

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

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 garment products.

2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants (the "HKICPA") issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards ("HKFRSs") (hereinafter collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1st January, 2005 except for HKFRS 3 "Business Combination". The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st March, 2005.

HKFRS 3 is applicable to business combination for which the agreement date is on or after 1st January, 2005. The Group has not entered into any business combination for which the agreement date is on or after 1st January, 2005. Therefore, HKFRS 3 did not have any impact on the Group for the year ended 31st March, 2005.

The Group has already commenced an assessment of the impact of the new HKFRSs and identified that the following HKFRSs may have a material effect on how the results of operations and financial positions are prepared and presented as described below:

HKFRS 2 "Share-based Payment"

HKFRS 2 requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares, or in exchange for other assets equivalent in value to a given number of shares or rights over shares. The principal impact of HKFRS 2 on the Group is in relation to the expensing of directors' and employees' share options of the Company. Currently, the Group does not expense the share options issued by the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS (continued)

HKFRS 2 "Share-based Payment" (continued)

The Group intends to take advantage of the transitional provisions set out in HKFRS 2. In relation to share options granted on or before 7th November 2002 and share options granted after 7th November 2002 and vested before 1st April 2005, the Group does not intend to recognise and expense those share options. However, in relation to share options granted after 7th November 2002 and vested on or after 1st January, 2005, such share options should be accounted for retrospectively in accordance with HKFRS 2. However, the Group is not yet in a position to determine its impact on its results of operation and financial position.

In relation to other new HKFRSs, the Group does not expect that the adoption of the other new HKFRSs will have a material effect on how the results of operations and financial position of the Group are prepared and presented.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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. Cost of completed construction are transferred to the appropriate categories of property, plant and equipment.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

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%

Assets held under finance leases are depreciated over their estimated useful lives on the same basis as assets owned by the Group.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 that are stated at cost less accumulated amortisation and accumulated impairment losses. The cost of permanent quota entitlements is amortised on a systematic basis over its 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.

Assets held under finance lease

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the annual rentals are charged to the income statement on a straight-line basis over the relevant lease term.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement benefits scheme

Payments to defined contribution retirement benefit plan, state-managed retirement benefit schemes and Mandatory Provident Fund Scheme are charged as an expense as they fall due.

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, 2005

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 is 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 foreign currencies 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 foreign currencies 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 foreign operations 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.

	2005	2004
	HK\$'000	HK\$'000
Manufacture and sale of knitted fabric and dyed yarns	435,001	412,439
Manufacturing and trading of garment products	93,536	127,728
	528,537	540,167

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

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) manufacturing and 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, 2005

	Manufacture and sale of knitted fabric and dyed yarns HK\$'000	Manufacturing and trading of garment products HK\$'000	Eliminated HK\$'000	Consolidated HK\$'000
TURNOVER				
External sales	435,001	93,536	-	528,537
Inter-segment sale	18,821	-	(18,821)	-
Total turnover	<u>453,822</u>	<u>93,536</u>	<u>(18,821)</u>	<u>528,537</u>
RESULTS				
Segment results	5,975	1,663		7,638
Other operating income				713
Amortisation of goodwill	-	(1,213)		(1,213)
Impairment loss recognised in respect of goodwill	-	(1,870)		(1,870)
Unallocated corporate expenses				<u>(1,073)</u>
Profit from operations				4,195
Finance costs				<u>(641)</u>
Profit before taxation				3,554
Income tax expense				<u>(551)</u>
Profit after taxation				3,003
Minority interests				<u>(1,703)</u>
Net profit for the year				<u>1,300</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, 2005

5. SEGMENTAL INFORMATION (continued)

Business segment (continued)

For the year ended 31st March, 2004

	Manufacture and sale of knitted fabric and dyed yarns <i>HK\$'000</i>	Trading of garment products <i>HK\$'000</i>	Eliminated <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
TURNOVER				
External sales	412,439	127,728	-	540,167
Inter-segment sale	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	34,527	(2,019)		32,508
Other operating income				4,659
Amortisation of goodwill	-	(1,039)		(1,039)
Unallocated corporate expenses				(751)
Profit from operations				35,377
Finance costs				(219)
Profit before taxation				35,158
Income tax expense				(1,621)
Profit after taxation				33,537
Minority interests				92
Net profit for the year				<u>33,629</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, 2005

