

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

1. GENERAL

The Company is incorporated as an exempted company with limited liability in Bermuda under The Companies Act 1981 of Bermuda (as amended) and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted, for the first time, Statement of Standard Accounting Practice No. 12 "Income Taxes" ("SSAP 12 (Revised)"), which is one of the Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Society of Accountants ("HKSA"). The term of HKFRS is inclusive of SSAP and Interpretations approved by the HKSA.

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. The adoption of SSAP 12 (Revised) has had no material effect on the results for the current or prior accounting years. Accordingly, no prior year adjustment has been required.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of investments in securities, and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st March each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

Goodwill is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Service income is recognised when services are provided.

Interest income, is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Sales of investments in securities are recognised when the sales contract becomes unconditional.

Dividend income from trading in securities is recognised when the Group's right to receive payment has been established.

Property, plant and equipment

Construction in progress

Construction in progress is stated at cost less accumulated impairment losses. No depreciation or amortisation is provided on construction in progress until the construction is completed and the assets are ready for use.

Other property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and amortisation and accumulated impairment losses.

Depreciation and amortisation are provided to write off the cost of property, plant and equipment, other than construction in progress, over their estimated useful lives, using the straight line method, at the following rates per annum:

Leasehold land and land use rights	Over the term of the leases or land use rights
Buildings	Over the estimated useful lives of 50 years or the period of the leases or land use rights, if shorter
Plant and machinery	6-10%
Furniture, fixtures and equipment	20%
Motor vehicles	20-30%

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Textile quota entitlements

Textile quotas entitlements represents permanent quotas and are stated at cost less accumulated amortisation and accumulated impairment losses. The cost of permanent quota entitlements is amortised on a systematic basis over their estimated useful economic life.

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

All securities other than held-to-maturity debt securities are measured at subsequent reporting dates at fair value.

Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the year. For other securities, unrealised gains and losses are dealt with in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in net profit or loss for the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating lease

Rentals payable under operating leases are charged to the income statement on a straight line basis over the period of the relevant lease terms.

Retirement benefits scheme

The retirement benefit costs charged in the income statement represent the contributions payable in respect of the current year to the Group's defined contribution schemes.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates of exchange prevailing on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are dealt with in the net profit or loss for the year.

On consolidation, the assets and liabilities of the Group's operations outside Hong Kong are translated at the exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rate for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

4. TURNOVER

Turnover represents the net amounts received and receivable for goods sold, less returns and allowances, by the Group to outside customers during the year and is analysed as follows:

	2004	2003
	HK\$'000	HK\$'000
Manufacture and sale of knitted fabric and dyed yarns	412,439	353,326
Trading of garment products	127,728	–
	540,167	353,326

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

5. SEGMENTAL INFORMATION

Business segment

For management purpose, the Group is currently organised into two business activities– (i) manufacture and sale of knitted fabric and dyed yarns; and (ii) trading of garment products. These activities are the basis on which the Group reports its primary segment information.

Segment information about these activities is presented below:

For the year ended 31st March, 2004

	Manufacture and sale of knitted fabric and dyed yarns	Trading of garment products	Eliminated	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
TURNOVER				
External sales	412,439	127,728	–	540,167
Inter-segment sales	3,329	–	(3,329)	–
Total turnover	<u>415,768</u>	<u>127,728</u>	<u>(3,329)</u>	<u>540,167</u>
RESULTS				
Segment results	<u>34,527</u>	<u>(2,019)</u>		32,508
Other operating income				4,149
Amortisation of goodwill	–	(1,039)	–	(1,039)
Realised and unrealised holding gain on trading securities				510
Unallocated corporate expenses				<u>(751)</u>
Profit from operations				35,377
Finance costs	(175)	(44)	–	<u>(219)</u>
Profit before taxation				35,158
Taxation				<u>(1,621)</u>
Profit after taxation				33,537
Minority interests				<u>92</u>
Net profit for the year				<u><u>33,629</u></u>

* Inter-segment sales were charged at terms determined and agreed between the group companies.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

