# PAK TAK INTERNATIONAL LIMITED
# （百德國際有限公司）*

*(incorporated in Bermuda with limited liability)*

**(Stock Code: 2668)**

## ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 MARCH 2011

**HIGHLIGHTS**

The highlights of the results for the year ended 31 March 2011:

- Turnover increased by 18.3% to HK$391 million from HK$331 million for the year ended 31 March 2010;
- Net profit for the year was HK$0.472 million, as compared to net profit of HK$4.980 million for the year ended 31 March 2010;
- Earnings per share for the year were HK0.35 cent, as compared to HK2.1 cents for the year ended 31 March 2010;
- The Group's net current liability at 31 March 2011 was HK$4.7 million, as compared to HK$21 million at 31 March 2010, representing a current ratio of 0.93 (2010: 0.78).

## FINANCIAL RESULTS

The directors (the "**Directors**") of Pak Tak International Limited (the "**Company**") announce the audited consolidated results of the Company and its subsidiaries (together the "**Group**") for the year ended 31 March 2011 together with the audited comparative figures for the corresponding year ended 31 March 2010 as follows:

## CONSOLIDATED INCOME STATEMENT

*For the year ended 31 March 2011*

| | *Note* | **2011** *HK$'000* | 2010 *HK$'000* |
|---|---|---|---|
| **Turnover** | *3* | **391,275** | 330,693 |
| Cost of sales | | **(354,155)** | (291,499) |
| **Gross profit** | | **37,120** | 39,194 |
| Other revenue | *4* | **2,597** | 4,397 |
| Other net loss | *4* | **(7)** | (155) |
| Administrative expenses | | **(23,135)** | (27,069) |
| Selling expenses | | **(11,812)** | (8,360) |
| **Profit from operations** | | **4,763** | 8,007 |
| Finance costs | *5(a)* | **(2,055)** | (2,606) |
| Share of loss of an associate | | **(1,780)** | (171) |
| **Profit before taxation** | *5* | **928** | 5,230 |
| Income tax expense | *6* | **(456)** | (250) |
| **Profit for the year** | | **472** | 4,980 |
| **Attributable to:** | | | |
| Equity shareholders of the Company | | **826** | 4,980 |
| Non-controlling interests | | **(354)** | – |
| **Profit for the year** | | **472** | 4,980 |
| | | ***HK cent*** | *HK cents* |
| **Earnings per share** | *7* | | |
| – Basic and diluted | | **0.35** | 2.1 |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the year ended 31 March 2011*

| | 2011 | 2010 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| **Profit for the year** | **472** | 4,980 |
| **Other comprehensive income for the year:** | | |
| Exchange differences on translation of financial statements of overseas operations, net of nil tax | **1,172** | 1,649 |
| Reclassification adjustments for amounts on exchange reserve transferred to profit or loss on deregistration of subsidiary, net of nil tax | **(206)** | – |
| **Total comprehensive income for the year** | **1,438** | 6,629 |
| **Attributable to:** | | |
| Equity shareholders of the Company | **2,589** | 6,629 |
| Non-controlling interests | **(1,151)** | – |
| | **1,438** | 6,629 |

