Notes on the Proforma Financial Information

(Expressed in Hong Kong Dollars)

1 Reorganisation

The company was incorporated in the Cayman Islands on 12 March 2001 as an exempted company with limited liability under the Companies Law (revised) of the Cayman Islands. Pursuant to a reorganisation scheme (the "reorganisation") to rationalise the structure of the group in the preparation for the public listing of the company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "SEHK") in April 2002, the company became the holding company of the companies now comprising the group on 11 April 2002. This was accomplished by the company acquiring the entire issued share capital of Ever Century Holdings Limited ("Ever Century"), the then holding company of other subsidiaries, as set out in note 14 on the proforma financial information. Further details of the reorganisation and the subsidiaries acquired pursuant thereto are set out in notes 14 and 26 on the proforma financial information and in the company's prospectus dated 16 April 2002.

2 Significant accounting policies

(a) Statement of compliance

The proforma financial information has been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The proforma financial information also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the SEHK. A summary of the significant accounting policies adopted by the group is set out below.

(b) Basis of preparation of the proforma financial information

The measurement basis used in the preparation of the proforma financial information is historical cost modified by the revaluation of land and buildings as set out in note 2(d).

(c) Subsidiaries

A subsidiary is an enterprise controlled by the company. Control exists when the company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

An investment in a subsidiary is consolidated into the proforma financial information, unless a subsidiary is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the group, in which case, it is stated in the proforma combined balance sheet at fair value with changes in fair value recognised in the proforma combined income statement as they arise.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the proforma combined financial information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

2 Significant accounting policies *(continued)*

(d) Fixed assets

(i) Fixed assets are carried in the proforma combined balance sheet on the following bases:

— land and buildings held for own use are stated in the balance sheet at their revalued amount, being their open market value at the date of revaluation less any subsequent accumulated depreciation (see note 2(f)). Revaluations are performed by qualified valuers with sufficient regularity to ensure that the carrying amount of these assets does not differ materially from that which would be determined using fair values at the balance sheet; and

— plant and machinery and other fixed assets are stated in the balance sheet at cost less accumulated depreciation (see note 2(f)) and impairment losses (see note 2(g)).

(ii) Changes arising on the revaluation of land and buildings held for own use are generally dealt with in reserves. The only exceptions are as follows:

— when a deficit arises on revaluation, it will be charged to the income statement, if and to the extent that it exceeds the amount held in the reserve in respect of that same asset, immediately prior to the revaluation; and

— when a surplus arises on revaluation, it will be credited to the income statement, if and to the extent that a deficit on revaluation in respect of that same asset, had previously been charged to the income statement.

(iii) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the group. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

(iv) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the proforma combined income statement on the date of retirement or disposal.

(e) Leased assets

Leases of assets under which the lessee assumes substantially all the risks and benefits of ownership are classified as finance leases. Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

(i) Assets acquired under finance leases

Where the group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets in equal annual amounts over the term of the relevant lease or, where it is likely the group will obtain ownership of the asset, the life of the asset, as set out in note 2(f). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(g). Finance charges implicit in the lease payments are charged to the proforma combined income statement over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

2 Significant accounting policies *(continued)*

(e) Leased assets *(continued)*

(ii) Assets held for use in operating leases

Where the group leases out assets under operating leases, the assets are included in the proforma combined balance sheet according to their nature and, where applicable, are depreciated in accordance with the group's depreciation policies, as set out in note 2(f). Impairment losses are accounted for in accordance with accounting policy as set out in note 2(g). Revenue arising from operating leases is recognised in accordance with the group's revenue recognition policies, as set out in note 2(n)(iii).

(iii) Operating lease charges

Where the group has the use of assets under operating leases, payments made under the leases are charged to the proforma combined income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the proforma combined income statement as an integral part of the aggregate net lease payment made.

(f) Depreciation and amortisation

(i) Depreciation is calculated on a straight line basis to write off the cost or valuation of fixed assets over their estimated useful lives as follows:

Buildings	30 to 50 years
Plant and machinery	5 years
Furniture, fixtures and office equipment	5 years
Motor vehicles and yacht	4 years

(ii) Leasehold land and land use rights are amortised on a straight-line basis over the terms of the respective leases/grants.