5. SEGMENTAL INFORMATION (continued)

BALANCE SHEET

At 31st March, 2004

	Manufacture and sale of knitted fabric and dyed yarns	Trading of garment products	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
ASSETS			
Segment assets	409,906	52,563	462,469
Unallocated corporate assets			37,768
Consolidated total assets			<u>500,237</u>
LIABILITIES			
Segment liabilities	61,275	32,519	93,794
Unallocated corporate liabilities			11,137
Consolidated total liabilities			<u>104,931</u>

	Manufacture and sale of knitted fabric and dyed yarns	Trading of garment products	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
OTHER INFORMATION			
Capital additions	42,070	24,524	66,594
Depreciation and amortisation	23,956	241	24,197
Amortisation of goodwill	–	1,039	1,039
Amortisation of textile quota entitlements	–	5,000	5,000
Goodwill arising on acquisition of a subsidiary	–	14,764	14,764
	<u>–</u>	<u>14,764</u>	<u>14,764</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

5. SEGMENTAL INFORMATION (continued)

For the year ended 31st March, 2003

Sales of knitted fabrics and dyed yarns account for more than 90% of the Group's turnover for the year ended 31st March, 2003, accordingly, no analysis for the business segment information are provided.

Geographical segments

An analysis of the Group's turnover by geographical market, irrespective of the origin of the goods and services, is presented below:

	2004	2003
	HK\$'000	HK\$'000
United States of America	127,728	–
PRC including Hong Kong	412,439	353,326
	<u>540,167</u>	<u>353,326</u>

Substantially all the carrying amount of segment assets at 31st March, 2003 and 2004 and capital additions for the year ended 31st March, 2003 and 2004 are located in the PRC, including Hong Kong.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

6. PROFIT FROM OPERATIONS

	2004	2003
	HK\$'000	HK\$'000
Profit from operations has been arrived at after charging:		
Staff costs including directors' remuneration:		
– Salaries and other benefits	28,007	24,768
– Retirement benefit scheme contributions	395	608
Total staff costs	28,402	25,376
Auditors' remuneration	760	388
Depreciation and amortisation on property, plant and equipment	24,197	22,500
Amortisation of goodwill, included in administrative and other operating expenses	1,039	–
Amortisation of textile quota entitlements, including in cost of sales	5,000	–
and after crediting:		
Gain on disposal of property, plant and equipment	650	315
Interest income from banks	269	2,037
Investment income from trading securities (listed)	2,360	397
Gain on disposal of a subsidiary (note 26)	–	1,029

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

7. DIRECTORS' EMOLUMENTS

	2004	2003
	HK\$'000	HK\$'000
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Directors' fees:		
Executive directors	-	-
Independent non-executive directors	180	150
Other emoluments (executive directors):		
Salaries and other benefits	3,969	5,408
Retirement benefit scheme contributions	43	39
	<hr/>	<hr/>
Total emoluments	4,192	5,597
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The emoluments of the directors were within the following bands:

	2004	2003
	Number of	Number of
	directors	directors
<hr/>		
Not exceeding HK\$1,000,000	5	2
HK\$1,000,001 to HK\$1,500,000	2	4
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8. EMPLOYEES' EMOLUMENTS

Of the five individuals with highest emoluments in the Group, four (2003: four) were directors of the Company, details of whose emoluments are included in the disclosures in note 7 above. The emoluments of the remaining individual were as follows:

	2004	2003
	HK\$'000	HK\$'000
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Salaries and other benefits	1,292	768
Retirement benefit scheme contributions	-	12
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	1,292	780
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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

9. INCOME TAX EXPENSE

	2004	2003
	HK\$'000	HK\$'000
Current tax:		
Hong Kong Profits Tax:		
Current year	1,578	–
Overprovision in prior years	–	(123)
Other jurisdictions	511	353
	2,089	230
Deferred taxation (note 21)		
Current year	(468)	381
Change in tax rate	–	388
	1,621	999

Hong Kong Profits Tax is calculated at 17.5% (2003: 16%) of the estimated assessable profit for both years. Overseas taxation is calculated at the rates prevailing in the respective jurisdictions.