**CONSOLIDATED BALANCE SHEET**
*At 31 March 2011*

| | Note | 2011 HK$'000 | 2010 HK$'000 (Restated) | 2009 HK$'000 (Restated) |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Property, plant and equipment | | **168,464** | 182,750 | 195,230 |
| Interests in leasehold land held under operating leases | | **4,597** | 4,594 | 4,674 |
| Investment properties | | **4,093** | 3,807 | 3,458 |
| Interest in an associate | | **–** | 1,780 | 1,952 |
| | | **177,154** | 192,931 | 205,314 |
| **Current assets** | | | | |
| Inventories | | **29,414** | 28,949 | 33,878 |
| Trade receivables | *10* | **24,468** | 32,446 | 13,168 |
| Other receivables, prepayments and deposits | | **10,154** | 11,412 | 5,527 |
| Amount due from an associate | | **362** | 2,845 | 1,964 |
| Cash and cash equivalents | | **2,469** | 628 | 4,543 |
| | | **66,867** | 76,280 | 59,080 |
| **Current liabilities** | | | | |
| Trade payables | *11* | **13,527** | 16,127 | 10,678 |
| Bills payable | | **4,119** | 6 | 1,248 |
| Other payables and accrued charges | | **9,723** | 10,295 | 26,789 |
| Amounts due to holders of non-controlling interests in a subsidiary | | **3,741** | 3,280 | 3,039 |
| Interest-bearing borrowings | | **40,421** | 67,956 | 43,797 |
| Obligations under finance leases | | **58** | 86 | 1,701 |
| Amount due to a director | | **–** | – | 8,500 |
| Other short term loan | | **–** | – | 5,500 |
| | | **71,589** | 97,750 | 101,252 |
| **Net current liabilities** | | **(4,722)** | (21,470) | (42,172) |
| **Total assets less current liabilities** | | **172,432** | 171,461 | 163,142 |
| **Non-current liabilities** | | | | |
| Obligations under finance leases | | **77** | 135 | 222 |
| Deferred tax liabilities | | **3,023** | 2,567 | 2,317 |
| Provision and other accrued charges | | **6,779** | 7,644 | 6,117 |
| | | **9,879** | 10,346 | 8,656 |
| **NET ASSETS** | | **162,553** | 161,115 | 154,486 |
| **CAPITAL AND RESERVES** | | | | |
| Share capital | | **23,640** | 23,640 | 23,640 |
| Reserves | | **140,064** | 137,475 | 130,846 |
| Total equity attributable to equity shareholders of the Company | | **163,704** | 161,115 | 154,486 |
| Non-controlling interests | | **(1,151)** | – | – |
| **TOTAL EQUITY** | | **162,553** | 161,115 | 154,486 |

*NOTES:*

## 1. BASIS OF PREPARATION

This consolidated financial information has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. This consolidated financial information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in the Group's consolidated financial statements.

## 2. NEW AND REVISED HKFRSs

The HKICPA has issued two revised HKFRSs, a number of amendments to HKFRSs and two new Interpretations that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's consolidated financial statements:

– HKFRS 3 (Revised), Business combinations

– HKAS 27 (Revised), Consolidated and separate financial statements

– Improvements to HKFRSs (2009)

– Hong Kong Interpretation 5 ("HK Int 5"), Presentation of financial statements – Classification by the borrower of a term loan that contains a repayment on demand clause

Except as described below, the adoption of the new and revised HKFRSs has had no significant impact on the consolidated financial statements.

(a) HKFRS 3 (Revised)

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations occurring since 1 April 2010. Changes affect the initial measurement of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. As there was no business combinations in the year ended 31 March 2011, these changes will impact the amount of goodwill recognised, the reported results in the period that a business combination occurs, and future reported results.

(b) HKAS 27 (Revised)

HKAS 27 (Revised) requires any losses incurred by a non-wholly owned subsidiary will be allocated between the controlling and non-controlling interests (previously known as "minority interests") in proportion to their interests in that entity, even if this results in a deficit balance within the consolidated equity being attributable to the non-controlling interests. Previously, if the allocation of losses to the non-controlling interests would have resulted in a deficit balance, the losses were only allocated to the non-controlling interests if the non-controlling interests were under a binding obligation to make good the losses. In accordance with the transitional provisions in HKAS 27 (Revised), this new accounting policy has been applied prospectively from 1 April 2010 and resulted in changes in the amounts reported in the consolidated income statement as follows:

| | 2011 | 2010 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Increase in profit attributable to equity shareholders of the Company | **354** | – |
| Increase in (loss) attributable to non-controlling interests | **(354)** | – |

| | *HK cent* | *HK cent* |
|---|---|---|
| Increase in earnings per share – basic and diluted | **0.15** | – |

HKAS 27 (Revised) also requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such transaction will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, if the Group loses control of a subsidiary, the transaction will be accounted for as a disposal of the entire interest in that subsidiary, with any remaining interests retained by the Group being recognised at fair value as if reacquired. As these changes have been applied by the Group prospectively from 1 April 2010 and there was no change in the ownership interest of a subsidiary during the year ended 31 March 2011, they did not have impact on the consolidated financial statements for the years presented.