(g) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that fixed assets and other long-lived assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

2 Significant accounting policies *(continued)*

(g) Impairment of assets *(continued)*

(ii) Reversals of impairment losses

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the proforma combined income statement in the year in which the reversals are recognised.

(h) Club debentures

Club debentures are carried at cost less any provisions for permanent diminution in value where considered necessary by the company's directors.

(i) Textile quota entitlements

Permanent textile quota entitlements are stated at cost less accumulated amortisation and impairment losses (see note 2(g)). Amortisation is provided on a straight-line basis over their estimated economic useful life of three years. Costs of temporary textile quota entitlements are charged to the proforma combined income statement as incurred.

(j) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the first-in, first-out method of costing and comprises all cost of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(k) Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired. For the purpose of the proforma combined cash flow statement, cash equivalents would also include bank overdrafts and advances from bank repayable within three months from the date of the advance.

(l) Deferred taxation

Deferred taxation is provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future.

Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

2 Significant accounting policies *(continued)*

(m) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(n) Revenue recognition

Provided it is probable that the economic benefits will flow to the group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the proforma combined income statement as follows:

(i) Sales of goods

Revenue arising from sales of goods is recognised on delivery of goods to customers which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added or other sales taxes, if any, and is after deduction of trade discounts.

(ii) Trading of temporary textile quota

Revenue arising from trading of temporary textile quota is recognised when it becomes receivable upon the transfer of temporary textile quota entitlements to the buyers.

(iii) Rental income from operating leases

Rental income receivable under operating leases is recognised in the proforma combined income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives granted are recognised in the proforma combined income statement as an integral part of the aggregate net lease payments receivable.

(iv) Interest income

Interest income from bank deposits is accrued on a time-apportioned basis by reference to the principal outstanding and the rate applicable.

(o) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the proforma combined income statement.

2 Significant accounting policies *(continued)*

(o) Translation of foreign currencies *(continued)*

With respect to subsidiaries outside Hong Kong, whose operations are dependent on the economic circumstances of the group's reporting currency, the income and expenses of such subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates whereas the monetary assets and liabilities of such subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the proforma combined income statement.

(p) Retirement cost

Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance and defined contribution retirement scheme organised by the People's Republic of China ("the PRC") municipal government are charged to the proforma combined income statement as incurred.

(q) Borrowing costs

Borrowing costs are expensed in the proforma combined income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sales.

(r) Related parties

For the purposes of the proforma financial information, parties are considered to be related to the group if the group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the group and the party are subject to common control or common significant influence. Related parties may be individuals and other entities.

(s) Segment reporting

A segment is a distinguishable component of the group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the group's internal financial reporting, the group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses.

3 Turnover

The principal activities of the group are the manufacturing and sale of garments.

Turnover represents aggregate of the invoiced value of goods sold, after deducting goods returned, trade discounts and sales tax and proceeds from trading of temporary textile quota as follows:

	2002 $'000	2001 $'000
Revenue from sales of goods	707,759	637,894
Proceeds from temporary textile quota trading	2,730	3,215
	710,489	641,109

4 Other revenue and net (loss)/income

	2002 $'000	2001 $'000
Other revenue		
Rental income	456	647
Interest income	1,554	1,262
Consulting and management services fees	300	456
Others	879	780
	3,189	3,145
Other net (loss)/income		
Net exchange (loss)/gain	(222)	241

5 Profit from ordinary activities before taxation

Profit from ordinary activities before taxation is arrived at after charging:

	2002 $'000	2001 $'000
(a) Finance costs:		
Interest on bank loans and overdrafts wholly repayable within five years	17,064	26,794
Finance lease charges	1,791	1,608
Bank charges	4,441	5,089
	23,296	33,491