No provision on Hong Kong Profits tax is made for the year ended 31st March, 2003 since the assessable profit is wholly absorbed by tax losses brought forward.

The charge for the year can be reconciled to the profit before taxation per the income statement as follows:

	2004	2003
	HK\$'000	HK\$'000
Profit before taxation	35,158	23,179
Tax at the domestic income tax rate of 17.5% (2003: 16%)	6,153	3,709
Tax effect of expenses that are not deductible in determining taxable profit	364	410
Tax effect of income that is not taxable in determining taxable profit	(516)	(340)
Utilisation of tax losses previously not recognised	(96)	–
Tax effect of tax losses not recognised	81	–
Overprovision of tax expenses in prior years	–	(123)
Change in tax rate	–	(388)
Effect of different tax rate of subsidiaries operating in other jurisdictions	(4,365)	(2,269)
Tax charge for the year	1,621	999

Details of deferred taxation are set out in note 21.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

10. DIVIDENDS

	2004	2003
	HK\$'000	HK\$'000
Interim, paid – HK2.5 cents (2003: HK1.2 cents) per share	9,714	4,640
Final, paid – 2003: HK1.3 cents (2004: Nil) per share	-	5,026
Special, paid – 2003: HK2.0 cents (2004: Nil) per share	-	7,733
	9,714	17,399

11. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	2004	2003
	HK\$'000	HK\$'000
Net profit for the year	33,629	22,180
Weighted average number of ordinary shares for the purposes of basic earnings per share	387,870,698	386,640,000
Effect of dilutive potential ordinary shares in respect of share options	11,073,101	2,677,243
Weighted average number of ordinary shares for the purposes of diluted earnings per share	398,943,799	389,317,243

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

12. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress HK\$'000	Leasehold land and buildings HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
THE GROUP						
COST						
At 1st April, 2003	6,882	18,044	213,714	20,648	11,699	270,987
Acquired on acquisition of a subsidiary	-	-	146	10	1,116	1,272
Additions	3,829	-	29,705	4,880	3,656	42,070
Transfer	(7,599)	3,043	4,556	-	-	-
Disposals	-	-	(1,619)	-	(1,474)	(3,093)
At 31st March, 2004	<u>3,112</u>	<u>21,087</u>	<u>246,502</u>	<u>25,538</u>	<u>14,997</u>	<u>311,236</u>
DEPRECIATION AND AMORTISATION						
At 1st April, 2003	-	3,397	119,703	11,187	9,075	143,362
Provided for the year	-	396	17,872	3,467	2,462	24,197
Eliminated on disposals	-	-	(1,579)	-	(1,394)	(2,973)
At 31st March, 2004	<u>-</u>	<u>3,793</u>	<u>135,996</u>	<u>14,654</u>	<u>10,143</u>	<u>164,586</u>
NET BOOK VALUES						
At 31st March, 2004	<u>3,112</u>	<u>17,294</u>	<u>110,506</u>	<u>10,884</u>	<u>4,854</u>	<u>146,650</u>
At 31st March, 2003	<u>6,882</u>	<u>14,647</u>	<u>94,011</u>	<u>9,461</u>	<u>2,624</u>	<u>127,625</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

12. PROPERTY, PLANT AND EQUIPMENT (continued)

The net book value of leasehold land and buildings held by the Group as at the balance sheet date comprises:

	2004	2003
	HK\$'000	HK\$'000
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Land and buildings held under:		
Medium-term leases in Hong Kong	2,876	2,947
Medium-term land use rights in the PRC	14,418	11,700
	17,294	14,647

13. INVESTMENTS IN SUBSIDIARIES

	2004 & 2003
	HK\$'000
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Unlisted shares, at cost	84,948

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

14. GOODWILL

	HK\$'000
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COST	
Arising on acquisition of a subsidiary	14,764
AMORTISATION	
Charge for the year	1,039
CARRYING AMOUNTS	
At 31st March, 2004	13,725

Goodwill is amortised over its estimated useful life of 7 years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

15. TEXTILE QUOTA ENTITLEMENTS

	<i>HK\$'000</i>
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THE GROUP	
COST	
Acquisition of a subsidiary	18,753
AMORTISATION	
Charge for the year	<u>(5,000)</u>
NET BOOK VALUE	
At 31st March, 2004	<u><u>13,753</u></u>

The textile quota entitlements are amortised on a systematic basis over their estimated useful life of 15 months.

