

Report of the Directors

The directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 March 2005.

PRINCIPAL ACTIVITIES

The principal activities of the Company is investment holding. The principal activities of the Group are the manufacturing and sale of garments. The principal activities and other particulars of the subsidiaries are set out in note 13 on the financial statements.

The analysis of the principal activities and geographical locations of the operations of the Group during the financial year are set out in note 11 on the financial statements.

RESULTS AND APPROPRIATIONS

The profit of the Group for the year ended 31 March 2005 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 22 to 64.

An interim dividend of HK1.2 cents per share (2004: HK0.9 cents per share) was paid on 4 February 2005.

The directors now recommend the payment of a final dividend of HK2 cents per share (2004: HK2 cents per share) in respect of the year ended 31 March 2005.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group's five largest suppliers accounted for 19.2% of the Group's total purchases. The largest supplier accounted for 4.3% of the Group's total purchases.

During the year, the Group's five largest customers accounted for 53.4% of the Group's total sales. The largest customer accounted for 32.9% of the Group's total sales.

None of the directors, their associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) had any beneficial interest in any of the Group's five largest suppliers or customers.

FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in note 12 on the financial statements.

CONVERTIBLE BONDS

Particulars of convertible notes are set out in note 21 on the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 27 on the financial statements.

RESERVES

Details of the movements in the reserves of the Company and the Group are set out in note 28 on the financial statements.

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DIRECTORS

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

Executive directors

Kwok Wing, Chairman
Lee Yuk Man
Ho Yik Kin, Norman
Kwok Kam Chuen

Independent non-executive directors

Leung Yiu Wing, Eric
Ching Kwok Ho, Samuel
Heng Kwo Seng (appointed on 27 September 2004)

In accordance with article 86 and 87 of the Company's articles of association, Mr Heng Kwo Seng and Mr Leung Yiu Wing, Eric will retire from the board by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

The independent non-executive directors were appointed by the board of directors on 28 March 2002 and 27 September 2004 respectively. Their appointments do not have a specific term but are subject to rotation in Annual General Meeting pursuant to the Company's articles of association. Their remuneration is determined by the board of directors on the anniversary of the date of their appointment.

No director proposed for re-election at the forthcoming Annual General Meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31 March 2005, the interests of the directors and their associates in the shares, underlying shares and debentures 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 The Stock Exchange of Hong Kong Limited (the "SEHK") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"), were as follows:

Beneficial interests	Ordinary shares of HK\$0.1 each			Percentage of total Issued shares
	Personal interests	Corporate interests	Total number of shares held	
Mr Kwok Wing	8,424,000	754,000,000 (note)	762,424,000	50.27%

Note: These shares are held as to 652,800,000 shares by Efulfilment Enterprises Limited and as to 101,200,000 shares by Sharp Asset Holdings Limited. Mr Kwok Wing beneficially owns 50% of the issued share capital of Efulfilment Enterprises Limited and 100% of Sharp Asset Holdings Limited.

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In addition to the above, certain director has non-beneficial personal equity interest in certain subsidiaries held for the benefit of the Group solely for the purpose of complying with the minimum company membership requirements of the Hong Kong Companies Ordinance. Certain director also has beneficial interests in non-voting deferred shares practically carrying no rights to dividends or to receive notice of or to attend or vote at any general meeting or to participate in any distribution or winding up in a subsidiary.

Other than as disclosed above, none of the directors nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 March 2005.

SHARE OPTION SCHEME

The Company has conditionally adopted a share option scheme approved by way of written resolution on 11 April 2002 under which the directors of the Company may invite any full-time employees, directors (including executive directors, non-executive directors and independent non-executive directors) and part-time employees of the Group with weekly working hours of 10 hours and above, any advisers (professional or otherwise) or consultants, distributors, suppliers, agents, customers, partners, joint venture partners, promoters, service providers to the Group from time to time to take up options to subscribe for shares of the Company.