5 Profit from ordinary activities before taxation *(continued)*

		2002 $'000	2001 $'000
(b)	Other items:		
	Cost of inventories sold#	469,610	424,784
	Staff costs#		
	— wages, salaries and benefits	73,271	65,112
	— contributions to retirement schemes	1,012	957
	Depreciation#		
	— owned assets	19,286	23,353
	— assets held under finance leases	7,286	5,130
	Amortisation of permanent textile quota entitlements	3,989	2,694
	Purchase cost of temporary textile quota entitlements	4,065	5,299
	Operating lease charges in respect of properties#	3,219	1,579
	Auditors' remuneration	980	361
	Provision for inventory obsolescence#	2,954	3,067

Cost of inventories sold includes $86,423,000 (2001: $74,022,000) relating to staff costs, depreciation expenses, operating lease charges and provision for inventory obsolescence, which amount is also included in the respective total amounts disclosed separately above for each of these types of expenses.

6 Taxation

(a) Taxation in the proforma combined income statement represents:

	2002 $'000	2001 $'000
Current tax		
— Hong Kong profits tax	8,185	5,400
— PRC income tax	10	18
	8,195	5,418
Deferred taxation (note 25)	197	680
	8,392	6,098

Provision for Hong Kong profits tax is calculated at 16% (2001: 16%) on the estimated assessable profits for the year.

As a foreign investment enterprise, the group's subsidiary in the PRC was granted certain tax relief, under which it was exempted from income tax for the first two profit making years and thereafter was entitled to 50% income tax relief in the subsequent three years. The subsidiary was subject to PRC income tax at 18% during the year ended 31 December 2001 (being 50% of the standard state income tax rate of 30% and a local income tax rate of 3%). The tax relief ended on 31 December 2001 and the subsidiary is currently subject to PRC income tax at 33%.

The group's subsidiaries in Cambodia are subject to Cambodia income tax at a rate of 9%. Pursuant to the tax exemption certificates dated 15 June 2000 issued by the relevant tax authorities, Tack Fat Garment (Cambodia) Ltd. is exempted from Cambodia income tax for the four years ending 31 December 2003 and Cambodia Sportswear Mfg. Ltd. is exempted from Cambodia income tax for the three years ending 31 December 2002.

6 Taxation *(continued)*

(b) Taxation in the proforma combined balance sheet represents:

	2002 $'000	2001 $'000
Provision for Hong Kong profits tax for the year	8,185	5,400
PRC tax payable	10	18
Provisional profits tax paid	(3,949)	(3,892)
	4,246	1,526
Balance of profits tax relating to prior years	134	—
Balance of PRC tax relating to prior years	18	—
	4,398	1,526

7 Directors' remuneration

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2002 $'000	2001 $'000
Fees	—	—
Salaries, allowances and benefits in kind	4,011	3,408
Retirement benefits	48	16
Bonuses	—	—
	4,059	3,424

The remuneration of the directors is within the following bands:

	2002	2001
$		
Nil - 1,000,000	5	3
1,000,001 - 1,500,000	—	1
2,000,001 - 2,500,000	1	—
	6	4

8 Individuals with highest emoluments

Of the five individuals with the highest emoluments, four (2001: four) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other one (2001: one) individual are as follows:

	2002 $'000	2001 $'000
Fees	—	—
Salaries, allowances and benefits in kind	429	494
Retirement benefits	12	4
Bonuses	—	—
	441	498

The emoluments of the one (2001: one) individual with the highest emoluments are within the following band:

	2002	2001
$		
Nil-1,000,000	1	1

9 Profit attributable to shareholders

The profit attributable to shareholders includes a profit of $Nil (2001: $Nil) which has been dealt with in the financial statements of the company.

10 Dividends

Dividends attributable to the year

	2002 $'000	2001 $'000
Interim dividend declared and paid (note a)	24,000	—
Final dividend proposed after the balance sheet date of 0.625 cent per share (2001: $Nil) (note b)	8,300	—
	32,300	—

Notes:

(a) The interim dividend was declared and paid by the company's subsidiary, Tack Fat Swimwear Manufacturing Limited, to the then shareholders prior to the reorganisation.

