

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 December 2006.

Principal activities

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 17 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 profit for the year ended 31 December 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 34 to 97.

The Directors recommend the payment of a final dividend of HK4.0 cents per ordinary share in respect of the year, to shareholders on the register of members on 28 May 2007. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the balance sheets.

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 Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in September 2004, after deduction of related issue expenses, amounted to approximately HK\$186.2 million. During the year ended 31 December 2004 and 2005, proceeds of approximately HK\$66.3 million and HK\$98.1 million, respectively, were utilised as disclosed in the annual report for each of these years. Proceeds of approximately HK\$14.4 million were further utilised during the year ended 31 December 2006 in accordance with the proposed applications set out in the prospectus of the Company dated 14 September 2004 (the "Prospectus"), as follows:

- approximately HK\$12.1 million was used for the acquisition of additional knitting facilities, and
- approximately HK\$2.3 million was used for the product development.

The remaining net proceeds at 31 December 2006, of approximately HK\$7.4 million, were placed as bank deposits in Hong Kong. The Directors intend to use the net proceeds in the manner as disclosed in the Prospectus.

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Summary financial information

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, is set out on page 98. This summary does not form part of the audited financial statements.

Property, plant and equipment and investment properties

Details of movements in the property, plant and equipment, and investment properties of the Group during the year are set out in notes 14 and 15 to the financial statements, respectively.

Share capital and share options

Details of the Company's share capital and movements in the Company's share options during the year, together with the reasons therefore, are set out in notes 26 and 27 to the financial statements, respectively.

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 which would oblige the Company to offer new shares on a pro rata basis to existing shareholders of the Company.

Purchase, redemption or sale of listed securities of the Company

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

Reserves

Details of movements in the reserves of the Company and of the Group during the year are set out in note 28(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

Distributable reserves

As at 31 December 2006, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to HK\$550,168,000, of which HK\$25,600,000 has been proposed as a final dividend for the year. The amount of HK\$550,168,000 includes the Company's share premium account and capital reserve of HK\$524,436,000 in aggregate as at 31 December 2006, 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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Charitable contributions

During the year, the Group made charitable contributions totalling HK\$706,000.

Major customers and suppliers

In the year under review, sales to the Group's five largest customers accounted for 55.7% (2005: 53.5%) of the total sales and sales to the largest customer included therein accounted for 20.9% (2005: 21.6%). Purchases from the Group's five largest suppliers accounted for 37.2% (2005: 30.1%) of the total purchases for the year and purchases to the largest supplier included therein accounted for 9.5% (2005: 6.9%).

None of the Directors 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/or five largest suppliers during the year.

Directors

The Directors during the year and as at the date of this report were:

Executive Directors:

Mr. Tai Chin Chun (*Chairman*)
Mr. Tai Chin Wen
Ms. Cheung So Wan
Ms. Wong Siu Yuk
Mr. Chong Chau Lam

Independent non-executive Directors:

Ms. Chu Hak Ha, Mimi
Mr. Chan Yuk Tong, Jimmy
Mr. Ku Shiu Kuen, Anthony

In accordance with article 87 of the Company's articles of association, Ms. Wong Siu Yuk, Ms. Chu Hak Ha, Mimi and Mr. Chan Yuk Tong, Jimmy, will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company. The independent non-executive Directors are appointed for terms of three years.

The Company has received annual confirmations of independence from Ms. Chu Hak Ha, Mimi, Mr. Chan Yuk Tong, Jimmy and Mr. Ku Shiu Kuen, Anthony, and as at the date of this report still considers them to be independent.

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Directors' and senior management's biographies

Biographical details of the Directors and the senior management of the Group are set out on pages 20 to 23 of the annual report.

Directors' service contracts

Each of the executive Directors and the independent non-executive Directors has a service contract with the Company for a term of three years and is subject to termination by either party by giving not less than three months' and one months' written notice, respectively, and in any events not later than the end of the initial term.

Under the service contracts, after each complete year of service, the remuneration payable to each of the executive Directors may, subject to the discretion of the Board, be increased by not more than 20% and be entitled to a discretionary bonus provided that the total amount of bonuses payable to all Directors for that year shall not exceed 5% of the consolidated profit after tax of the Group.

None of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

Emolument policy and Directors' remuneration

The Directors' remuneration is subject to shareholders' approval at general meetings with reference to the recommendation of the Group's remuneration committee. The Group's emolument policies are formulated based on the performance of individual employees and are reviewed regularly. Subject to the Group's profitability, the Group may also provide a discretionary bonus to its employees as an incentive for their contribution to the Group. The primary goal of the remuneration policy with regard to the remuneration packages of the Group's executive Directors is to enable the Group to retain and motivate executive Directors by linking their compensation with performance as measured against corporate objectives achieved.

