

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31st March, 2004.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Group are the manufacture and sale of knitted fabrics and dyed yarns, provision of dyeing, bleaching setting and finishing services and trading of garment products.

RESULTS

The results of the Group for the year ended 31st March, 2004 are set out in the consolidated income statement on page 29 of the annual report.

An interim dividend of HK2.5 cents per share, amounting to HK\$9,714,000, was paid to the shareholders during the year. The directors do not recommend the payment of a final dividend.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the year are set out in note 12 to the financial statements.

SUBSIDIARIES

In August 2003, a subsidiary of the Company entered into a conditional sale and purchase agreement with an independent third party to acquire a 70% equity interest in South Season Industrial Company Limited ("South Season"), for a cash consideration of HK\$24,500,000 and the acquisition was completed in October 2003. South Season is engaged in the trading of garment products in Hong Kong. Details of the above acquisition are set out in a circular of the Company dated 16th September, 2003.

Details of the Company's principal subsidiaries at 31st March, 2004 are set out in note 32 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 22 to the financial statements.

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

DIRECTORS

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

Executive directors:

Mr. Li Man Ching (*Chairman*)

Ms. Li Mei Lin (*Deputy Chairman*)

Mr. Li Man Shun

Mr. Fung Chi Ki (appointed on 19th December, 2003)

Mr. Li Man Tak (resigned on 31st May, 2004)

Independent non-executive directors:

Mr. Lau Chung Man, Louis

Mr. Tsui Wing Yin

Mr. So Kin Wah (appointed on 1st April, 2004)

In accordance with Articles 110 and 110(A) of the Company's Bye-laws, Mr. Li Man Shun, Mr. Fung Chi Ki, Mr. Tsui Wing Yin and Mr. So Kin Wah shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

The term of office for each independent non-executive director is the period up to his retirement by rotation in accordance with the Company's Bye-laws.

DIRECTORS' SERVICE CONTRACTS

Mr. Li Man Shun, Mr. Fung Chi Ki, Mr. Tsui Wing Yin and Mr. So Kin Wah have entered into service contracts with the Company for the term commencing 1st March, 2004, 19th December, 2003, 1st March, 1999 and 1st April, 2004, respectively. All their appointments shall continue thereafter, subject to termination by either party giving at least three months' prior notice to the other party.

Other than as disclosed above, no director 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 Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' REPORT

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31st March, 2004, the interests of the directors and the chief executives in the shares and underlying shares of the Company and its associated corporation as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Future Ordinance ("SFO") or as notified to the Company and The Stock Exchange of Hong Kong Limited ("the Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Long position

Name of director/ former director	Number of ordinary shares		Interest in underlying shares pursuant to share option	Aggregated interest	Percentage of the issued share capital of the Company
	Personal interests	Other interests (note)			
Ms. Li Mei Lin	-	163,748,000	1,500,000	165,248,000	42.5%
Mr. Li Man Shun	-	163,748,000	-	163,748,000	42.1%
Mr. Li Man Tak *	16,037,000	163,748,000	1,500,000	181,285,000	46.7%
Mr. Fung Chi Ki	-	-	1,933,200	1,933,200	0.5%

* Mr. Li Man Tak resigned on 31st May, 2004 and the share option held was cancelled on 14th July, 2004.

Note: Ms. Li Mei Lin, Mr. Li Man Shun and Mr. Li Man Tak beneficially own 22,500 shares, 21,600 shares and 21,600 shares, respectively, in Rayten Limited, representing 25 per cent, 24 per cent and 24 per cent, respectively, of the issued share capital of Rayten Limited, which in turn owns 163,748,000 shares of HK\$0.10 each in the Company.

Other than as disclosed above, none of the directors, chief executives, nor their associates had any interests or short position in any shares and underlying shares or debentures of the Company or any of its associated corporation as at 31st March, 2004.

DIRECTORS' REPORT

SHARE OPTION SCHEME

Details of the Company's share options scheme are set out in note 23 to the financial statements.