(b) The final dividend of 0.625 cent per share proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

11 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the proforma combined profit attributable to shareholders of $82,279,000 (2001: $61,845,000) and on the assumption that 1,024,000,000 shares (2001: 1,024,000,000 shares) of the company are in issue, comprising 66,000,000 shares in issue as at the date of the prospectus and 958,000,000 shares issued pursuant to the capitalisation issue.

(b) Diluted earnings per share

The diluted earnings per share is not presented as there is no dilutive potential ordinary shares during the year.

12 Segment reporting

Segment information is presented in respect of the group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the group in making operating and financial decisions.

(a) Business segment

Throughout the year, the group has been operating in one single business segment, i.e. the manufacturing and sale of garments.

12 Segment reporting *(continued)*

(b) Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of the customers. Segment assets and capital expenditures are based on the geographical location of the assets.

The group's business is principally managed in Hong Kong and other parts of the PRC as well as in Cambodia while the principal markets for the group's products are wholesalers and retailers in North America, Europe and other regions.

		2002 $'000	2001 $'000
(i)	Segment revenue		
	North America	493,928	462,098
	Europe	181,109	146,298
	Other regions	35,452	32,713
		710,489	641,109
(ii)	Capital expenditures by location of assets		
	Hong Kong	2,930	1,535
	PRC, excluding Hong Kong	1,352	1,801
	Cambodia	23,665	100,239
		27,947	103,575
(iii)	Segment assets by location of assets		
	Hong Kong	288,042	265,491
	PRC, excluding Hong Kong	59,087	55,534
	Cambodia	326,734	299,200
		673,863	620,225

There is no major disparity in the ratios between turnover and profit in relation to the above geographical locations. Hence, no analysis is given of the profit contributions from the above geographical locations.

13 Fixed assets

(a)

	Land and buildings $'000	Plant and machinery $'000	Furniture, fixtures and office equipment $'000	Motor vehicles and yacht $'000	Total $'000
Cost/valuation:					
As at 1 April 2001	209,943	134,063	40,495	12,389	396,890
Additions	10,810	13,816	3,321	—	27,947
Disposals	(6,170)	—	—	—	(6,170)
Surplus on revaluation	3,351	—	—	—	3,351
As at 31 March 2002	217,934	147,879	43,816	12,389	422,018
Representing:					
Cost	38,723	147,879	43,816	12,389	242,807
Valuation — 31 January 2002	179,211	—	—	—	179,211
	217,934	147,879	43,816	12,389	422,018
Accumulated depreciation:					
As at 1 April 2001	15,726	95,006	27,799	11,505	150,036
Charge for the year	4,052	17,461	4,734	325	26,572
Written back on disposal	(889)	—	—	—	(889)
Written back on revaluation	(13,498)	—	—	—	(13,498)
As at 31 March 2002	5,391	112,467	32,533	11,830	162,221
Net book value:					
As at 31 March 2002	212,543	35,412	11,283	559	259,797
As at 31 March 2001	194,217	39,057	12,696	884	246,854

13 Fixed assets *(continued)*

(b) The analysis of net book value of properties is as follows:

	2002 $'000	2001 $'000
In Hong Kong		
— Medium-term leases#	14,147	12,001
In PRC, other than Hong Kong		
— Medium-term leases#	27,192	20,091
In Cambodia		
— Long term leases#	171,204	162,125
	212,543	194,217

Medium-term leases represent leases with an unexpired period of less than 50 years but not less than 10 years. Long term leases represent leases with an unexpired period of not less than 50 years.

Pursuant to revised lease agreements dated 28 May 1998, the company's subsidiaries in Cambodia leased two parcels of land from the Government of Cambodia for a period of 70 years beginning in April and September 1994 respectively, in consideration of pre-determined fixed annual rents totalling approximately $55,057,000. Additionally, its subsidiaries contracted to pay for a further sum of monies equivalent to 0.3% of their net profits per annum. Pursuant to the lease agreements, the subsidiaries' title to fixtures erected on the relevant land will be surrendered to the Government of Cambodia upon expiry of the respective leases. Such leases have been accounted for as finance leases in accordance with the accounting policy set out in note 2(e).