The principal elements of the Group's remuneration packages include basic salaries, discretionary bonuses, housing benefits and share option benefits.

Directors' interests in contracts

Save as disclosed in the related party transactions disclosures in note 33 to the financial statements, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries was a party during the year.

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Directors' interests and short positions in shares and underlying shares

As at 31 December 2006, the interests and short positions of the Directors in the share capital and underlying shares 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, were as follows:

Long positions in ordinary shares of the Company:

Name of director	Notes	Capacity and nature of interests	Number of shares	Approximate percentage of the Company's issued share capital
Mr. Tai Chin Chun	1	Through controlled corporation	384,000,000	60
Mr. Tai Chin Wen	2	Through controlled corporation	96,000,000	15
Ms. Cheung So Wan	3	Through spouse	384,000,000	60
Ms. Wong Siu Yuk	4	Through spouse	96,000,000	15
Mr. Chong Chau Lam		Directly beneficially owned	300,000	0.05

Long position in shares of an associated corporation:

Name of director	Name of associated corporation	Relationship with the Company	Share	Number of shares	Capacity and nature of interest	Percentage of the associated corporation's issued share capital
Mr. Tai Chin Chun	Exceed Standard Limited ("Exceed Standard")	Ultimate holding company	Ordinary share	1 share of US\$1	Directly beneficially owned	100

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Directors' interests and short positions in shares and underlying shares *(continued)*

Notes:

1. The shares are held by Exceed Standard, a company incorporated in the British Virgin Islands (the "BVI") and beneficially owned by Mr. Tai Chin Chun, the chairman and an executive Director. Mr. Tai Chin Chun is the younger brother of Mr. Tai Chin Wen and Ms. Cheung So Wan is the spouse of Mr. Tai Chin Chun.
2. The shares are held by Power Strategy Limited ("Power Strategy"), a company incorporated in the BVI and beneficially owned by Mr. Tai Chin Wen.
3. Ms. Cheung So Wan is deemed to be interested in these shares through the interest of her spouse, Mr. Tai Chin Chun under the SFO.
4. Ms. Wong Siu Yuk is deemed to be interested in these shares through the interest of her spouse, Mr. Tai Chin Wen under the SFO.

The interests of the Directors in the share options of the Company are disclosed in note 27 to the financial statements.

Save as disclosed above, as at 31 December 2006, none of the Directors had any 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 27 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 holding company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

Share option scheme

Details of share option scheme and share options outstanding at the balance sheet date are included in note 27 to the financial statements.

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Substantial shareholders' and other persons' interests in shares and underlying shares

As at 31 December 2006, 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 (Note)	Number of ordinary shares held	Percentage of the Company's issued share capital
Exceed Standard	Directly beneficially owned	384,000,000	60
Power Strategy	Directly beneficially owned	96,000,000	15

Note: The relationship between Exceed Standard and Mr. Tai Chin Chun, as well as that between Power Strategy and Mr. Tai Chin Wen are disclosed under the section "Directors' interests and short positions in shares and underlying shares" above.

The details of the share options outstanding during the year are separately disclosed in note 27 to the financial statements.

Save as disclosed above, as at 31 December 2006, no person, other than the Directors, whose interests are set out under the section "Directors' interests and short positions in shares and underlying shares" above, had an interest or a short position in the shares or underlying shares of the Company that was required to be recorded in the register pursuant to Section 336 of the SFO.

Disclosures pursuant to Rule 13.21 of the Listing Rules

In accordance with the requirements of Rule 13.21 of the Listing Rules, disclosure is required in respect of the loan agreement of a subsidiary of the Company, which contains covenants requiring performance obligations of the controlling shareholders of the Company. Pursuant to a loan agreement dated 15 July 2005 entered into between the Company as Guarantor, a wholly-owned subsidiary of the Company and a syndicate of banks for a 3-year loan facility of HK\$305 million, an event of default would arise if (a) Mr. Tai Chin Chun and Mr. Tai Chin Wen, the ultimate controlling shareholder and substantial shareholder, respectively, ceases to collectively and beneficially (either directly or indirectly) own 51% of the voting share capital in the Company; or (b) any member of the Group or its management, business or operations is not or ceases to be controlled by both of Mr. Tai Chin Chun and Mr. Tai Chin Wen.

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Disclosures pursuant to Rule 13.21 of the Listing Rules (*continued*)

Upon the occurrence of an event of default, the lenders may declare that all or part of the loan outstanding together with accrued interest and all other amounts accrued be immediately due and payable; and/or the facility under the loan agreement shall immediately be cancelled.

Sufficiency of public float

Based on the information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

Post balance sheet events

Details of the significant post balance sheet events of the Group are set out in note 35 to the financial statements.

Auditors

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting of the Company.

ON BEHALF OF THE BOARD

Tai Chin Chun

Chairman

Hong Kong

19 April 2007