 15 November 2005, re-designated from Vice President to President and appointed as Chief Executive Officer on 20 January 2006)
Lui Yuk Chu – <i>Vice President</i>	(appointed as Vice President on 20 January 2006)
Koon Wing Yee	(resigned on 20 January 2006)
Tsang Yiu Kai	(resigned on 10 December 2005)

Independent non-executive directors:

Wong Sui Wah, Michael
Jong Koon Sang
Tsui Chun Kong

In accordance with the Company's Bye-law 102(B), Mr. Tse Wing Chiu, Ricky shall hold office until the forthcoming annual general meeting of the Company 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 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:

On 10 May 2004, the Company entered into an agreement (as supplemented by a supplemental letter dated 15 June 2004) (the "LTC Agreement") with Mr. Louie Tsz Chung ("Mr. Louie") and an agreement (as supplemented by a supplemental letter dated 15 June 2004) (the "KPF Agreement") with Ms. Koon Po Fun ("Ms. Koon"), pursuant to which, amongst other things, the Group has agreed to purchase garments, apparel, clothing and textiles from 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 1 April 2004 to 31 March 2007 subject to respective caps. In addition, under the terms of the LTC Agreement and the KPF Agreement, the Group has agreed to prepay the LTC Companies and the KPF Companies for the garments to be manufactured for the Group. Such prepayment is interest-free and repayable by the LTC Companies and the KPF Companies on demand and the maximum amount of which will not exceed 50% of the value of the relevant order. The terms of the prepayment granted by the Group to the LTC Companies and the KPF Companies are normal commercial terms which are common in the garment industry in Hong Kong.

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 former 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 28 July 2004. Details of the LTC Transactions and the KPF Transactions are set out in the circular of the Company dated 29 June 2004.

On 3 November 2005, the Company terminated the LTC Agreement in accordance with its terms as Top Star Garment Limited, being a company of the LTC Companies, commenced creditors' voluntary liquidation under Section 228(A) of the Companies Ordinance. The termination of the LTC Agreement was announced by the Company on the same date.

The LTC Transactions and the KPF Transactions for the period from 1 April 2005 to 31 March 2006 amounted to approximately HK\$95,298,000 and approximately HK\$40,122,000, respectively.

Pursuant to Rule 14A.38 of the Listing Rules, the Board engaged the auditors of the Company to perform certain agreed-upon procedures in respect of the continuing connected transactions of the Group. The auditors have reported their factual findings on these procedures to the Board. The independent non-executive directors have reviewed the continuing connected transactions and the reports of the auditors and have confirmed that the transactions have been entered into by the Group:

- (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 2006, which do not constitute connected transactions of the Company required to be disclosed under the Listing Rules, are provided under note 17 to the consolidated 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' Interests 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 2006, 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:

(a) Interests in the Company (long positions):

Name of director	Capacity	Number of ordinary shares held	Approximate percentage to issued ordinary shares of the Company
Ms. Lui Yuk Chu (<i>note 1</i>)	Beneficiary of a trust	486,324,678	36.74%

Note 1: These shares were registered in the name of and were beneficially owned by Magical Profits Limited which 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 included Ms. Lui Yuk Chu and her family members other than spouse).

(b) Interests in associated corporations (long positions):

Easyknit Enterprises Holdings Limited (formerly known as "Asia Alliance Holdings Limited") ("Easyknit Enterprises")

Name of director	Capacity	Number of ordinary shares held	Approximate percentage to issued ordinary shares of Easyknit Enterprises
Ms. Lui Yuk Chu (<i>note 2</i>)	Beneficiary of a trust	141,085,252	35.93%

Note 2: These shares were registered in the name of and were beneficially owned by Landmark Profits Limited which was a wholly-owned subsidiary of the Company. Magical Profits Limited was interested in approximately 36.74% of the issued share capital of the Company. 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 included Ms. Lui Yuk Chu and her family members other than spouse).