In addition, pursuant to lease agreements dated 26 July 2000, the company's subsidiaries in Cambodia leased another two parcels of land in Cambodia from Tak Fat Investment Co., Ltd. ("Tack Fat Investment"), a related party for a period of 70 years beginning in July 2000 with an option to renew, at an aggregate consideration of $58,964,000 (note 31).

In respect of the group's properties in the PRC, other than Hong Kong, the group has been granted the right to use the land by the relevant PRC authorities for a period of 50 years, which expires in April 2044.

(c) The group's land and buildings at 31 January 2002 were revalued by American Appraisal Hongkong Limited, an independent firm of professional valuers in Hong Kong at their open market value. The revaluation surpluses of $16,849,000 have been transferred to the land and buildings revaluation reserve of the group (note 27).

The carrying amount of the land and buildings held for own use of the group at 31 March 2002 would have been approximately $195,741,000 had they been carried on historical cost basis.

(d) The group leases production plant and machinery, office equipment and lands under finance leases expiring from one to seventy years. According to the lease agreements of production plant and machinery and office equipment, the group has the option to purchase the equipment at a price deemed to be a bargain purchase option at the end of the lease term. None of these leases includes contingent rentals.

As at 31 March 2002, the net book value of fixed assets held under finance leases was $61,302,000 (2001: $62,187,000).

13 Fixed assets *(continued)*

(e) Certain fixed assets of the group are pledged to secure mortgaged loans and other banking facilities granted to the group as follows:

	2002 $'000	2001 $'000
Net book value of pledged fixed assets	85,004	85,516

14 Subsidiaries

All of these are subsidiaries as defined under note 2(c) and have been included in the proforma financial information of the group for the year ended 31 March 2002 in accordance with the basis of preparation set out on page 31.

Name of companies	Place of incorporation/ operation	Issued and fully paid share capital/ registered capital	Proportion of ownership interest held by the company	Proportion of ownership interest held by subsidiary	Principal activities
Tack Fat Swimwear Manufacturing Limited	Hong Kong	1,000 non-voting deferred shares of $10,000 each 2 ordinary shares of $10,000 each	—	100	Manufacturing and sale of garments
Tack Fat Manufacturing Factory Limited	Hong Kong	2 ordinary shares of $10 each	—	100	Trading of fabric and other materials
Chiu Wing Enterprise Company Limited	Hong Kong	3,000 non-voting deferred shares of $1,000 each 2 ordinary shares of $1,000 each	—	100	Property holding
Luoding Hua Tian Long Garment Ltd. *(note (i))*	PRC	US$2,466,782	—	100	Manufacturing of garments

(Expressed in Hong Kong Dollars)

14 Subsidiaries *(continued)*

Name of companies	Place of incorporation/ operation	Issued and fully paid share capital/ registered capital	Proportion of ownership interest held by the company	Proportion of ownership interest held by subsidiary	Principal activities
Tack Fat Garment (Cambodia) Ltd. *(note (ii))*	Cambodia	US$3,000,000	—	100	Manufacturing of garments
Cambodia Sportswear Mfg. Ltd. *(note (ii))*	Cambodia	US$2,400,000	—	100	Manufacturing of garments
Tack Fat International Holdings Limited	Hong Kong	10,000 non-voting deferred shares of $1 each 2 ordinary shares of $1 each	—	100	Investing Holding
Lantern Services Limited	British Virgin Islands	2 ordinary shares of US$1 each	—	100	Investment holding
Ever Century Holdings Limited	British Virgin Islands	700 ordinary shares of US$1 each	100	—	Investment holding
Potter Industries Limited	British Virgin Islands/ Hong Kong	2 ordinary shares of US$1 each	—	100	Trading of packing materials
Blue Cat Enterprises Limited	British Virgin Islands/ Hong Kong	1 ordinary share of US$1 each	—	100	Manufacturing of Blue Cat apparel

Notes:

(i) This entity is a wholly foreign owned enterprise established in the PRC.

(ii) These entities are wholly foreign owned limited companies incorporated pursuant to the Law on Investment in the Kingdom of Cambodia and the Law Bearing Upon Commercial Regulation and the Commercial Register.

