



DIRECTORS' REPORT

The directors present the 2006 annual report and the audited consolidated financial statements for the year ended 31st December, 2006.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 40 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2006 are set out in the consolidated income statement on page 35.

On 12th June, 2006, a dividend of HK4.7 cents per share amounting to approximately HK\$18,800,000 was paid to shareholders as final dividend for the year ended 31st December, 2005. The directors now recommend the payment of a final dividend of HK3.3 cents per share to the shareholders on the register of members of the Company on 8th May, 2007, amounting to HK\$13,200,000.

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the property, plant and equipment of the Group are set out in note 15 to the consolidated financial statements.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 31 to the consolidated financial statements.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31st December, 2006 amounted to approximately HK\$420,088,000 (2005: HK\$439,036,000).



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DIRECTORS

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

Executive directors:

Dr. Sung Chung Kwun

Mr. Wong Chiu Hong

Ms. Mok Pui Mei

Mr. Ip Siu Lam

Ms. Sung Lam Ching

Non-executive director:

Mr. Lau Gary Q.

Independent non-executive directors:

Mr. Ng Man Kin

Mr. Chan Tsz Fu, Jacky

Professor Cai Xiu Ling

In accordance with Article 87(1) and (2) of the Company's Articles of Association, Dr. Sung Chung Kwun, Mr. Wong Chiu Hong and Mr. Ng Man Kin shall retire from office by rotation and, being eligible, have offered themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors of the Company has entered into a service contract with the Company for a term of three years commencing from 1st September, 2005, and will continue thereafter until terminated by either party thereto giving to the other not less than three months' prior notice in writing.

Each of the non-executive director and independent non-executive directors of the Company has entered into letter of appointment with the Company and is appointed for a period of one year commencing from 1st September, 2006 subject to retirement by rotation under the Company's Articles of Association.

Other than as disclosed above, none of the directors of the Company has a contract of service with the Company or any of its subsidiaries not determinable by the employing company within one year without payment of compensation (except for statutory compensation).

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DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURE

As at 31st December, 2006, the interests of the directors and chief executive of the Company in the share capital of the Company and its associated corporations as recorded in the register maintained by the Company pursuant to section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and to the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Long positions in the shares of HK\$0.01 each of the Company (the "Shares")

| Name of directors | Capacity | Number of ordinary shares held | Notes | Percentage of shareholding |
|-------------------------------------|------------------------------------|--------------------------------|-------|----------------------------|
| Dr. Sung Chung Kwun ("Dr. Sung") | Founder of discretionary trusts | 300,000,000 | 1 | 75% |
| Ms. Sung Lam Ching ("Ms. Sung") | Beneficiary of discretionary trust | 267,000,000 | 2 | 66.75% |
| Mr. Lau Gary Q. | Interest of spouse | 267,000,000 | 3 | 66.75% |
| Mr. Wong Chiu Hong ("Mr. Wong") | Beneficiary of discretionary trust | 33,000,000 | 4 | 8.25% |
| Ms. Mok Pui Mei ("Ms. Mok") | Beneficiary of discretionary trust | 33,000,000 | 5 | 8.25% |
| Mr. Ip Siu Lam ("Mr. Ip") | Beneficiary of discretionary trust | 33,000,000 | 6 | 8.25% |

Notes:

1. Dr. Sung is deemed to be interested in 300,000,000 Shares in the capacity as the founder of The CK Sung's Trust, the beneficial owner of Powerlink Industries Limited and founder and settlor of The Addchance Employee's Trust. Under the SFO, Dr. Sung is also deemed to be interested in the entire issued share capital of Powerlink Industries Limited, the associated corporation of the Company holding 267,000,000 Shares, representing 66.75% of the issued share capital of the Company.
2. Ms. Sung is deemed to be interested in 267,000,000 Shares in the capacity as a discretionary beneficiary of The CK Sung's Trust, the beneficial owner of Powerlink Industries Limited. Ms. Sung is also deemed to be interested in the entire issued share capital of Powerlink Industries Limited under the SFO.
3. Mr. Lau Gary Q., the spouse of Ms. Sung, is deemed to be interested in 267,000,000 Shares under the SFO.
4. Mr. Wong is deemed to be interested in 33,000,000 Shares in the capacity as a discretionary beneficiary of The Addchance Employee's Trust.



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5. Ms. Mok is deemed to be interested in 33,000,000 Shares in the capacity as a discretionary beneficiary of The Addchance Employee's Trust.
6. Mr. Ip is deemed to be interested in 33,000,000 Shares in the capacity as a discretionary beneficiary of The Addchance Employee's Trust.

Other than as disclosed above, none of the directors or the chief executive of the Company had any interest or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31st December, 2006.