5. SEGMENTAL INFORMATION (continued)

BALANCE SHEET

At 31st March, 2005

	Manufacture and sale of knitted fabric and dyed yarns <i>HK\$'000</i>	Manufacturing and trading of garment products <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
ASSETS			
Segment assets	454,883	18,055	472,938
Unallocated corporate assets			169
			<u>473,107</u>
LIABILITIES			
Segment liabilities	64,273	4,177	68,450
Unallocated corporate liabilities			11,145
			<u>79,595</u>

OTHER INFORMATION

For the year ended 31st March, 2005

	Manufacture and sale of knitted fabric and dyed yarns <i>HK\$'000</i>	Manufacturing and trading of garment products <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Capital additions	19,696	4,757	24,453
Depreciation and amortisation	23,104	366	23,470
Amortisation of goodwill	-	1,213	1,213
Amortisation of textile quota entitlements	-	12,086	12,086
Impairment loss recognised in respect of goodwill	-	1,870	1,870
	<u> </u>	<u> </u>	<u> </u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

5. SEGMENTAL INFORMATION (continued)

BALANCE SHEET

At 31st March, 2004

	Manufacture and sale of knitted fabric and dyed yarns <i>HK\$'000</i>	Trading of garment products <i>HK\$'000</i>	Consolidated <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	60,031	32,519	92,550
Unallocated corporate liabilities			12,381
Consolidated total liabilities			<u>104,931</u>

OTHER INFORMATION

For the year ended 31st March, 2004

	Manufacture and sale of knitted fabric and dyed yarns <i>HK\$'000</i>	Trading of garment products <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

5. SEGMENTAL INFORMATION (continued)

Geographical segments

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

	2005	2004
	HK\$'000	HK\$'000
United States of America	120,783	127,728
The People's Republic of China (the "PRC") including Hong Kong	407,754	412,439
	528,537	540,167

Substantially all the carrying amount of segment assets at 31st March, 2004 and 2005 and capital additions for the year ended 31st March, 2004 and 2005 are located in the PRC, including Hong Kong. Accordingly, no analysis of the Group's carrying amount of segment assets and capital additions by geographical area is presented.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

6. PROFIT FROM OPERATIONS

	2005	2004
	HK\$'000	HK\$'000
Profit from operations has been arrived at after charging:		
Staff costs, including directors' remuneration:		
– Salaries and other benefits	34,494	28,007
– Retirement benefit scheme contributions	498	395
Total staff costs	34,992	28,402
Auditors' remuneration	720	760
Depreciation and amortisation on property, plant and equipment	23,470	24,197
Amortisation of goodwill, included in administrative and other operating expenses	1,213	1,039
Amortisation of textile quota entitlements, including in cost of sales	12,086	5,000
Allowance for bad and doubtful debt	2,654	–
Impairment loss recognised in respect of goodwill	1,870	–
and after crediting:		
Dividend income from trading securities	–	2,360
Gain on disposal of property, plant and equipment	–	650
Interest income from banks	81	269
Realised and unrealised holding gain on trading securities	90	510

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

7. FINANCE COSTS

	2005	2004
	HK\$'000	HK\$'000
Interest on:		
Bank borrowings wholly repayable within five years	568	219
Finance lease	73	–
	641	219

8. DIRECTORS' EMOLUMENTS

	2005	2004
	HK\$'000	HK\$'000
Directors' fees:		
Executive directors	–	–
Independent non-executive directors	265	180
Other emoluments (executive directors):		
Salaries and other benefits	3,777	3,969
Retirement benefit scheme contributions	43	43
Total emoluments	4,085	4,192

The emoluments of the directors were within the following bands:

	2005	2004
	Number of directors	Number of directors
Not exceeding HK\$1,000,000	6	5
HK\$1,000,001 to HK\$1,500,000	2	2

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

9. EMPLOYEES' EMOLUMENTS

Of the five individuals with highest emoluments in the Group, four (2004: four) were directors of the Company, details of whose emoluments are included in the disclosures in note 8 above. The emoluments of the remaining individual were as follows:

	2005	2004
	HK\$'000	HK\$'000
Salaries and other benefits	817	1,292
Retirement benefit scheme contributions	7	–
	824	1,292

10. INCOME TAX EXPENSE

	2005	2004
	HK\$'000	HK\$'000
Current tax:		
Hong Kong Profits Tax:		
Current year	320	1,578
Other jurisdictions	223	511
	543	2,089
Deferred taxation (note 22)		
Current year	8	(468)
	551	1,621

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

10. INCOME TAX EXPENSE (continued)

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

	2005	2004
	HK\$'000	HK\$'000
Profit before taxation	3,554	35,158
Tax at the domestic income tax rate of 17.5%	622	6,153
Tax effect of expenses that are not deductible in determining taxable profit	1,065	364
Tax effect of income that is not taxable in determining taxable profit	(116)	(516)
Utilisation of tax losses previously not recognised	(43)	(96)
Tax effect of tax losses not recognised	1,091	81
Effect of different tax rate of subsidiaries operating in other jurisdictions	(2,068)	(4,365)
Taxation for the year	551	1,621

Details of deferred taxation are set out in note 22.

