

## report of the directors

The directors present their first report together with the audited financial statements of the Company for the period from 8 October 2004 (date of incorporation) to 31 March 2005 and the audited pro forma consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group", which was legally formed on 21 April 2005), for the year ended 31 March 2005.

### GROUP REORGANISATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 8 October 2004 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised), of the Cayman Islands. Pursuant to a reorganisation scheme to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies now comprising the Group on 21 April 2005 (the "Group Reorganisation"). Further details of the Group Reorganisation and the subsidiaries acquired pursuant thereto are set out in note 2 to the Company's financial statements and notes 2 and 29 to the pro forma consolidated financial statements.

Subsequent to the balance sheet date, on 12 May 2005, the Company completed its initial public offering and the shares of the Company were listed on the Stock Exchange.

In order to apprise the Company's shareholders of the pro forma consolidated financial results and position of the Group, as if the Group had been in existence throughout the year ended 31 March 2005, pro forma financial information comprising the pro forma consolidated profit and loss account, balance sheet, statement of changes in equity and cash flow statement are included in this annual report. The basis of preparing the aforesaid pro forma financial information, which is further detailed in note 2 to the pro forma consolidated financial statements, has also been consistently applied for presenting the information relating to the Group in this report of the directors.

### PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 29 to the pro forma consolidated 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 pro forma consolidated profit for the year ended 31 March 2005 and its pro forma consolidated state of affairs as at that date, together with the state of affairs of the Company as at 31 March 2005, are set out in the pro forma consolidated financial statements on pages 40 to 80 and in the Company's financial statements on pages 32 to 38, respectively.

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

Subsequent to the balance sheet date, on 6 July 2005, the directors recommended the distribution of a special interim dividend of HK2 cents per ordinary share in respect of the year ending 31 March 2006 to those shareholders whose name appear on the register of members of the Company on 24 August 2005. Such distribution will be made out of the contributed surplus of the Company arising as a result of the Group Reorganisation. Such recommendation has not been incorporated in the Company's financial statements or the Group's pro forma consolidated financial statements.

#### **USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING**

The proceeds from the Company' issue of new shares at its listing on the Stock Exchange on 12 May 2005, after deduction of related issuance expense, amounted to approximately HK\$112.4 million, which are intended to be applied in accordance with the proposed applications set out in the paragraph headed "Reasons for the Share Offer and use of proceeds" in the section headed "Future plans and prospects" of the Company's Listing Prospectus. Up to the date of this report, approximately HK\$4.0 million was utilised to expand distribution networks in Hong Kong. The remaining unutilised net proceeds is temporarily placed in short term time deposits.

#### **SUMMARY OF FINANCIAL INFORMATION**

A summary of the pro forma consolidated results and assets and liabilities of the Group for the last four financial years, as extracted from the current year audited pro forma consolidated financial statements and the Listing Prospectus of the Company dated 29 April 2005, which also set out the details of the basis of presentation, is set out on page 3.

#### **FIXED ASSETS**

Details of movements in the fixed assets of the Group during the year are set out in note 14 to the pro forma consolidated financial statements.

#### **BORROWINGS AND FINANCE LEASE PAYABLES**

Details of the Group's borrowings and finance lease payables at the balance sheet date are set out in notes 24 and 25 to the pro forma consolidated financial statements, respectively.

#### **SHARE CAPITAL AND SHARE OPTIONS**

Details of movements in the Company's share capital since 8 October 2004 (date of incorporation), together with the reasons therefor, and the Company's share option scheme adopted on 22 April 2005 and details of its operations are set out in note 7 to the Company's financial statements and note 26 to the pro forma consolidated financial statements.

No share options have been granted or agreed to be granted under the Company's share option scheme during the period and up to the date of this report.

#### **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 established, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

#### **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY**

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

#### **RESERVES**

Details of movements in the reserves of the Group during the year are set out in note 27 to the pro forma consolidated financial statements and in the pro forma consolidated statement of changes in equity.

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### DISTRIBUTABLE RESERVES

At 31 March 2005, the Company did not have any distributable reserves.

### CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable donations totalling HK\$87,000.

### MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 March 2005, sales to the Group's five largest customers accounted for less than 30% of the pro forma consolidated sales for the year. The largest supplier of the Group and the five largest suppliers of the Group accounted for about 32% and 58% respectively of the Group's pro forma consolidated purchases for the year.

The largest supplier during the year was Kai Yip Manufactory Limited ("Kai Yip") in which two directors of the Company, Mr. Wong Yui Lam and Madam Tong She Man, Winnie, had in aggregate 51% beneficial interests which were sold to the Group on 1 February 2005. The Group further acquired the remaining 49% equity interests in Kai Yip from the minority shareholder on 30 March 2005 and Kai Yip then became a wholly-owned subsidiary of the Group.