SHARE OPTION SCHEME

The Company has adopted a share option scheme on 29th August, 2005 (the "Scheme") which enables the Company to grant options to eligible persons as incentive or rewards for their contributions to the Group. Pursuant to the Scheme, the Company may grant options to (a) any full time employee or director of any member of the Group; (b) any part time employee of any member of the Group who has spent not less than 10 hours per week in providing services to such member of the Group, determined by averaging out the total number of hours so spent in a period of four weeks immediately preceding the week in which a grant of the option is offered to such part time employee; or (c) any consultant or adviser of or to any member of the Group who has provided technical know-how and consultancy services to such member of the Group in accordance with the terms of a contractual relationship entered into between the consultant or adviser with such member of the Group.

The total number of the Shares which may be issued upon exercise of all options to be granted under the Scheme must not exceed 40,000,000 Shares, representing 10 per cent. of the Shares in issue as at the date of this report. The total number of the Shares issued and to be issued upon exercise of the options granted to a participant under the Scheme (including both exercised and outstanding options) in any 12 month period must not exceed 1 per cent. of the Shares in issue from time to time unless approval from the shareholders of the Company in general meeting is obtained with such participant and his/her associates abstaining from voting.

The exercise period of an option under the Scheme will be notified by the Board to each participant which shall not exceed 10 years from the date upon which the option is deemed to be granted and accepted. The Scheme does not require a minimum period for which an option must be held before an option can be exercised. Upon acceptance of the option, the eligible person shall pay HK\$1.00 to the Company by way of consideration for the grant. The subscription price for the Shares subject to options will be a price determined by the Board and will be at least the highest of (i) the closing price of the Shares on the Main Board as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option, which must be a business day; (ii) the average closing price of the Shares on the Main Board as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Share. Subject to the termination provisions, the Scheme will remain valid for a period of 10 years commencing on 29th August, 2005.

No options were granted, exercised, cancelled or lapsed during the year.

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ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company, its ultimate holding company, any of its subsidiaries or fellow 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.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as provided in the paragraph headed "Connected Transactions" below, no contracts of significance to which the Company, its ultimate holding company, or any of its subsidiaries or fellow subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSON IN SHARES AND UNDERLYING SHARES

As at 31st December, 2006, the following substantial shareholders and other person (other than a director or chief executive of the Company) had interested in the share capital of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in Shares

Interests of Substantial shareholders

| Name | Capacity | Number of shares | Notes | Percentage of shareholding |
|---|------------------------------------|------------------|-------|----------------------------|
| GZ Trust Corporation ("GZ Trust") | Trustee of discretionary trusts | 300,000,000 | 1 | 75% |
| Powerlink Industries Limited ("Powerlink") | Beneficial owner | 267,000,000 | 2 | 66.75% |
| Ms. Tse Mui Chu ("Mrs. Sung") | Beneficiary of discretionary trust | 267,000,000 | 3 | 66.75% |
| Mr. Sung Kim Ping | Beneficiary of discretionary trust | 267,000,000 | 4 | 66.75% |

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Notes:

1. The entire issued share capital of Powerlink and Herojoy Trading Limited is owned by GZ Trust in its capacity as the trustee of (i) The CK Sung's Trust, a discretionary trust the founder (as defined in the SFO) of which is Dr. Sung and the discretionary objects of which are Mrs. Sung, Ms. Sung and Mr. Sung Kim Ping (excluding Dr. Sung himself), and (ii) The Addchance Employee's Trust, a discretionary trust the founder (as defined in the SFO) and the settlor of which is Dr. Sung and the discretionary objects of which are the employees of the Group from time to time including Mr. Wong, Ms. Mok and Mr. Ip (excluding Ms. Sung). Accordingly, GZ Trust is deemed to be interested in the 300,000,000 Shares under the SFO.
2. The 267,000,000 Shares are beneficially owned by Powerlink.
3. Mrs. Sung is deemed to be interested in 267,000,000 Shares in the capacity as a discretionary beneficiary of The CK Sung's Trust.
4. Mr. Sung Kim Ping is deemed to be interested in 267,000,000 Shares in the capacity as a discretionary beneficiary of The CK Sung's Trust.

Interest of other person

| Name | Capacity | Number of Shares | Percentage of Shareholding |
|-------------------------|------------------|------------------|----------------------------|
| Herojoy Trading Limited | Beneficial owner | 33,000,000 | 8.25% |

Save as disclosed above, as at 31st December, 2006, according to the register of interests required to be kept by the Company under section 336 of the SFO, there was no person who had any interest or short position in the shares or underlying shares of the Company.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive directors of the Company, an annual confirmation of his/her independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company considers all of the independent non-executive directors are independent.