The exercise price is determined by the board of directors at its absolute discretion and notified to each option holder but shall be no less than the highest of (i) the closing price of the shares as stated in the daily quotations sheets issued by the SEHK on the date of grant, (ii) the average closing price of the shares as stated in the daily quotations sheets issued by the SEHK for the five business days immediately preceding the date of grant, and (iii) the nominal value of a share on the date of grant. The options may be exercised in accordance with the terms of the share option scheme at any time during a period to be notified by the board of directors to each option holder but may not be exercised after the expiry of ten years from the date of grant.

The maximum number of shares which may be issued upon the exercise of all outstanding options and yet to be exercised under the share option scheme shall not exceed 30% of the issued share capital of the Company from time to time. Subject always to the above overall limit, the board of directors may grant options under the share option scheme, generally and without further authority, in respect of such number of shares which may be issued upon exercise of all options to be granted under the share option scheme not exceeding 10% of the issued share capital of the Company as at 29 April 2002, being the date on which the Company's shares were listed on the SEHK. For the purpose of calculating the above, options lapsed in accordance with the share option scheme shall not be counted.

In respect of the share options granted by the Company to the employees on 7 November 2002, 60,000,000 share options were exercised at HK\$0.465 per share and the remaining 72,800,000 share options were lapsed.

On 8 November 2004, the Company re-granted 68,000,000 options at a nominal consideration under the share option scheme of the Company to certain employees of the Group to subscribe for shares of the Company. Each option gives the holder the right to subscribe for one share of the Company at HK\$0.74 (which is equal to the closing price of the shares on the date of grant) with exercisable period from 8 November 2004 to 7 November 2007.

Up to the date of approval of these financial statements, none of the share options granted to the employees of the Group have been exercised.

The directors consider that it is not appropriate to disclose the value of the share options granted since any valuation of the share options would be subject to a number of assumptions that would be subjective and uncertain. The directors believe that the evaluation of the share options based upon speculative assumptions would not be informative and might be misleading.

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SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTEREST IN SHARES AND UNDERLYING SHARES

As at 31 March 2005, 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 certain directors, the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company.

	Ordinary shares held	Percentage of total issued shares
Efulfilment Enterprises Limited (<i>Note 1</i>)	652,800,000	43.04%
Sharp Asset Holdings Limited (<i>Note 1</i>)	101,200,000	6.67%
Value Partners Limited (<i>Note 2</i>)	157,232,000	10.37%
Templeton Asset Management Limited	154,818,000	10.21%

Note 1: The issued share capital of Efulfilment Enterprises Limited is beneficially owned by Mr Kwok Wing and Mr Kwok Chiu in the proportion of 50:50. The entire issued share capital of Sharp Asset Holdings Limited is beneficially owned by Mr Kwok Wing.

Note 2: Mr. Cheah Cheng Hye is deemed to be interested in these shares by control over Value Partners Limited.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 March 2005.

DIRECTORS' INTERESTS IN CONTRACTS

Apart from the related party transactions as disclosed in note 31 on the financial statements, no contract of significance to which the Company, 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 any time during the year.

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

Throughout the year ended 31 March 2005, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association although there are no restrictions against such rights under the law in the Cayman Islands.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has maintained sufficient public float as required under the Listing Rules.

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APPLICATION OF PROCEEDS FROM CAPITAL ARISING

As disclosed in the 2003/2004 annual report, the Group had unutilized proceeds of HK\$15 million from public issue of new shares in April and May 2002. Such remaining proceeds of HK\$15 million remain unutilized as at 31 March 2005. The group intends to apply the remaining proceeds of HK\$15.0 million for the following purposes:

- (i) as to approximately HK\$10.0 million for the development of retail operation to sell Blue Cat apparels in the PRC by investing in Blue Cat Development Company Limited which was granted the rights to open Blue Cat distribution and exhibition outlets in major cities in the PRC such as Shanghai, Guangzhou, Chengdu, Wuhan, Shenyang, Xian, Tianjin and Changsha; and
- (ii) as to approximately HK\$5.0 million for the establishment of its own production facilities to print and dye fabric to extend its level of vertical integration should opportunities arise.