Save as disclosed above, 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 or five largest suppliers during the year.

### DIRECTORS

The directors of the Company since 8 October 2004 (date of incorporation) and up to the date of this report were:

#### *Executive directors:*

Mr. Wong Yui Lam ( <i>Chairman</i> )	(appointed on 12 October 2004)
Madam Tong She Man, Winnie	(appointed on 12 October 2004)
Madam Lee Yuk Ming	(appointed on 12 October 2004)
Mr. Yeung Yat Hang	(appointed on 12 October 2004)

#### *Independent non-executive directors:*

Mr. Chu To Ki	(appointed on 12 October 2004)
Mr. Mak Wing Kit	(appointed on 12 October 2004)
Dr. Wong Yun Kuen	(appointed on 12 October 2004)

In accordance with article 87 of the Company's articles of association, Mr. Chu To Ki, Mr. Mak Wing Kit and Dr. Wong Yun Kuen will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

#### **DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES**

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 18 to 19 of the annual report.

#### **DIRECTORS' SERVICE CONTRACTS**

Each of the executive directors has entered into a service contract with the Company for a term of three years commencing from 1 May 2005. The service contracts will continue thereafter until terminated by not less than six months' notice in writing served by either party on the other without payment of compensation. Under the service contracts, after each completed year of service, the remuneration payable to each of them may, subject to the discretion of the directors, be adjusted and they will each be entitled to a discretionary bonus provided that the total amount of bonuses payable to all the directors for such year shall not exceed HK\$5 million. Each of the executive directors will be entitled to all reasonable out-of-pocket expenses and medical expenses, housing benefit and reimbursements, the use of a car and fuel and maintenance (including insurance) expenses in respect of the car used by him/her. Under the service contracts, the initial total remuneration (excluding discretionary bonus and benefits in kind) payable to the executive directors commencing 1 May 2005 is HK\$4,810,000 per annum.

Each of the independent non-executive directors has taken up the role as an independent non-executive director for an initial term of one year commencing from 1 May 2005. The total annual fees payable to the independent non-executive directors is currently HK\$360,000.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting of the Company has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

#### **DIRECTORS' INTERESTS IN CONTRACTS**

Save as disclosed in note 32 to the pro forma consolidated 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 the companies which have become its subsidiaries upon the Group Reorganisation was a party during the year.

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### DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

Immediately following completion of the initial public offering of the shares of the Company on 12 May 2005 (taking into account the shares issued upon exercise of the over-allotment option as disclosed in the Listing Prospectus), the Directors had the following interests in the shares and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were 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 Issuers of the Listing Rules:

#### (a) Long positions in shares of the Company

Name of director	Long/short position	Directly beneficially owned	Through spouse or minor children	Through controlled corporation	Through a discretionary trust/as beneficiary or trustee of trust	Total	Approximate percentage of the Company's issued share capital
Mr. Wong Yui Lam	Long position	—	37,146,000 (note 1)	33,702,000 (note 1)	171,708,000 (note 1)	242,556,000	69.17%
Madam Tong She Man, Winnie	Long position	—	33,702,000 (note 2)	37,146,000 (note 2)	171,708,000 (note 2)	242,556,000	69.17%

Notes:

- 33,702,000 shares are held by Wonder View Limited ("Wonder View"), the entire issued share capital of which is beneficially owned by Mr. Wong Yui Lam. 171,708,000 shares are held by Huge Treasure Investments Limited ("Huge Treasure") as trustee of The Wong & Tong Unit Trust, all units of which are owned by The Wong & Tong Family Trust, a discretionary trust established by Mr. Wong Yui Lam and Madam Tong She Man, Winnie, both being executive directors of the Company. Mr. Wong Yui Lam is also deemed to be interested in the 37,146,000 shares through the interest of his spouse, Madam Tong She Man, Winnie.
- 37,146,000 shares are held by Great Elite Corporation ("Great Elite"), the entire issued share capital of which is beneficially owned by Madam Tong She Man, Winnie. 171,708,000 shares are held by Huge Treasure as trustee of The Wong & Tong Unit Trust, all units of which are owned by The Wong & Tong Family Trust, a discretionary trust established by Mr. Wong Yui Lam and Madam Tong She Man, Winnie, both being executive directors of the Company. Madam Tong She Man, Winnie, is also deemed to be interested in the 33,702,000 shares through the interest of her spouse, Mr. Wong Yui Lam.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES (Continued)