(c) Improvements to HKFRSs (2009)

The Improvements to HKFRSs (2009) consist of further amendments to existing standards, including amendments to HKAS 17. The amendment to HKAS 17 requires the land element of a property lease to be classified as a finance lease rather than an operating lease if it transfers substantially all the risks and rewards of ownership. Before amendment, HKAS 17 stated that the land element of a property lease would normally be classified as an operating lease unless title to the land was expected to pass to the leasee at the end of the lease term. On adoption of the amendment, the Group has assessed its property leases in Hong Kong and Mainland China and has reclassified the land element of its property leases in Hong Kong from operating leases to finance leases. In addition, the amortisation of the relevant interests in leasehold land held under operating leases (previously known as "prepaid land premiums") has been reclassified to depreciation charge. As the adoption of the amendment applies retrospectively, it has also resulted in reclassifications in prior periods. The effect of these reclassifications on the consolidated financial statements is as follows:

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Property, plant and equipment | | | |
| Increase in cost | **4,690** | 4,690 | 3,866 |
| Increase in accumulated depreciation | **1,210** | 1,112 | 1,015 |
| Increase in carrying amount | **3,480** | 3,578 | 2,851 |
| Interests in leasehold land held under operating leases (previously known as prepaid land premiums) | | | |
| Decrease in cost | **4,690** | 4,690 | 3,866 |
| Decrease in accumulated amortisation | **1,210** | 1,112 | 1,015 |
| Decrease in carrying amount | **3,480** | 3,578 | 2,851 |

| | 2011 | 2010 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Increase in depreciation charge | **97** | 97 |
| Decrease in amortisation of interests in leasehold land held under operating leases (previously known as prepaid land premiums) | **(97)** | (97) |

(d) HK Int 5

HK Int 5 clarifies that term loans that include a clause that gives the lender unconditional right to call the loans at any time (“repayment on demand clause”) should be classified by the borrower as current liabilities. The Group has applied HK Int 5 for the first time in the current year and HK Int 5 requires retrospective application.

In order to comply with the requirements set out in HK Int 5, the Group has changed its accounting policy on classification of term loans with a repayment on demand clause. In the past, the classification of such term loans was determined based on the agreed scheduled repayment dates set out in the loan agreements. Under HK Int 5, term loans with a repayment on demand clause are classified as current liabilities.

As a result, interest-bearing borrowings that contain a repayment on demand clause with the aggregate carrying amounts of HK$31,100,000 and HK$20,500,000 have been reclassified from non-current liabilities to current liabilities as at 31 March 2010 and 2009 respectively. At 31 March 2011, interest-bearing borrowings (that are repayable more than one year after the balance sheet date but contain a repayment on demand clause) with the aggregate carrying amount of HK$19,589,000 have been classified as current liabilities. The application of HK Int 5 has had no impact on the reported profit for the current and prior years.

## 3. TURNOVER

Turnover represents the amounts received and receivable for goods sold and sub-contracting services provided to outside customers during the year and is analysed as follows:

| | **2011** | 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Sales of goods | **388,685** | 326,743 |
| Sub-contracting income | **2,590** | 3,950 |
| | **391,275** | 330,693 |

## 4. OTHER REVENUE AND NET LOSS

| | **2011** | 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Other revenue** | | |
| Claims and compensation received | **86** | 816 |
| Discount received | **168** | 512 |
| Interest income from associate | **375** | – |
| Other interest income | **6** | 5 |
| Reimbursement income | **1,138** | 1,151 |
| Sales of scrap and unused raw materials | **215** | 1,171 |
| Sundry | **609** | 742 |
| | **2,597** | 4,397 |
| **Other net loss** | | |
| Exchange losses, net | **(79)** | (210) |
| Gain on disposal of property, plant and equipment | **72** | 55 |
| | **(7)** | (155) |

## 5. PROFIT BEFORE TAXATION

Profit before taxation is arrived after charging/(crediting):