The remaining net proceeds from the new share issue are currently placed on short term deposits with banks in Hong Kong.

CONNECTED TRANSACTIONS

Exclusive manufacturing agreement

On 25 March 2002, Blue Cat Development Limited ("Blue Cat Development") entered into an exclusive manufacturing agreement (the "Blue Cat Agreement") with Blue Cat Enterprises Limited ("Blue Cat Enterprises"). Pursuant to the Blue Cat Agreement, Blue Cat Development has granted to Blue Cat Enterprises the exclusive right to manufacture clothing and apparel accessories in relation to the Blue Cat cartoon characters.

The charges for clothing and apparel accessories developed and manufactured by Blue Cat Enterprises are subject to:

- (a) the manufacturing fee (the "Fee") for each product shall be such price as may be agreed between the parties, it being acknowledged that Blue Cat Enterprises will give Blue Cat Development no less favourable terms than Blue Cat Enterprises would give independent customers. In any event, however, such price shall, failing agreement or in any event, be no less than Blue Cat Enterprises' ex-factory price plus a mark up of 5%. For this purpose, ex-factory price is a price determined by Blue Cat Enterprises by reference to ex-factory prices it charges to independent customers for comparable products or in instances where the products are identical, the ex-factory price for each product to be manufactured by Blue Cat Enterprises will be no less favourable than the ex-factory prices it charges to other independent customers; and

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- (b) the aggregate Fees payable by Blue Cat Development to Blue Cat Enterprises will be based on actual number of products ordered to be manufactured by Blue Cat Development, and which is subject to a maximum amount of payment (the "Annual Cap") for each financial year from 1 April to 31 March in the following calendar years (except for the first year which begins from 25 March 2002) listed out as follows:

	Year ended 31 March 2003 (From 25 March 2002 to 31 March 2003)	Year ended 31 March 2004 (From 1 April 2003 to 31 March 2004)	Year ended 31 March 2005 (From 1 April 2004 to 31 March 2005)
The Annual Cap Amount	RMB25,000,000 (the "2002 Cap Amount")	RMB35,000,000 (the "2003 Cap Amount")	RMB45,000,000 (the "2004 Cap Amount")

Blue Cat Development is a company incorporated in BVI with limited liability in which Sure Profit Trading Ltd. and four independent third parties hold 51% and 49% equity interest respectively. Sure Profit Trading Ltd. is a company incorporated in BVI with limited liability the ultimate beneficial controlling shareholder of which is Mr Kwok Wing. Accordingly, Blue Cat Development is a connected person of the company under the Listing Rules.

The independent non-executive directors of the company have confirmed to the board of directors of the company that they have reviewed the Transactions for the financial year ended 31 March 2005 and concluded that:

- i. the Transactions for the financial year ended 31 March 2005 were entered (a) in the ordinary and usual course of business of the company; (b) on normal commercial terms; and (c) in accordance with the Blue Cat Agreement, on terms that are fair and reasonable so far as the shareholders of the company are concerned; and
- ii. the annual aggregate value in respect of the Transactions for the financial year ended 31 March 2005 which amounted to approximately RMB22,853,000 did not exceed the 2004 Cap Amount.

FIVE YEAR SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 66 of the annual report.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

Throughout the financial year ended 31 March 2005, the Company has complied with the Code of Best Practice as set out by the SEHK in Appendix 14 to the Listing Rules, except that the independent non-executive directors of the Company were not appointed for a specific term but are subject to rotation in Annual General Meeting pursuant to the Company's articles of association.

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AUDIT COMMITTEE

The board of directors has established an audit committee on 29 April 2002. The audit committee has been convened for the purpose of reviewing the Company's financial reporting and internal control systems. The audit committee currently comprises three independent non-executive directors.

AUDITORS

KPMG retire and, being eligible, offer themselves for reappointment. A resolution for the reappointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

Kwok Wing

Chairman

Hong Kong, 26 July 2005