(b) Long positions in shares of associated corporations

Name of associated corporation	Name of directors	Capacity	Number of shares in the associated corporation	Percentage of shareholding in the associated corporation
Huge Treasure (as trustee of The Wong & Tong Unit Trust)	Mr. Wong Yui Lam	Beneficial owner	1 share of US\$1 Long position	50%
	Madam Tong She Man, Winnie	Beneficial owner	1 share of US\$1 Long position	50%
Tough Jeans Limited	Mr. Wong Yui Lam	Beneficial owner (note 1)	3 non-voting deferred shares of HK\$1 each Long position	60% of the issued non-voting deferred shares
	Madam Tong She Man, Winnie	Beneficial owner (note 1)	2 non-voting deferred shares of HK\$1 each Long position	40% of the issued non-voting deferred shares
Bauhaus Holdings Limited	Mr. Wong Yui Lam	Beneficial owner (note 1)	1 non-voting deferred share of HK\$1 Long position	50% of the issued non-voting deferred shares
	Madam Tong She Man, Winnie	Beneficial owner (note 1)	1 non-voting deferred share of HK\$1 Long position	50% of the issued non-voting deferred shares

Notes:

1. Mr. Wong Yui Lam and Madam Tong She Man, Winnie are non-voting shareholders of these companies. The shareholders of these non-voting deferred shares are not entitled to any dividends and have no voting rights.

Save as disclosed above, immediately following completion of the initial public offering of the shares of the Company on 12 May 2005, none of the directors had registered an interest or short position in the shares and underlying shares 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 for Securities Transactions by Directors of Listed Issuers.

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### DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed in the share option scheme disclosed in note 7 to the Company's financial statements and note 26 to the pro forma consolidated financial statements, at no time during the year, or subsequent to the year end or following completion of the initial public offering of the shares of the Company on 12 May 2005 up to the date of this report, were rights to acquire benefits by means of the acquisitions 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 the companies which have become its subsidiaries upon the Group Reorganisation a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

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

Immediately following completion of the initial public offering of the shares of the Company on 12 May 2005, as far as known to the directors and taking into account the shares issued upon exercise of the over-allotment option as disclosed in the Listing Prospectus, the following, not being a Director or chief executive of the Company, will have interests in Shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or will be directly and indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Name of shareholder	Long/short position	Directly beneficially owned	Through discretionary trust/as beneficiary or trustee of trust	Total	Approximate percentage of the Company's issued share capital
Huge Treasure (note 1)	Long position	171,708,000	—	171,708,000	48.97%
East Asia International Trustees Limited ("EAIT") (note 2)	Long position	—	171,708,000	171,708,000	48.97%
Wonder View (note 3)	Long position	33,702,000	—	33,702,000	9.61%
Great Elite (note 4)	Long position	37,146,000	—	37,146,000	10.59%

#### Notes:

1. The 171,708,000 shares are held by Huge Treasure as trustee of The Wong & Tong Unit Trust, all units of which are owned by The Wong & Tong Family Trust established by Mr. Wong Yui Lam and Madam Tong She Man, Winnie, for the benefit of the issue of Mr. Wong Yui Lam and Madam Tong She Man, Winnie.
2. EAIT is a licensed trustee in the British Virgin Islands and acting as trustee of The Wong & Tong Family Trust. By virtue of its capacity as trustee of The Wong & Tong Family Trust, EAIT is deemed to be interested in the shares held by, and the short position of, Huge Treasure (as trustee of The Wong & Tong Unit Trust).

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES (Continued)

Notes: (Continued)

3. Wonder View is a company incorporated in the British Virgin Islands, the entire issued share capital of which is owned by Mr. Wong Yui Lam, an executive director and the chairman of the Company.
4. Great Elite is a company incorporated in the British Virgin Islands, the entire issued share capital of which is owned by Madam Tong She Man, Winnie, an executive director of the Company.

Save as disclosed above, as at the date of this report, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests 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 AND CONTINUING CONNECTED TRANSACTIONS

The companies now comprising the Group have had certain business relationships with persons who, immediately upon the listing of the Company's shares on the Stock Exchange, will become connected persons of the Company under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The following transactions between the companies within the Group and these persons upon listing of the Company's shares on the Stock Exchange constitute continuing connected transactions of the Company under the Listing Rules.

- A. The following continuing connected transactions are exempt from the independent shareholders' approval requirement under Rule 14A.34 of the Listing Rules and the respective amounts were below the relevant annual cap approved by the Stock Exchange as disclosed in the Listing Prospectus.

### Licence of software and provision of services

The Group entered into an agreement for the licence of software and provision of services with Netideas Limited ("Netideas"), which is 100% beneficially owned by Mr. Wong Yui Hong, a brother of Mr. Wong Yui Lam, an executive director, and accordingly, Mr. Wong Yui Hong is a connected person of the Company under the Listing Rules. Under the agreement, Netideas grants to the Group the licence (the "Licence") and right to use the relevant modules of a software named Net-Retail Management System (the "Software") and the documentation relating to the Software in connection with the management of the retail business of the Group. The agreement is for a term of four years commencing from 1 April 2004 and expiring on 31 March 2008.