11. DIVIDENDS

	2005	2004
	HK\$'000	HK\$'000
2004 Interim, paid – HK2.5 cents per share	-	9,714

No dividend was paid or proposed for the year ended 31st March, 2005, nor has any dividend been proposed since the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

12. EARNINGS PER SHARE

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

	2005	2004
	HK\$'000	HK\$'000
Net profit for the year	1,300	33,629
	Number	Number
	of shares	of shares
Weighted average number of ordinary shares for the purposes of basic earnings per share	388,573,200	387,870,698
Effect of dilutive potential ordinary shares in respect of share options	N/A	11,073,101
Weighted average number of ordinary shares for the purposes of diluted earnings per share	N/A	398,943,799

The computation of diluted earnings per share does not assume the exercise of the Company's outstanding share options for the year ended 31st March, 2005 because (i) the average market price of the shares of the Company cannot be determined as the shares of the Company were suspended from trading on the Stock Exchange from 26th February, 2004 to 19th October, 2004 and (ii) the exercise price of those options is higher than the average market price for shares.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

13. 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, 2004	3,112	21,087	246,502	25,538	14,997	311,236
Additions	5,811	-	12,668	5,559	415	24,453
Transfer	(8,842)	-	-	8,842	-	-
Disposal of subsidiaries	-	-	-	(643)	(1,870)	(2,513)
Disposals	-	-	-	-	(175)	(175)
At 31st March, 2005	81	21,087	259,170	39,296	13,367	333,001
DEPRECIATION AND AMORTISATION						
At 1st April, 2004	-	3,793	135,996	14,654	10,143	164,586
Provided for the year	-	422	16,587	4,493	1,968	23,470
Eliminated on disposal of subsidiaries	-	-	-	(607)	(1,064)	(1,671)
Eliminated on disposals	-	-	-	-	(175)	(175)
At 31st March, 2005	-	4,215	152,583	18,540	10,872	186,210
NET BOOK VALUES						
At 31st March, 2005	81	16,872	106,587	20,756	2,495	146,791
At 31st March, 2004	3,112	17,294	110,506	10,884	4,854	146,650

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

13. PROPERTY, PLANT AND EQUIPMENT (continued)

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

	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Land and buildings held under:		
Medium-term leases in Hong Kong	2,803	2,876
Medium-term land use rights in the PRC	14,069	14,418
	<u>16,872</u>	<u>17,294</u>

The net book value of plant and machinery includes an amount of approximately HK\$5,771,000 (2004: nil) in respect of assets held under finance leases.

14. INVESTMENTS IN SUBSIDIARIES/AMOUNTS DUE FROM (TO) SUBSIDIARIES

	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	<u>84,948</u>	<u>84,948</u>
Amounts due from subsidiaries	<u>246,536</u>	<u>240,453</u>
Amount due to a subsidiary	<u>-</u>	<u>3,500</u>

The amounts due from (to) subsidiaries are unsecured, interest-free and repayable on demand.

Details of the Company's subsidiaries at 31st March, 2005 are set out in note 34.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

15. GOODWILL

	<i>HK\$'000</i>
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COST	
At 1st April, 2004	14,764
Disposal of subsidiaries	<u>(14,764)</u>
At 31st March, 2005	<u>–</u>
AMORTISATION AND IMPAIRMENT	
At 1st April, 2004	1,039
Charge for the year	1,213
Impairment loss recognised	1,870
Eliminated on disposal of subsidiaries	<u>(4,122)</u>
At 31st March, 2005	<u>–</u>
NET BOOK VALUES	
At 31st March, 2005	<u>–</u>
At 31st March, 2004	<u><u>13,725</u></u>

The directors of the Group reassessed the carrying amount of the goodwill on 30th September, 2004 based on the net realisable value. An impairment loss of approximately HK\$1,870,000 has been identified and recognised in the income statement for the year ended 31st March, 2005.