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CONNECTED TRANSACTIONS

I. Exempted connected transaction

During the year under review, the Group entered into a connected transaction which is exempted under Rule 14A.31(2) of the Listing Rules from reporting, announcement and independent shareholders' approval requirements. On 21st June, 2006, Sky Emperor International Limited, a wholly-owned subsidiary of the Company and held 51% shareholding in Billion Art Enterprise Limited ("Billion Art") before the acquisition, acquired the remaining 49% shareholding in Billion Art from Shanghai EJKO Textile Co., Ltd. at a consideration of HK\$980,000. As Shanghai EJKO Textile Co., Ltd. was the substantial shareholder of Billion Art before the acquisition, so was a connected person of the Company under Rule 14A.11(1) of the Listing Rules and the acquisition constituted a connected transaction of the Company.

II. Annual review of the continuing connected transactions

The Company entered into a sale and purchase agreement with Wai Yee Knitting Factory Limited ("Wai Yee") on 20th September, 2005 pursuant to which the Group agreed to supply raw white yarn and dyed yarn to Wai Yee from 20th September, 2005 to 31st December, 2007 (the "Wai Yee Raw Material Agreement"). Wai Yee is owned as to 99.99% by Ms. Sung Kit Ching, a daughter of Dr. Sung, and 0.01% by Ms. Wong Chun Fong, a daughter-in-law of Dr. Sung. Wai Yee is principally engaged in the business of production and sale of knitted sweaters, therefore, it has a substantial demand for raw materials such as raw white yarn and dyed yarn for the production of sweaters. For the year ended 31st December, 2006, sales of raw white yarn and dyed yarn under the Wai Yee Raw Material Agreement amounted to approximately HK\$2,626,000.

The Company entered into a sale and purchase agreement with PT Shinetama Interfashion ("PT Shinetama") on 20th September, 2005 pursuant to which PT Shinetama agreed to supply cotton yarn to the Group from 20th September, 2005 to 31st December, 2007 (the "Shinetama Cotton Yarn Agreement"). PT Shinetama is wholly owned by Mr. Sung Chung Man, the youngest brother of Dr. Sung, and his associates. Mr. Sung Chung Man and his associates control the board of directors of PT Shinetama. This transaction was entered into as the Group has a substantial demand for cotton yarn made of cotton outside the PRC for further processing into dyed yarn and/or knitted sweaters, and trading with independent third parties. For the year ended 31st December, 2006, purchase of cotton yarn from PT Shinetama under the Shinetama Cotton Yarn Agreement amounted to approximately HK\$73,783,000.

Particulars of transactions under the Wai Yee Raw Material Agreement and the Shinetama Cotton Yarn Agreement (the "Transactions") constituted continuing connected transactions pursuant to Chapter 14A of the Listing Rules which are also related party transactions, particulars of which are disclosed in note 39 of the consolidated financial statements in accordance with IAS 24 "Related Party Disclosures" promulgated by International Accounting Standards Board.

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.



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Each of the independent non-executive directors of the Company has confirmed that the Transactions have been entered into by the Company in the ordinary and usual course of its business, either on normal commercial terms or on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties, and in accordance with the terms of the agreements governing the Transactions that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

NON-COMPETITION DEED

In accordance with the terms of a deed of non-competition undertakings in favour of the Company dated 20th September, 2005 (the "Non-competition Deed"), each of Dr. Sung, Ms. Sung, Mr. Wong, Ms. Mok and Mr. Ip (all being the executive directors of the Company) has provided with the Company an annual confirmation in respect of his/her compliance with the terms of the Non-competition Deed. Under the terms of the Non-competition Deed, each of the executive directors of the Company has undertaken to the Company to, among others, procure that he/she or any of his/her associates will not directly or indirectly be interested in any business which may compete with or similar to the business of the Group from time to time.

EMOLUMENT POLICY

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

The emoluments of the executive directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics. The remuneration of the non-executive directors (including the independent non-executive directors) of the Company are recommended by the Remuneration Committee.

The Company has adopted the Scheme as an incentive to the directors and eligible employees, details of the Scheme are set out in the paragraph headed "Share Option Scheme" above.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association and the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers comprised approximately 36.5% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 15.6% of the Group's total sales.

During the year, the aggregate purchases attributable to the Group's five largest suppliers comprised approximately 36.7% of the Group's total purchases and the purchases attributable to the Group's largest supplier were approximately 12.9% of the Group's total purchases.



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Save as disclosed in Note 39 to the consolidated financial statements, at no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest customers and suppliers.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31st December, 2006.

AUDITORS

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

CHAIRMAN

DR. SUNG CHUNG KWUN

Hong Kong, 3rd April, 2007