For the year ended 31 March 2005, the aggregate amount paid by the Group to Netideas for the Licence amounted to HK\$1,223,000.



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### CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS (Continued)

#### A. (Continued)

##### Sourcing of equipment

Under the same agreement above, Netideas shall source for and sell to the Group computer equipment and the relevant hardware at prices no less favourable than the market prices for the purposes of replacement, upgrading the system or catering for the expansion and development of the Group. This computer equipment and hardware will be used in the Group's retail stores, warehouse and office.

For the year ended 31 March 2005, the aggregate amount paid by the Group for the sourcing of equipment was HK\$1,192,000.

The independent non-executive directors have reviewed the above continuing connected transactions and confirmed that the transactions have been entered into:

- (1) in the ordinary and usual course of business;
- (2) on normal commercial terms or on terms no less favourable to the Company than terms available to or from independent third parties; and
- (3) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

- B. The following continuing connected transactions are exempt from the reporting, announcement or independent shareholders' approval requirement under Rule 14A.33 of the Listing Rules and are included herein for information only.

The subsidiary which was acquired by the Group on 1 February 2005 (the "Subsidiary") has entered into a tenancy agreement for a term of two years from 1 July 2003 to 30 June 2005 with Mr. Chan Chi Keung, a director of the Subsidiary, for the office premises at Workshop 10, 4th Floor, Kingsford Industrial Centre, 13 Wang Hoi Road, Kowloon Bay, Kowloon, Hong Kong.

Under the agreement, the Subsidiary is required to pay a monthly rental of HK\$6,000 to Mr. Chan Chi Keung which is comparable to the market price available from independent third parties.

The rental paid by the Group to Mr. Chan Chi Keung under the tenancy agreement amounted to HK\$12,000 for the year ended 31 March 2005.

#### POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Company and the Group are set out in note 9 to the Company's financial statements and note 33 to the pro forma consolidated financial statements, separately.

#### CORPORATE GOVERNANCE

In the opinion of the directors of the Company, the Company has complied with the Code of Best Practice, as set out in Appendix 14 of the Listing Rules, which was still in force prior to 1 January 2005 and applicable to the year under review since the Company's incorporation on 8 October 2004 to 31 March 2005.

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" as set out in Appendix 10 (the "Code") of the Listing Rules as the Company's code of conduct for dealing in securities of the Company by the directors. Based on specific enquiry with the Company's directors', the Company confirmed that all directors have complied with the required standard as set out in the Code.

Each of the independent non-executive directors has confirmed his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

#### AUDIT COMMITTEE

The Company established its audit committee on 22 April 2005 with written terms of reference in compliance with the Code on Corporate Governance Practices as set out in new Appendix 14 to the Listing Rules effective on 1 January 2005. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Group. The audit committee has three members comprising the Company's three independent non-executive directors, namely, Mr. Chu To Ki, Mr. Mak Wing Kit and Dr. Wong Yun Kuen.

The Group's pro forma consolidated financial statements for the year ended 31 March 2005 and the Company's financial statements for the period from 8 October 2004 (date of incorporation) to 31 March 2005 have been reviewed by the audit committee, who is of the opinion that such statements complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures have been made. The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters.

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### REMUNERATION COMMITTEE

The Company established a remuneration committee on 22 April 2005 with terms of references in compliance with the Code on Corporate Governance Practices as set out in new Appendix 14 to the Listing Rules effective on 1 January 2005. The remuneration committee comprises the three independent non-executive directors, namely, Mr. Chu To Ki, Mr. Mak Wing Kit and Dr. Wong Yun Kuen. Mr. Mak Wing Kit is the chairman of the remuneration committee. The primary duties of the remuneration committee are to review and determine the terms of remuneration packages, bonuses and other compensation payable to the directors and senior management.

### NOMINATION COMMITTEE

The Company established a nomination committee on 22 April 2005 with terms of references in compliance with the Code on Corporate Governance Practices as set out in new Appendix 14 to the Listing Rules effective on 1 January 2005. The nomination committee comprises the three independent non-executive directors, namely, Mr. Chu To Ki, Mr. Mak Wing Kit and Dr. Wong Yun Kuen. Dr. Wong Yun Kuen is the chairman of the nomination committee. The nomination committee is mainly responsible for making recommendations to the board of directors on appointment of directors and management of board succession.

### SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, the Company has maintained sufficient public float since the Company's listing on the Stock Exchange on 12 May 2005.

### AUDITORS

Ernst & Young 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

Wong Yui Lam  
*Chairman*

Hong Kong  
6 July 2005