The following table discloses movements in the Company's share option scheme during the year:

Categories	Date of grant	Exercisable period	Exercise price per share HK\$	Number of share options			
				At 1.4.2003	Granted	Exercised	At 31.3.2004
I. Directors/former director							
Ms. Li Mei Lin	17.9.2003	17.9.2003 to 16.9.2006	1.62	-	1,500,000	-	1,500,000
Mr. Li Man Tak *	17.9.2003	17.9.2003 to 16.9.2006	1.62	-	1,500,000	-	1,500,000
Mr. Fung Chi Ki **	2.11.2002	2.11.2002 to 1.11.2012	0.51	1,933,200	-	-	1,933,200
				<u>1,933,200</u>	<u>3,000,000</u>	<u>-</u>	<u>4,933,200</u>
II. Employees in aggregate	18.8.2003	1.3.2004 to 30.9.2006	1.67	-	3,865,000	-	3,865,000***
	2.11.2002	2.11.2002 to 1.11.2012	0.51	17,398,800	-	(1,933,200)	15,465,600
				<u>17,398,800</u>	<u>3,865,000</u>	<u>(1,933,200)</u>	<u>19,330,600</u>
Total for all categories				<u>19,332,000</u>	<u>6,865,000</u>	<u>(1,933,200)</u>	<u>24,263,800</u>

DIRECTORS' REPORT

- * Mr. Li Man Tak resigned on 31st May, 2004 and the share option held was cancelled on 14th July, 2004.
- ** Mr. Fung Chi Ki was appointed as director on 19th December, 2003.
- *** The Maximum percentage of the share option that may be exercised is determined in the stages as follows:

	Percentage of share options granted
Within 1 year after completion of at least one year service	30%
Within 2 years after completion of at least one year service	another 30%
2 years after completion of at least one year service but before expiry	another 40%

The closing price of the Company's shares immediately before 18th August, 2003 and 17th September, 2003, the dates of grant of the options were HK\$1.57 and HK\$1.58, respectively.

The closing price of the Company's shares immediately before the date on which the options were exercised was HK\$1.28.

The directors of the Company consider that it is not appropriate to value the share options granted during the year as a number of critical factors for the valuation of the share options granted cannot be determined accurately.

Other than the share option scheme of the Company, at no time during the year was the Company or any of its subsidiaries a party to any arrangement 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.

SUBSTANTIAL SHAREHOLDERS

As at 31st March, 2004, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of directors, the following persons had notified the Company as being interested in 5% or more of the issued share capital of the Company.

DIRECTORS' REPORT

Long position

Name	Ordinary share held	Percentage of total issued shares
Arisaig Greater China Fund	39,270,000 ^{note 1}	10.2%
Arisaig Partners (Mauritius) Ltd.	39,270,000 ^{notes 2 & 3}	10.2%
Cooper Lindsay William Ernest	39,270,000 ^{note 2}	10.2%

Note 1: The shares are beneficially owned by Arisaig Greater China Fund.

Note 2: Arisaig Partners (Mauritius) Ltd. is the investment manager of Arisaig Greater China Fund and is interested in the shares in the capacity of an investment manager. Arisaig Partners (Mauritius) Ltd. is wholly owned by Arisaig Partners (BVI) Ltd. Arisaig Partners (BVI) Ltd. is wholly owned by Arisaig Partners (Holdings) Ltd. One-third of the entire issued share capital of Arisaig Partners (Holdings) Ltd. is owned by Madeleine Ltd., which is wholly owned by Cooper Lindsay William Ernest.

Note 3: Each of Sannox Holdings Ltd., Sannox Trust, Perivoli Holdings Limited and Perivoli Trust is reported to be in control indirectly of one-third of the entire issued share capital of Arisaig Partners (Mauritius) Ltd..

CONNECTED TRANSACTIONS

Following the acquisition of a 70% equity interest in South Season in October 2003, South Season sold goods of approximately HK\$9,325,000 to Actex Textiles Limited ("Actex"). Actex is a company owned as to 82% by Mr. Chiu Ka Lun and 18% by Mr. Lau Chi Wing, both of whom are also directors of South Season. According to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange, these transactions with Actex constituted connected transactions.

A master supply agreement was entered into between South Season and Actex on 31st May, 2004 for a period of three years from 1st April, 2004 to 31st March, 2007, with the cap amount of HK\$10,000,000 on the sales with Actex for each of the three years ending 31st March, 2007.

In the opinion of the directors who do not have any interest in those transactions, the transactions were carried out on normal commercial terms, in the ordinary and usual course of business of the Group, on terms that are fair and reasonable so far as the shareholders of the Company are concerned.

DIRECTORS' REPORT

PRE-EMPTIVE RIGHTS

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

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31st March, 2004 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules on the Stock Exchange.

AUDITORS

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

On behalf of the Board



CHAIRMAN

Hong Kong, 23rd July, 2004