16. INVESTMENTS IN SECURITIES

	THE GROUP		THE COMPANY	
	Trading securities		Trading securities	
	2004	2003	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<hr/>				
Equity securities:				
Listed				
– Hong Kong	–	4,022	–	4,022
– overseas	<u>8,561</u>	<u>20,686</u>	<u>8,561</u>	<u>8,658</u>
	8,561	24,708	8,561	12,680
Listed overseas debt securities	–	<u>15,619</u>	–	–
	<u>8,561</u>	<u>40,327</u>	<u>8,561</u>	<u>12,680</u>
Market value of listed securities	<u>8,561</u>	<u>40,327</u>	<u>8,561</u>	<u>12,680</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

17. INVENTORIES

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Raw materials	112,574	83,129
Work in progress	50,066	25,538
	<u>162,640</u>	<u>108,667</u>

All inventories were carried at cost.

18. TRADE AND OTHER RECEIVABLES

The credit terms given to the customers vary from cash on delivery to 120 days and are generally based on the financial strengths of individual customers. In order to effectively manage the credit risks associated with trade receivables, credit evaluations of customers are performed periodically.

Included in trade and other receivables of the Group are trade receivables of approximately HK\$91,376,000 (2003: HK\$72,115,000).

The following is an aged analysis of trade receivables at the balance sheet date:

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
0 – 60 days	60,397	44,970
61 – 90 days	10,676	8,507
91 – 120 days	15,910	6,926
Over 120 days	4,393	11,712
	<u>91,376</u>	<u>72,115</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

19. AMOUNTS DUE FROM SUBSIDIARIES/AMOUNT DUE TO A SUBSIDIARY

The amounts are unsecured, interest free and have no fixed repayment terms.

20. TRADE AND OTHER PAYABLES

Included in trade and other payables of the Group are trade payables of approximately HK\$43,264,000 (2003: HK\$28,391,000).

The following is an aged analysis of trade payables at the balance sheet date:

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
0 – 60 days	27,688	23,557
61 – 90 days	5,596	3,886
Over 90 days	9,980	948
	43,264	28,391

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

21. DEFERRED TAXATION

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting periods.

	Accelerated tax depreciation	Tax losses	Textile quotas	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1st April, 2002	(10,017)	5,886	–	(4,131)
Charge (credit) to consolidated income statement	3,238	(3,619)	–	(381)
Change in tax rate	(939)	551	–	(388)
At 31st March, 2003	(7,718)	2,818	–	(4,900)
Charge (credit) to consolidated income statement	(2,150)	1,072	1,546	468
At 31st March, 2004	<u>(9,868)</u>	<u>3,890</u>	<u>1,546</u>	<u>(4,432)</u>

The Company has no significant deferred taxation at the balance sheet date.

For the purpose of balance sheet presentation, certain deferred tax asset and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purpose.

	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Deferred taxation liabilities	(5,978)	(4,900)
Deferred tax assets	1,546	–
	<u>(4,432)</u>	<u>(4,900)</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

22. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Authorised:		
Ordinary shares of HK\$0.01 each		
at 1st April, 2002	50,000,000,000	500,000
Consolidation of shares	<u>(45,000,000,000)</u>	<u>–</u>
Ordinary shares of HK\$0.10 each		
at 31st March, 2003 and 31st March, 2004	<u>5,000,000,000</u>	<u>500,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.01 each		
at 1st April, 2002	3,866,400,000	38,664
Consolidation of shares	<u>(3,479,760,000)</u>	<u>–</u>
Ordinary shares of HK\$0.10 each		
at 31st March, 2003	386,640,000	38,664
Issue of shares	<u>1,933,200</u>	<u>193</u>
Ordinary shares of HK\$0.10 each at 31st March, 2004	<u>388,573,200</u>	<u>38,857</u>