### (a) Finance costs:

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Implied interest on financing the acquisition of property, plant and equipment | **61** | 305 |
| Interest on bank loans wholly repayable within five years | **959** | 649 |
| Interest on loans from other financial institutions wholly repayable within five years | **1,026** | 1,613 |
| Interest on other short term loan | **–** | 8 |
| Finance charges on obligations under finance leases | **9** | 31 |
| | **2,055** | 2,606 |

### (b) Staff costs:

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Salaries, wages and allowances | **89,970** | 78,086 |
| Contributions to defined contribution retirement plans | **641** | 719 |
| Staff welfare and benefits | **(677)** | 2,086 |
| Provision for long service payments | **251** | (283) |
| | **90,185** | 80,608 |

### (c) Other items:

| | 2011 HK$'000 | 2010 HK$'000 (Restated) |
|---|---|---|
| Auditor's remuneration | **520** | 504 |
| Amortisation of interests in leasehold land held under operating leases | **114** | 112 |
| Cost of inventories sold* | **354,155** | 291,499 |
| Depreciation on property, plant and equipment | **25,374** | 24,819 |
| Impairment loss on trade receivables | **–** | 98 |
| Impairment loss on amount due from an associate | **–** | 3,300 |
| Operating lease rentals: minimum lease payments – property rentals | **–** | 27 |
| Provision for inventories | **1,633** | 2,019 |

* Cost of inventories includes HK$99,424,000 (2010: HK$89,152,000) relating to staff costs, depreciation and amortisation expenses, operating lease payments and provision for inventories, which amount is also included in the respective total amounts disclosed separately above or in note 5(b) for each of these types of expenses.

## 6. INCOME TAX

The charge comprises deferred tax charge of HK$456,000 (2010: HK$250,000).

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements for both years as the companies in the Group either have no assessable profits or have agreed tax losses brought forward in excess of the estimated assessable profit for the year.

Reconciliation between the income tax expense and accounting profit at the applicable tax rates:

| | **2011** | 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Profit before taxation | **928** | 5,230 |
| Add: Loss of an associate | **1,780** | 171 |
| | **2,708** | 5,401 |
| Notional tax at Hong Kong Profits Tax rate of 16.5% (2010: 16.5%) | **447** | 891 |
| Tax effect of expenses not deductible for tax purpose | **2,927** | 3,263 |
| Tax effect of income not taxable | **(3,383)** | (3,678) |
| Tax effect of tax losses not recognised | **525** | 508 |
| Over-provision of deferred tax in respect of prior year | **(60)** | (734) |
| Actual tax expense | **456** | 250 |

## 7. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit attributable to equity shareholders of the Company of HK$826,000 (2010: HK$4,980,000) and 236,402,000 (2010: 236,402,000) ordinary shares in issue during the year.

The diluted earnings per share for the years ended 31 March 2011 and 2010 was the same as the basic earnings per share as there were no potential dilutive ordinary shares in existence for both years.

## 8. SEGMENT REPORTING

The executive directors manage the Group's operations as a single business segment. The Group's operations are monitored and strategic decisions are made on the basis of operating results, consolidated assets and liabilities as reflected in the Group's consolidated financial statements.

### (a) Geographical information

The Group's revenue from external customers by geographical market is as follows:

| | **2011** | 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| United States of America ("USA") | **326,265** | 260,041 |
| Europe | **32,039** | 39,848 |
| Asia | **11,796** | 17,636 |
| Australia | **1,267** | 447 |
| Others | **19,908** | 12,721 |
| | **391,275** | 330,693 |

The Group's information about its non-current assets by geographic location is as follows:

| | 2011 | 2010 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Mainland China | **147,907** | 156,754 |
| Hong Kong | **10,853** | 18,546 |
| Thailand | **18,394** | 17,631 |
| | **177,154** | 192,931 |

**(b) Major customers**

Revenue from major customers, each of whom amounted to 10% or more of the total revenue, is set out below:

| | 2011 | 2010 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Customer A | **105,512** | 105,388 |
| Customer B | **73,430** | 44,430 |
| Customer C | **66,038** | 63,651 |
| Customer D | **55,070** | 35,509 |
| Customer E | **50,087** | 31,717 |

## 9. DIVIDEND

The Directors do not recommend the payment of any dividend for the year ended 31 March 2011 (2010: HK$nil).