Wellmake Investments Limited (“Wellmake”) (note 3)

Name of director	Capacity	Number of non-voting deferred shares held	Percentage to issued non-voting deferred shares of Wellmake
Ms. Lui Yuk Chu	<i>note 4</i>	2	100%

Note 3: All the issued ordinary shares in the share capital of Wellmake which carry the voting rights were held by the Company.

Note 4: One non - voting deferred share was held by Ms. Lui Yuk Chu as beneficial owner and the other one was held by her spouse, Mr. Koon Wing Yee.

Save as disclosed above, as at 31 March 2006, 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

Details of the Company’s share option scheme and movements of options granted during the year are set out in note 36 to the consolidated financial statements.

The closing price of the Company’s shares on 1 March 2006, being the trading day immediately before the date of grant of the options set out in note 36 to the consolidated financial statements, was HK\$0.143.

No 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 scheme as at the date of this report is 133,683,600, representing approximately 6.73% of the issued capital of the Company as at that date.

Save as disclosed above, at no time during the year ended 31 March 2006 was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate, and none of the directors or any of their spouses or children under the age of 18, was granted any right to subscribe for the equity or debt securities of the Company or other body corporate nor had exercised any such right.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2006, 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
Koon Wing Yee (<i>note 1</i>)	Interest of spouse	486,324,678	36.74%
Magical Profits Limited (<i>notes 1 & 2</i>)	Beneficial owner	486,324,678	36.74%
Accumulate More Profits Limited (<i>notes 1 & 2</i>)	Interest of controlled corporation	486,324,678	36.74%
Trustcorp Limited (<i>notes 1 & 3</i>)	Trustee	486,324,678	36.74%
Newcorp Ltd. (<i>note 3</i>)	Interest of controlled corporation	486,324,678	36.74%
Newcorp Holdings Ltd. (<i>note 3</i>)	Interest of controlled corporation	486,324,678	36.74%
David Henry Christopher Hill (<i>note 3</i>)	Interest of controlled corporation	486,324,678	36.74%
David William Roberts (<i>note 3</i>)	Interest of controlled corporation	486,324,678	36.74%
Rebecca Ann Hill (<i>note 3</i>)	Interest of spouse	486,324,678	36.74%

Notes:

- (1) The 486,324,678 shares relate to the same block of shares in the Company. These shares were registered in the name of and were beneficially owned by Magical Profits Limited which 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 included Ms. Lui Yuk Chu, a director of the Company, and her family members other than spouse). Mr. Koon Wing Yee, a former director of the Company and the spouse of Ms. Luk Yuk Chu, was deemed to be interested in the 486,324,678 shares by virtue of the SFO.
- (2) Ms. Lui Yuk Chu, being a director of the Company, is also a director of Magical Profits Limited and Accumulate More Profits Limited.
- (3) Trustcorp Limited was a wholly-owned subsidiary of Newcorp Ltd.. Newcorp Ltd. was wholly-owned by Newcorp Holdings Ltd.. Each of Mr. David Henry Christopher Hill and Mr. David William Roberts was interested in 35% of the issued share capital of Newcorp Holdings Ltd.. Mrs. Rebecca Ann Hill, being the spouse of Mr. David Henry Christopher Hill, was deemed to be interested in the 486,324,678 shares by virtue of the SFO.

Other than as disclosed above, as at 31 March 2006, 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 2006.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the executive directors of the Company on the basis of their merit, qualifications and competence.

The emolument of the directors of the Company is determined by the Board after recommendation from the Remuneration Committee, having regard to the time commitment and responsibilities of the directors, the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to the directors and eligible employees, details of the scheme is set out in note 36 to the consolidated financial statements.

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.

DONATIONS

During the year, the Group made donations amounting to approximately HK\$1,034,800.

POST BALANCE SHEET EVENTS

The details of the significant post balance sheet events are set out in note 45 to the consolidated 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

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

Tse Wing Chiu, Ricky

President and Chief Executive Officer

Hong Kong, 21 July 2006