

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 2006.

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 individual subsidiaries are set out in note 14 to 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 12 to the financial statements.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 March 2006 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 29 to 99.

Transfer to reserves

Profit attributable to equity shareholders of the Company, before dividends, of HK\$132,626,000 (2005 (restated): HK\$155,539,000) has been transferred to reserves. Other movements in reserves are set out in note 29 to the financial statements.

An interim dividend of HK1.2 cents (2005: HK1.2 cents) per share was paid on 28 February 2006. The directors have recommended the payment of a final dividend of HK1.81 cents (2005: HK2 cents) per share in respect of the year ended 31 March 2006.

Charitable donations

Charitable donations made by the Group during the financial year amounted to HK\$20,000 (2005: nil).

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 March 2006, the Group's five largest suppliers accounted for 18.2% of the Group's total purchases. The largest supplier accounted for 4.6% of the Group's total purchases.

For the year ended 31 March 2006, the Group's five largest customers accounted for 62.9% of the Group's total sales. The largest customer accounted for 24.9% 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 13 to the financial statements.

Particulars of the major properties and property interests of the Group are shown on page 100 of the annual report.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at 31 March 2006 are set out in notes 22 to 24, to the financial statements.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 29 to the financial statements.

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 Kwoo Seng

In accordance with article 87 of the Company's articles of association, Mr Kwok Wing and Mr Ching Kwok Ho, Samuel 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 retirement by rotation in annual general meeting of the Company 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 AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31 March 2006, the interests of the directors and their associates in the shares, underlying shares and debentures of the Company, its subsidiaries and 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	–	762,424,000 (note)	762,424,000	50.27%

Note: These shares are held as to 652,800,000 shares by Efulfilment Enterprises Limited and as to 109,624,000 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.

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 2006.

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.

On 24 October 2005, the Company granted 70,000,000 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\$0.614 (which is equal to the closing price of the shares on the date of grant) with exercisable period from 24 October 2005 to 23 October 2008.

Up to the date of approval of these financial statements, none of the share options granted on 8 November 2004 and 24 October 2005 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.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 March 2006, 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%
SinoPac Capital Limited (<i>Note 2</i>)	234,000,000	15.43%
Sharp Asset Holdings Limited (<i>Note 1</i>)	109,624,000	7.23%
Templeton Asset Management Limited	154,818,000	10.21%
Sansar Capital Management, LLC	98,992,000	6.53%
Allianz Aktiengesellschaft	95,526,000	6.30%

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: To the best knowledge of the directors of the company, some of the holders of the US\$30 million 1% convertible bonds due 2009 have transferred their bonds in favour of SinoPac Capital Limited as security and SinoPac Capital Limited is therefore taken to be interested in the underlying shares of the convertible bond under SFO.

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 2006.

DIRECTORS' INTERESTS IN CONTRACTS

Apart from the related party transactions as disclosed in note 33 to 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 2006, 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 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.

APPLICATION OF PROCEEDS FROM CAPITAL RAISING

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 have been fully utilised on the expansion of its own production facilities to print and dye fabric during the year ended 31 March 2006.

On 10 April 2006, the Company issued 227,500,000 new shares at the subscription price of HK\$1.03 each. The net proceeds from the share issue of approximately HK\$229 million will be applied as to approximately HK\$100 million for the expansion of the Group's production capacity in Cambodia, as to HK\$50 million for expansion of Mudd retail operation in the PRC and as to the remaining for repayment of the debts. The net proceeds from the new share issue are currently placed on short term deposits with banks in Hong Kong.

RETIREMENT SCHEMES

Particulars of employee retirement schemes of the Group are set out in note 26 on the financial statements.

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 101 of the annual report.

AUDIT COMMITTEE

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.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive directors to be independent.

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, 27 July 2006