## 10. TRADE RECEIVABLES

| | The Group | |
|---|---|---|
| | 2011 | 2010 |
| | *HK$'000* | *HK$'000* |
| Trade receivables | **24,468** | 32,627 |
| Less: Allowance for doubtful debts (Note 10(b)) | **–** | (181) |
| | **24,468** | 32,446 |

All trade receivables are expected to be recovered within one year.

**(a) Ageing analysis**

The following is an ageing analysis of trade receivables (net of allowance for doubtful debts):

| | The Group | |
|---|---|---|
| | 2011 | 2010 |
| | *HK$'000* | *HK$'000* |
| Current | **21,986** | 13,411 |
| Less than 1 month past due | **1,856** | 6,979 |
| 1 to 3 months past due | **464** | 7,303 |
| More than 3 months past due | **162** | 4,753 |
| Amounts past due | **2,482** | 19,035 |
| | **24,468** | 32,446 |

Trade receivables are due within 30 to 60 days from the date of billing.

(b) **Impairment of trade receivables**

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly.

The movements in the allowance for doubtful debts during the year are as follows:

| | **The Group** | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| At 1 April | **181** | 4,381 |
| Impairment loss recognised | **–** | 98 |
| Uncollectible amounts written off | **(181)** | (4,298) |
| At 31 March | **–** | 181 |

At 31 March 2010, certain trade receivables of HK$181,000 were individually determined to be impaired. The individually impaired receivables related to customers who were in financial difficulties. The Group did not hold any collateral over these balances.

(c) **Trade receivables that are not impaired**

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are considered fully recoverable. The Group does not hold any collateral over these balances.

## 11. TRADE PAYABLES

The following is an ageing analysis of trade payables:

| | **The Group** | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| Due within 1 month or on demand | **10,106** | 11,821 |
| Due after 1 month but within 3 months | **2,717** | 4,272 |
| Due after 3 months but within 12 months | **704** | 34 |
| | **13,527** | 16,127 |

## BUSINESS REVIEW

The Directors report that for the year ended 31 March 2011, the Group succeeded in increasing its turnover. However, with the increase in labour cost, over 50% increase in the cost of cotton and other raw materials, the 24% rise in fuel cost and the share of loss of an associate, the Group's profitability has suffered. For the year ended 31 March 2011, the Group's profit from operations decreased by 40.5%, to HK$4.8 million. After deducting finance costs and the share of loss of an associate, the Group's profit attributable to equity shareholders and non-controlling interests dropped to approximately HK$0.472 million.

The Group recorded a turnover of approximately HK$391 million for the year ended 31 March 2011, representing an increase of 18.3% over the previous year. This increase is an indication of the strength of the Group in attracting customers. In the last few years, notwithstanding the financial crisis of 2008 leading to the economic recession in the western countries, the Group has continued to maintain the business model of manufacturing high quality and well made products while selling its goods at a premium value. This model has served the Group well in spite of the economic recession of 2008 and 2009 and the soft U.S. retail markets, as companies that failed to cover the increase in cost have floundered. However, the Group has also found that the increases in cost structure have been relentless, as the rise in cost of labor continues to be a pressing problem for manufacturers in Southern China; coupled with the rise in cotton price due to the poor world wide cotton production in 2010, the slow but steady increase in the Renminbi and the sluggish U.S. market, the business environment for the Group to sustain profitability has become more difficult. Compounding the problem was the U.S. retail market continues to be stagnant due to the slow growth of the U.S. economy, many of the Group's U.S. retail customers would not allow the Group to raise price to cover the increments in cost. Despite the adverse conditions, for its result from operations, the Group has managed to achieve profitability of HK$0.472 million.