Pursuant to a resolution passed by the shareholders of the Company in a special general meeting held on 18th March, 2003, every ten ordinary shares of HK\$0.01 each in the issued and unissued share capital of the Company were consolidated into one ordinary share of HK\$0.10 each ("Share Consolidation"). Details of the Share Consolidations were set out in the circular of the Company dated 28th February, 2003 and were effective on 19th March, 2003.

During the year ended 31st March, 2004, 1,933,200 share options were exercised at a subscription price of HK\$0.51 per share, resulting in the issue of 1,933,200 ordinary share of HK\$0.10 each in the Company.

All the new shares rank pari passu with the then existing shares in issue in all respects.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

23. SHARE OPTION SCHEME

The 1997 Scheme

Pursuant to the share option scheme of the Company adopted on 3rd March, 1997 (the "1997 Scheme"), the directors of the Company may grant options to any executive director or employee of the Company or any of its subsidiaries to subscribe for shares in the Company for the primary purpose of providing incentives to directors and eligible employees.

The 1997 Scheme was terminated pursuant to an ordinary resolution passed at annual general meeting of the Company held on 23rd August, 2002. There was no outstanding share options on 31st March, 2003 and 2004 and no share option was granted nor exercised during the period under the 1997 Scheme.

The 2002 Scheme

On 28th August, 2002, the Company adopted the existing share option scheme (the "2002 Scheme") for the primary purpose to attract, retain and motivate talented employees, executive and non-executive directors and consultants of the Company or any subsidiaries or associated companies or such persons who from time to time that determined by the Board at its discretion as having contributed to the Group based on his/her performance and/or years of services, or it regarded as valuable resources and other relevant factors (the "Participants"), to strive for future developments and expansion of the Group. The 2002 Scheme will be ending on 27th August, 2012.

Under the 2002 Scheme, the board of directors of the Company may grant options to Participants to subscribe for shares in the Company at a price equal to the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the offer date, which must be a trading day; (ii) a price being the average of the closing prices of shares as stated in the Stock Exchange's daily quotation sheet for the five trading days immediately preceding the date of the offer date and (iii) the nominal value of a share, subject to a maximum of 38,644,000 shares, representing approximately 10% of the issued share capital of the Company as at the date of adoption of 2002 Scheme.

The total number of Shares which may be issue and to be issue upon exercise of all exercised and/or outstanding options granted each Participant shall not in aggregate exceed 1% of the relevant class of securities of the Company in issue in any 12-month period.

An option shall be accepted with 21 days and have taken effect when the duplicate letter comprising acceptance of the option duly signed by grantee together with a remittance in favour of the Company of HK\$1.00 by way of consideration for the grant thereof in received by the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

23. SHARE OPTION SCHEME (continued)

The 2002 Scheme (continued)

The following table discloses movements during the year in the 2002 Scheme:

Category	Date of grant	Exercisable period	Exercise price per share HK\$	Number of share options						
				At 1.4.2002	Cancelled	At 31.3.2003	Granted	Exercised	At 31.3.2004	
1. 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	-	-	-	1,933,200
				<u>1,933,200</u>	<u>-</u>	<u>1,933,200</u>	<u>3,000,000</u>	<u>-</u>	<u>-</u>	<u>4,933,200</u>
2. 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	21,265,200	(3,866,400)	17,398,800	-	(1,933,200)	-	15,465,600
				<u>21,265,200</u>	<u>(3,866,400)</u>	<u>17,398,800</u>	<u>3,865,000</u>	<u>(1,933,200)</u>	<u>-</u>	<u>19,330,600</u>
				<u>23,198,400</u>	<u>(3,866,400)</u>	<u>19,332,000</u>	<u>6,865,000</u>	<u>(1,933,200)</u>	<u>-</u>	<u>24,263,800</u>

* Mr. Li Man Tak resigned as director on 31st May, 2004 and the share options held by Mr. Li Man Tak 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:

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

23. SHARE OPTION SCHEME (continued)

The 2002 Scheme (continued)

	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 the date on which the options were exercised was HK\$1.28.