Goodwill was amortised over its estimated useful life of 7 years and the amount was fully eliminated on the disposal of the entire equity interest in and shareholder's loan to Sweetime Limited ("Sweetime") on 27th October, 2004.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

16. TEXTILE QUOTA ENTITLEMENTS

	<i>HK\$'000</i>
THE GROUP	
COST	
At 1st April, 2004	18,753
Disposal of a subsidiary	(18,753)
	<hr/>
At 31st March, 2005	–
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AMORTISATION	
At 1st April, 2004	5,000
Provided for the year	12,086
Elimination on disposal of a subsidiary	(17,086)
	<hr/>
At 31st March, 2005	–
	<hr/>
NET BOOK VALUES	
At 31st March, 2005	–
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At 31st March, 2004	13,753
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The textile quota entitlements were amortised on a systematic basis over its estimated useful life and amounts were fully eliminated on the disposal of Sweetime.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

17. INVESTMENTS IN SECURITIES

	THE GROUP				THE COMPANY	
	Held to maturity		Trading securities		Trading securities	
	debt securities					
	2005	2004	2005	2004	2005	2004
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Overseas listed equity securities	-	-	-	8,561	-	8,561
Unlisted debt securities	15,600	-	-	-	-	-
Market value of listed securities	N/A	N/A	-	8,561	-	8,561
Carrying amount analysed for reporting purposes as:						
Current	-	-	-	8,561	-	8,561
Non-current	15,600	-	-	-	-	-
	15,600	-	-	8,561	-	8,561

18. INVENTORIES

	THE GROUP	
	2005	2004
	HK\$'000	HK\$'000
Raw materials	107,948	112,574
Work in progress	50,628	50,066
Finished goods	9,754	-
	168,330	162,640

All inventories were carried at cost.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

19. 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\$94,603,000 (2004: HK\$91,376,000).

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

	THE GROUP	
	2005	2004
	HK\$'000	HK\$'000
0 – 60 days	59,169	60,397
61 – 90 days	16,260	10,676
91 – 120 days	7,355	15,910
Over 120 days	11,819	4,393
	94,603	91,376

20. TRADE AND OTHER PAYABLES

Included in trade and other payables of the Group are trade payables of approximately HK\$33,434,000 (2004: HK\$43,264,000).

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

	THE GROUP	
	2005	2004
	HK\$'000	HK\$'000
0 – 60 days	28,363	27,688
61 – 90 days	3,245	5,596
Over 90 days	1,826	9,980
	33,434	43,264

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

21. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Amounts payable under finance				
leases within one year	2,453	–	2,283	–
In the second to fifth year	3,998	–	3,885	–
	6,451	–	6,168	–
Less: Future finance charges	(283)	–	–	–
Present value of lease obligations	6,168	–	6,168	–
Less: Amount due within one year shown under current liabilities			(2,283)	–
Amount due after one year			3,885	–

It is the Group's policy to lease certain of its plant and machinery using finance leases. The average lease term is three years. For the year ended 31st March, 2005, the average effective borrowing rate was 3.08%. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

22. 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, 2003	(7,718)	2,818	–	(4,900)
(Credit) charge to consolidated income statement	(2,150)	1,072	1,546	468
At 31st March, 2004	(9,868)	3,890	1,546	(4,432)
Charge (credit) to consolidated income statement	1,442	(375)	(1,075)	(8)
Elimination on disposal of a subsidiary	–	–	(471)	(471)
At 31st March, 2005	<u>(8,426)</u>	<u>3,515</u>	<u>–</u>	<u>(4,911)</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.

	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Deferred taxation liabilities	(4,911)	(5,978)
Deferred tax assets	–	1,546
	<u>(4,911)</u>	<u>(4,432)</u>

At 31st March, 2005, the Group has unused tax losses of HK\$6,696,000 (2004: HK\$462,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. The tax losses can be carried forward indefinitely.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

23. SHARE CAPITAL

	Number of shares	Amount HK\$'000
<i>Authorised:</i>		
Ordinary shares of HK\$0.10 each at 31st March, 2004 and 31st March, 2005	5,000,000,000	500,000
<i>Issued and fully paid:</i>		
Ordinary shares of HK\$0.10 each at 1st April, 2003	386,640,000	38,664
Issue of shares	1,933,200	193
Ordinary shares of HK\$0.10 each at 31st March, 2004 and 31st March, 2005	388,573,200	38,857

24. SHARE OPTION SCHEME

On 28th August, 2002, the Company adopted the existing share option scheme (the "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 Scheme will be ending on 27th August, 2012.