For the Group to continue to achieve positive results, the Directors have found that while it must maintain its business model of charging a value for money premium, at the same time the Group must control its costs as it is proved to be very difficult, if not impossible, to shift the rise in costs to customers. The Group's challenge is for its management to continue finding more efficient and effective means of manufacturing in order to control its production cost, while maintaining quality and other commitments to its customers. During the year, the Group acquired another 40 computerized knitting machines. The Group's commitments to continue to automate its production means by using more computerized knitting machinery will persist in view of the continuing need to reduce the Group's reliance on China's labor force. Further, in light of the sharp rise in cotton price and fuel cost, the Group finds it necessary to continue to implement more stringent measures to monitor the use of fuel, water, and other energy resources to ensure that its cost structure will remain competitive. The Group recognizes that it must place extensive reliance on its material and production control systems to control inventory and wastage in order to mitigate the rise in costs. Despite the challenges ahead, the Group is confident that its management will rise to the task of operating profitably under the current business model.

The Group believes that the strength that it has built in recent years will serve it well in the years ahead as its model of insisting on a fair price for its quality products will help it to operate at a reasonable margin. The Group will further improve its drive to provide more value by expanding on its design team in order to give customers more design ideas and to show-case the Group's capability in making well designed and well made products. The Group believes that its emphasis on providing value is the overall vision of everyone of the Board of Directors, the management and team members of the Group.

## ANALYSIS OF RESULTS

### Turnover

In the year ended 31 March 2011, the Group's turnover grew by 18.3% from HK$331 million of previous year to HK$391 million. This increase came on the back of increased sales to customers who recognize the Group's strength in producing high-end knitwear products, albeit at a premium price. In recent years, as the Group has been selective in choosing strong customers that value the Group's services and products and are willing to pay premium for our high-end products, its customer profile has also changed such that the Group is becoming an original equipment manufacturer for a few famous knitwear brands.

Gross profit decreased by 5.3% from HK$39 million to HK$37 million for the year ended 31 March 2011. The decrease in gross profit reflects the challenges that the Group has faced as a result of the pressure on sales price of the Group's products due to the sluggish retail market in the U.S., the rise in labor cost and general inflationary pressure in China. During the year, with the consumer purchasing index in China rising by over 4%, the Group found its costs of operation in Dongguan, China, have gone up. In addition to the rise in labor cost, the Group's raw material cost, fuel, transportation, utilities, and many other costs have gone up, leading to the drop in the Group's gross profit margin from 11.9% in 2010 to 9.5 % in 2011.

For the period under review, the Group's major customers were located in U.S. and accounted for approximately 83.4% of the Group's total revenue. The customers in the Asian and European markets generated 11.2% of total sales. Sales in Europe and Asia decreased by 19.6% and 33.1%, respectively, from the previous year.

### Profitability

The Group's profitability for the year ended 31 March 2011 was HK$0.472 million. This represents a decrease of 90.5% as compared to the previous year. The decrease is attributed primarily to the decrease in gross margin as well as the performance of its associated company. During the year, the associated company has reported losses, resulting in the Group taking up HK$1.8 million for its share of the loss. Further, other revenue dropped by approximately HK$1.8 million as the Group's sales of scrap in the year ended 31 March 2011 dropped by about HK$0.96 million and the Group received only nominal income from claims and compensation for the year under review whereas in the previous year such compensation amounted to about HK$816,000.

As the Group has operated with positive cash flow, its financial position has improved and as a result, its finance cost was reduced by 21.1% to HK$2.1 million from HK$2.6 million for the prior year. During the year, selling expenses went up by HK$3.5 million as one customer demanded higher commission. All other expenditures remained stable as compared to the previous year – this is an indication of the management's resolve in controlling costs.

## LIQUIDITY AND CAPITAL RESOURCES

The cash and cash equivalent of the Group were approximately HK$0.6 million as at 31 March 2011, representing an increase of approximately HK$8.5 million as compared with the balance as at 31 March 2010. The Group's cash position, as well as its working capital position, improved in the year ended 31 March 2011. During the year, the Group was able to repay about HK$28 million of its credit facilities.

The Group principally satisfies its demand for operating capital with cash inflow from operation and credit facilities of over HK$137 million (2010: HK$126 million), out of which HK$41 million has been utilized as at 31 March 2011. The credit facilities were secured by corporate guarantees given by the Company. The Director believes that the Group will maintain a sound and stable financial position, with sufficient liquid capital and financial resources to satisfy its business needs.