Total consideration received during the year from employees for taking up options granted amounted to HK\$37 (2003: HK\$6).

At 31st March, 2004 and the date of report, the total number of shares available for issue under the Company's share option scheme is 36,730,800, representing 9.5% of the issued capital of the Company.

No charge is recognised in the income statement in respect of the value of options granted during the year.

24. RESERVES

	Share premium account	Contributed surplus	Retained profits (losses)	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
THE COMPANY				
Balance at 1st April, 2002	129,660	153,400	(20,079)	262,981
Dividend paid	-	-	(4,640)	(4,640)
Net profit for the year	-	-	34,976	34,976
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 1st April, 2003	129,660	153,400	10,257	293,317
Dividend paid	-	-	(22,537)	(22,537)
Issue of shares	792	-	-	792
Net profit for the year	-	-	20,664	20,664
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31st March, 2004	<u>130,452</u>	<u>153,400</u>	<u>8,384</u>	<u>292,236</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

24. RESERVES (continued)

The contributed surplus of the Company represents the difference between the consolidated shareholders' funds of the subsidiaries acquired and the nominal value of the Company's shares issued for the acquisition at the time of a previous group reorganisation less amounts utilized on bonus issue of shares plus the credit arising from the capital reduction in 2001.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend or make a distribution out of contributed surplus if:

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

In the opinion of the directors, the Company's reserves available for distribution to shareholders at the balance sheet date consisted of:

	2004	2003
	HK\$'000	HK\$'000
Contributed surplus	153,400	153,400
Accumulated profits	8,384	10,257
	<u>161,784</u>	<u>163,657</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

25. ACQUISITION OF A SUBSIDIARY

During the year, the Group acquired the 70% equity interests in South Season Industrial Company Limited ("South Season") for a cash consideration of HK\$24,500,000. This acquisition has been accounted for by the acquisition method of accounting.

	2004	2003
	HK\$'000	<i>HK\$'000</i>
Net assets acquired:		
Property, plant and equipment	1,272	–
Textile quota entitlements	18,753	–
Trade and other receivables	1,399	–
Bank balances and cash	6,309	–
Trade and other payables	(11,880)	–
Taxation	(1,610)	–
Minority interests	(4,273)	–
	9,970	–
Goodwill	14,764	–
Total consideration	24,734	–
Satisfied by:		
Cash	24,500	–
Related expenses paid on acquisition	234	–
	24,734	–
Net cash outflow arising on acquisition:		
Cash consideration paid	24,734	–
Bank balances and cash	(6,309)	–
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	18,425	–

The subsidiary acquired during the year contributed HK\$125,928,000 to the Group's turnover and a loss of HK\$1,852,000 to the Group's profit from operations.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

26. DISPOSAL OF A SUBSIDIARY

	2004	2003
	HK\$'000	HK\$'000
Net assets disposed of:		
Interest in an associate	-	6,661
Investments in securities	-	10
	<u>-</u>	<u>6,671</u>
Gain on disposal of a subsidiary	-	1,029
	<u>-</u>	<u>1,029</u>
	<u>-</u>	<u>7,700</u>
Satisfied by:		
Cash received	-	670
Other receivables	-	7,030
	<u>-</u>	<u>7,700</u>
	<u>-</u>	<u>7,700</u>
Net cash inflow arising from disposal:		
Cash consideration	-	670
	<u>-</u>	<u>670</u>

The subsidiary disposed of during the year ended 31st March, 2003 had no significant impact on the turnover and results of the Group.

27. CONTINGENT LIABILITIES

The Company has given corporate guarantees to banks to secure general credit facilities granted to certain of its subsidiaries at 31st March, 2004 and 2003.