Under the 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 Scheme.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

24. SHARE OPTION SCHEME (continued)

The total number of shares which may be issued and to be issued 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.

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

The following table discloses movements during the year in the scheme:

Category	Date of grant	Exercisable period	Exercise price per share HK\$	Number of share options					
				At 1.4.2003	Granted	Exercised	At 31.3.2004	Cancelled	At 31.3.2005
<i>1. Directors/ former director</i>									
Ms. Li Mei Lin	17.9.2003	17.9.2003 to 16.9.2006	1.62	-	1,500,000	-	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	(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
				1,933,200	3,000,000	-	4,933,200	(1,500,000)	3,433,200
<i>2. Employees in aggregate</i>									
	18.8.2003	1.3.2004 to 30.9.2006 ***	1.67	-	3,865,000	-	3,865,000	(615,000)	3,250,000
	2.11.2002	2.11.2002 to 1.11.2012	0.51	17,398,800	-	(1,933,200)	15,465,600	-	15,465,600
				17,398,800	3,865,000	(1,933,200)	19,330,600	(615,000)	18,715,600
				19,332,000	6,865,000	(1,933,200)	24,263,800	(2,115,000)	22,148,800

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

24. SHARE OPTION SCHEME (continued)

- * 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:

	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 shares of the Company for the year ended 31st March, 2004 immediately before the date on which the option were exercised was HK\$1.28. Total consideration received during the year ended 31st March, 2004 from employees for taking up options granted amounted to HK\$37.

At 31st March, 2005, 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.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

25. RESERVES

	Share premium account	Contributed surplus	Retained profits	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
THE COMPANY				
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
	<u>130,452</u>	<u>153,400</u>	<u>8,384</u>	<u>292,236</u>
Balance at 31st March, 2004	130,452	153,400	8,384	292,236
Net profit for the year	–	–	494	494
	<u>130,452</u>	<u>153,400</u>	<u>8,878</u>	<u>292,730</u>
Balance at 31st March, 2005	<u>130,452</u>	<u>153,400</u>	<u>8,878</u>	<u>292,730</u>

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

25. RESERVES (continued)

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

	2005	2004
	HK\$'000	HK\$'000
Contributed surplus	153,400	153,400
Accumulated profits	8,878	8,384
	<u>162,278</u>	<u>161,784</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

26. DISPOSAL OF A SUBSIDIARY

On 27th October, 2004, the Group disposed of its entire equity interest in, and shareholder's loan with, Sweetime. Sweetime has a 70% direct interest in South Season Industrial Company Limited ("South Season"). Details of which are set out in the circular to the shareholders of the Company dated 19th November, 2004.

	2005	2004
	HK\$'000	HK\$'000
Net assets disposed of:		
Property, plant and equipment	842	–
Deferred tax assets	471	–
Goodwill	10,642	–
Textile quota entitlements	1,667	–
Trade and other receivables	12,074	–
Bank balances and cash	374	–
Trade and other payables	(17,839)	–
Taxation	(1,934)	–
Minority interests	(497)	–
	<u> </u>	<u> </u>
Total consideration	5,800	–
	<u> </u>	<u> </u>
Satisfied by:		
Cash	5,800	–
	<u> </u>	<u> </u>
Net cash inflow arising from disposal:		
Cash consideration	5,800	–
Bank balances and cash disposed of	(374)	–
	<u> </u>	<u> </u>
	5,426	–
	<u> </u>	<u> </u>

The subsidiary disposed of during the year contributed HK\$69,565,000 to the Group's turnover and HK\$1,261,000 to the Group's profit from operations.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

27. ACQUISITION OF A SUBSIDIARY

During the year ended 31st March, 2004, the Group acquired the 70% equity interests in South Season for a cash consideration of HK\$24,500,000. This acquisition has been accounted for by the acquisition method of accounting.

	2005	2004
	HK\$'000	HK\$'000
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)
	<u>-</u>	<u>-</u>
Goodwill	-	9,970
	<u>-</u>	<u>14,764</u>
Total consideration	<u>-</u>	<u>24,734</u>
Satisfied by:		
Cash	-	24,500
Related expenses paid on acquisition	-	234
	<u>-</u>	<u>24,734</u>
Net cash outflow arising on acquisition:		
Cash consideration paid	-	24,734
Bank balances and cash	-	(6,309)
	<u>-</u>	<u>-</u>
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	<u>-</u>	<u>18,425</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

27. ACQUISITION OF A SUBSIDIARY (continued)

The subsidiary acquired during the year ended 31st March, 2004 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 for that year.

28. MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of approximately HK\$7,000,000 (2004: Nil).

29. CONTINGENT LIABILITIES

At 31st March, 2005, the Group had bills discounted with recourse of approximately HK\$4,281,000 (2004: Nil).

The Company has given corporate guarantees to banks to secure general credit facilities granted to certain of its subsidiaries at 31st March, 2005 and 2004. The extent of such facilities utilised by the subsidiaries at 31st March, 2005 amounted to approximately HK\$15,932,000 (2004: HK\$22,140,000).

30. PLEDGE OF ASSETS

At 31st March, 2005, certain of the Group's leasehold land and buildings with an aggregate net book value of approximately HK\$2,371,000 (2004: HK\$2,433,000), investments in securities of approximately HK\$7,800,000 (2004: nil), and bank deposits of approximately HK\$4,000,000 (2004: HK\$3,688,000) were pledged to banks as security for general banking facilities granted to the Group.

In addition to the above, at 31st March, 2004, value added tax recoverable of approximately HK\$15,604,000 were pledged as security for the above banking facilities.

At 31st March, 2004 and 2005, the Company had not pledged any of its assets.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

31. CAPITAL COMMITMENTS

	THE GROUP	
	2005	2004
	HK\$'000	HK\$'000
Capital expenditures in respect of acquisition of property, plant and equipment contracted for but not provided in the financial statements	<u>661</u>	<u>3,709</u>
Capital expenditures in respect of property, plant and equipment authorised but not contracted for	<u>10,763</u>	<u>-</u>

At 31st March, 2004 and 2005, the Company had no significant capital commitment.

32. OPERATING LEASE COMMITMENTS

The Group made minimum lease payments of approximately HK\$2,143,000 (2004: HK\$2,110,000) 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:

	2005	2004
	HK\$'000	HK\$'000
Within one year	<u>2,623</u>	<u>2,566</u>
In the second to fifth year inclusive	<u>2,623</u>	<u>3,257</u>
Over five years	<u>2,582</u>	<u>2,731</u>
	<u>7,828</u>	<u>8,554</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

32. OPERATING LEASE COMMITMENTS (continued)

Operating lease payments represent rental 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.

33. 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

34. PARTICULARS OF SUBSIDIARIES

Particulars of the subsidiaries of the Company as at 31st March, 2005 were as follows:

Name of subsidiary <i>(Note 4)</i>	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 <i>(Note 1)</i>	Principal activities
Dongguan Winscope Garment Manufacturing Co., Ltd. ("DG Winscope")	PRC	RMB15,000,000 <i>(Note 3)</i>	100%	Manufacturing of garment products
Gold Sleeve Limited	British Virgin Islands/ Hong Kong	US\$50,000	67%	Sale of garment
Kwong Hing Knitting Fabric Trading Co. Limited	Hong Kong	HK\$1,000,000	100%	Manufacture and sale of knitted fabric and dyed yarns
Kwong Tai Dyeing Co. Limited	Hong Kong	HK\$3,000,000	100%	Inactive
Nanhai Hengxing Dyeing Co., Ltd. ("Hengxing") <i>(Note 2)</i>	PRC	HK\$139,764,700 <i>(Note 2)</i>	100%	Provision of dyeing, bleaching, setting and finishing services
Real Connection Limited	British Virgin Islands	US\$50,000	100%	Inactive
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
Point Harvest Limited	Hong Kong	HK\$2	100%	Trading of garment
Sinoplex Limited ("Sinoplex")	British Virgin Islands	US\$75	100%	Investment holding

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

34. PARTICULARS OF SUBSIDIARIES (continued)

Name of subsidiary (Note 4)	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
Unite Might Investment Limited	Hong Kong	HK\$500,000	100%	Provision of administration services
Sano Macao Commercial Offshore Company Limited	Macau	MOP1,000,000	100%	Trading of knitted fabric and dyed yarns and garment
Sano Trading Ltd.	British Virgin Islands	US\$100	100%	Investment holding
Wincast Ltd.	British Virgin Islands	US\$1	100%	Investment holding
Winscope Limited	British Virgin Islands	US\$50,000	100%	Investment holding
KHI Trading Limited	USA	US\$1,000	100%	Trading of knitted fabric and dyed yarns and garment

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.
3. The capital contributed by the Group which has been verified amounted to approximately HK\$2,400,000.
4. Other than Hengxing and DG Winscope, which are wholly foreign owned enterprises in the PRC, all other companies are limited liability companies incorporated in the respective jurisdiction.

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