## FOREIGN EXCHANGE RISKS AND INTEREST RATE RISK MANAGEMENT

The Group adopts strict and cautious policies in managing its exchange rate risk and interest rate risk. The principal foreign currency exchange risk stems from the exchange rate movements of the Hong Kong dollars, which are pegged to the U.S. dollars, and Renminbi. The sales of the Group and purchases of raw materials are mainly denominated in U.S. dollars, while the Group's operations in China, the location of its production, are primarily conducted in Renminbi, and its Hong Kong operations are conducted in Hong Kong dollars. During the year ended 31 March 2011, the rise in Renminbi against the US dollars and HK dollars was 4.4%, and there is continuing call for the Renminbi to go up further. As such, management of the Group will consider hedging significant foreign currency exposure should the need arise.

The Directors are of the opinion that the Group is not subject to any significant interest rate risk even though the interest-bearing borrowings of the Group, denominated in Hong Kong dollars, are on the floating rate basis. As the Group has reduced its debt exposure by about 40.5%, its exposure to interest rate risk has also diminished considerably. As the Group operates at the debt to equity ratio of 27%, the interest rate exposure is not significant.

## DIVIDENDS

The Directors have resolved not to recommend the payment of any dividend for the year ended 31 March 2011 (2010: HK$nil).

## ACQUISITION OF FIXED ASSETS

To accommodate the Group's expansion and growth, during the year ended 31 March 2011, the Group further acquired a number of computerized knitting machines to meet with the increasing customer demand and with the view of reducing reliance on labor force. The acquisitions were funded by internal resources of the Group in part and by credit facilities granted by financial institutions in another part.

## CHARGE ON GROUP ASSETS

As at 31 March 2011, the Group's interest-bearing borrowings were secured by the computerized knitting machinery with a total carrying amount of approximately HK$41 million (2010: approximately HK$55 million) and certain leasehold properties with a total carrying amount of approximately HK$68 million (2010: approximately HK$70 million).

## FINANCIAL GUARANTEES ISSUED

At 31 March 2011, the Company had issued corporate guarantees to bank and other financial institutions in connection with facilities granted to certain subsidiaries amounting to approximately HK$128 million (2010: HK$147 million).

The guarantees were issued by the Company and the Group at nil consideration. The transactions were not at arm's length, and it is not possible to measure reliably the fair value of these transactions in accordance with HKAS 39, Financial instruments: Recognition and measurement, had they been at arm's length. Accordingly, the guarantees have not been accounts for as financial liabilities and measured at fair value.

At 31 March 2011, the Directors considered it was not probable that a claim would be made against the Company under any of the guarantees. The maximum liability of the Company at the balance sheet date under the guarantees issued was the facilities drawn down by the subsidiaries of HK$40 million (2010: HK$62 million).

## CAPITAL EXPENDITURES AND COMMITMENTS

During the period, the Group invested approximately HK$9.8 million (2010: HK$11 million) in property, plant and equipment, of which 83% (2010: 61.3%) was used for purchase of machinery.

As at 31 March 2011, the Group had capital commitments of approximately HK$5.6 million (2010: HK$0.7 million) in property, plant and equipment.

## EMPLOYEES AND REMUNERATION POLICIES

As at 31 March 2011, the Group had a total of approximately 246 employees. The total staff cost of the Group amounted to approximately HK$90.19 million during the period, representing 23% of the Group's turnover. Salaries, wages and allowances amounted to approximately HK$89.97 million, representing an increase of 15.2% as compared to previous year. Employees' remuneration and bonuses are based on their responsibilities, performances, experience and the prevailing industry practice. The Group's remuneration policies and packages were reviewed periodically by the management of the Company in order to ensure that the packages are competitive in the market. The Group provides relevant training to its employees in accordance with the skills requirements of difference positions.