The extent of such facilities utilised by the subsidiaries at 31st March, 2004 amounted to approximately HK\$22,140,000 (2003: HK\$23,850,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

28. PLEDGE OF ASSETS

At the balance sheet date, certain of the Group's leasehold land and buildings with an aggregate net book value of approximately HK\$2,433,000 (2003: HK\$2,495,000), value added tax recoverable of approximately HK\$15,604,000 (2003: Nil) and bank deposits of approximately HK\$3,688,000 (2003: nil) have been pledged to banks as security for general banking facilities granted to the Group.

At 31st March, 2003 and 2004, the Company had not pledged any of its assets.

29. CAPITAL COMMITMENTS

At 31st March, 2004, the Group had capital expenditures of approximately HK\$3,709,000 (2003: HK\$5,928,000) in respect of acquisition of property, plant and equipment contracted for but not provided in the financial statements.

At 31st March, 2003 and 2004, the Company had no significant capital commitment.

30. OPERATING LEASE COMMITMENTS

The Group made minimum lease payments of approximately HK\$2,110,000 (2003: HK\$1,477,000) under operating lease during the year in respect of rented premises.

At the balance sheet date, the Group has commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	2004	2003
	HK\$'000	HK\$'000
Within one year	2,566	1,503
In the second to fifth year inclusive	3,257	3,477
Over five years	2,731	2,869
	8,554	7,849

Operating lease payments represents rentals payable by the Group for certain of its office and factory premises. Leases of factory premises are negotiated for an average term of 30 years. The yearly rentals are fixed for first 10-year period and will be escalated by 10% for every 10-year period thereafter. Leases of office premises are negotiated for an average term of 1 to 2 years with fixed rentals.

The Company had no operating lease commitments at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

31. RETIREMENT BENEFITS

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes a fixed percentage of relevant payroll costs to the scheme, which contribution is matched by employees. No forfeited contribution is available to reduce the contribution payable in the future years.

The employees of the PRC subsidiary of the Group are members of a state-managed retirement benefit schemes operated by the PRC government. The subsidiary is required to contribute a fixed percentage of its qualifying staff's wages to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make specified contributions. No forfeited contributions are available to reduced the contribution payable in the future years.

32. PARTICULARS OF SUBSIDIARIES

Particulars of the subsidiaries of the Company as at 31st March, 2004 were as follows:

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company (Note 1)	Principal activities
Kwong Hing Knitting Fabric Trading Co. Limited	Hong Kong	HK\$1,000,000	100%	Manufacture and sale of knitted fabrics and dyed yarns
Kwong Tai Dyeing Co. Limited	Hong Kong	HK\$3,000,000	100%	Inactive
Nanhai Hengxing Dyeing Co., Ltd. ("Hengxing") (Note 2)	PRC	(Note 2)	100%	Provision of dyeing, bleaching, setting and finishing services
Real Honour Enterprises Limited	British Virgin Islands/ PRC	US\$2	100%	Investment holding, provision of dyeing, bleaching, setting and finishing services and provision of marketing services

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

32. PARTICULARS OF SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company (Note 1)	Principal activities
Point Harvest Limited	Hong Kong	HK\$2	100%	Trading of garment
Sinoplex Limited ("Sinoplex")	British Virgin Islands	US\$75	100%	Investment holding
Unite Might Investment Limited	Hong Kong	HK\$500,000	100%	Provision of administration services
South Season	Hong Kong	HK\$2,500,000	70%	Trading of garment
Sweetime Inc.	British Virgin Islands	US\$1	100%	Investment holding
Sano Trading Ltd.	British Virgin Islands	US\$100	100%	Investment holding
Wincast Ltd.	British Virgin Islands	US\$1	100%	Investment holding
KHI Trading Limited	USA	US\$1,000	100%	Inactive

Notes:

1. The Company directly held the interests in Sinoplex. All the interests shown above are indirectly held.
2. The capital contributed by the Group which has been verified amounted to approximately HK\$116,775,000. This is a PRC wholly foreign-owned enterprise.

None of the subsidiaries had any debt securities capital outstanding at the end of the year or at any time during the year.