## FUTURE PROSPECTS

The challenge for the Group in the immediate future is to improve its value-added model. As the cost of manufacturing in China has substantially increased, and the role of Chinese factories as the workshop of the world has slowly shifted, the Group has recognized that it cannot rely on low production cost as the only means of competition. The fact that the Group has long emphasized on the value-added model has served it well. Not only is the Group able to control its production schedule by selecting only those customers that recognize the Group's value, it has been able to sustain business operations while weaker competitors are suffering. The Group will continue with this model in the foreseeable future.

In view of the recent sharp increase in fuel and energy costs, the Group is planning to improve its production facilities that would employ energy efficient plant and machinery. The Group sees this strategic move not only necessary in order to combat the rise in energy costs, it would also enable the Group to meet with the PRC's environmental friendly goals and to improve the green image of the Group's production facilities.

In recent years, the Group has begun to strengthen its design teams with the view that the design team will help the Group to provide more value to customers. With an in-house design team, the Group expects that it will be able to help customers to become aware of the Group's design concepts, to understand markets' and consumer needs, to showcase the areas of manufacturing expertise of the Group, and to develop products that may encompass a style that is unique for products of the Group. The Group expects the design team to help the Group in developing a brand image for its products.

The Group's strategic decision to automate its production process has served it well, especially in light of the rise in labor cost in southern China region. The Group believes that its commitment to implementing cost cutting measures in all aspects of its operations will be paramount in ensuring that it will improve on its profitability in coming years.

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

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

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 16 August 2011 (Tuesday) to 23 August 2011 (Tuesday), both days inclusive, during which period no transfer of shares will be registered. In order to qualify for attending the forthcoming annual general meeting, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Standard Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong for registration not later than 4:00 p.m. on 15 August 2011 (Monday).

## AUDIT COMMITTEE

The Audit Committee was formed on 9 November 2001 to review and supervise the financial reporting process and internal control of the Company. The Audit Committee comprises of four members, all of whom are independent non-executive Directors.

The Audit Committee has reviewed with management and auditors of the Company the accounting principles and practices adopted by the Group and discussed the audited financial statements for the year ended 31 March 2011.

## REMUNERATION COMMITTEE

The Remuneration Committee was formed on 23 March 2005 to review and determine the remuneration packages of all Directors and senior management. The Remuneration Committee comprises of four independent non-executive Directors and one executive Director. During the year, the remuneration committee reviewed the Directors' and senior management's salaries and bonuses and approved their salary and bonus level.

## NOMINATION COMMITTEE

The Nomination Committee was formed on 23 March 2005 to make recommendations for all appointment and re-appointment of Directors. The Nomination Committee comprises of four independent non-executive Directors and one executive Director.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the code of conduct rules (the "**Model Code**") regarding securities transactions by Directors on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all Directors, the Company confirms that all the Directors have complied with the Model Code in the year ended 31 March 2011.

## CORPORATE GOVERNANCE

The Directors are pleased to report that throughout the year ended 31 March 2011, the Company was in compliance with the Code of Corporate Governance Practices as set out in Appendix 14 of the Listing Rules (the "**Code**"). In particular, the Company has ensured that:

- the appointment to and the composition and operation of the Board of Directors;
- the remuneration of Directors and senior management;
- accountability and audit;
- delegation by the Board; and
- communication with shareholders,

are in compliance with the Code.

The Board will continuously review the corporate governance structure of the Company and effect changes whenever necessary.

## PUBLICATION OF ANNUAL REPORT ON THE WEBSITE OF THE STOCK EXCHANGE AND THE COMPANY

The Company's annual report containing all information required by the Listing Rules will be despatched to shareholders and published on the website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and the website of the Company at www.paktak.com in due course.

On behalf of the Board
**Victor Robert Lew**
*Chairman*

Hong Kong, 28 June, 2011

*As at the date of this announcement, Mr. Cheng Kwai Chun, John, Mr. Lin Chick Kwan and Mr. Lin Wing Chau are Executive Directors; Mr. Victor Robert Lew is the Non-executive Director and the Chairman; Ms. Ko Hay Yin, Karen, Mr. Chow Chan Lum, Ms. Ho Man Yee, Esther and Mr. Yuen Chi King, Wyman are Independent Non-exeutive Directors.*

* *for identification purposes only*