15 Intangible assets

	2002 $'000	2001 $'000
Permanent textile quota entitlements		
Cost		
At 1 April	13,648	8,985
Additons	—	4,663
At 31 March	13,648	13,648
Accumulated amortisation		
At 1 April	4,374	1,680
Charge for the year	3,989	2,694
At 31 March	8,363	4,374
Net book value	5,285	9,274

16 Inventories

	2002 $'000	2001 $'000
Raw materials	91,546	87,624
Work in progress	38,915	32,279
Finished goods	15,197	12,042
	145,658	131,945

Included in the above are inventories stated at net realisable value as follows:

	2002 $'000	2001 $'000
Inventories stated at net realisable value	—	7,394

17 Trade receivables

Credit terms granted by the group to customers generally range from one to three months.

Included in trade receivables are balances (stated after provisions for doubtful debts) with the following ageing analysis:

	2002 $'000	2001 $'000
Within 3 months	94,220	64,422
Over 3 months but less than 6 months	—	397
Over 6 months but less than 9 months	—	465
	94,220	65,284

All of the above balances are expected to be recovered within one year.

Notes on the Proforma Financial Information

(Expressed in Hong Kong Dollars)

18 Amount due from related company

Amount due from related company was unsecured, interest free and repayable on demand. The balance was due from Tack Fat Swimwear Manufacturing (China) Ltd. in which Mr Kwok Wing holds 50% beneficial interest.

There was no provision made against the balance at 31 March 2002. The balance at 31 March 2002 was subsequently settled in full in April 2002 (note 31).

Supplemantary information disclosed pursuant to section 161B of the Hong Kong Companies Ordinance is as follows:

	2002 $'000	2001 $'000	2000 $'000
Outstanding balance as at the balance sheet date	63,797	63,986	58,194
Maximum balance outstanding during the year	65,032	63,986	

19 Cash and cash equivalents

	2002 $'000	2001 $'000
Deposits with banks	69,383	78,972
Cash at bank and in hand	7,850	6,646
	77,233	85,618

As at 31 March 2002, deposits with banks totalling $69,383,000 (2001: $78,689,000) were pledged as part of the security for banking facilities granted to the group.

20 Trade payables

The credit terms obtained by the group generally range from 30 days to 180 days. Included in trade payables are balances with the following ageing analysis:

	2002 $'000	2001 $'000
Due within one month or on demand	11,303	15,753
Due after one month but within three months	16,568	25,431
Due after three months but within six months	16,873	22,393
Due after six months but within one year	5,299	—
	50,043	63,577

All of the above balances are expected to be settled within one year.

21 Other payable

The balance of other payable as at 31 March 2001 was unsecured, interest-free and was repaid during the year.

22 Bank loans and overdrafts

	2002 $'000	2001 $'000
Secured bank borrowings:		
Bank overdrafts	35,822	69,296
Trust receipt loans	110,242	101,221
Export finance loans	74,388	42,338
Term loans	41,048	15,756
Mortgaged property loan	559	1,043
	262,059	229,654
Unsecured term loans	9,871	—
	271,930	229,654

At 31 March 2002, the bank loans and overdrafts were repayable as follows:

	2002 $'000	2001 $'000
Within one year or on demand	238,221	213,333
After one year but within two years	26,681	16,321
After two years but within five years	7,028	—
	33,709	16,321
	271,930	229,654

As at 31 March 2002, the bank borrowings of the group were secured as follows:

(i) Pledge of the bank deposits of the group totalling $69,383,000;

(ii) The group's inventories released under trust receipt bank loans;

(iii) Mortgages over certain properties of the group;

(iv) Mortgages over certain properties jointly owned by Mr Kwok Wing and his mother; and

(v) Personal guarantees issued by the then shareholders.

The relevant bankers have agreed that the security mentioned in (iv) and (v) above are to be released upon the listing of the company's shares on the SEHK and replaced by corporate guarantees of the company.

23 Obligations under finance leases

At 31 March 2002, the group had obligations under finance leases repayable as follows:

	Present value of minimum lease payments	Interest expense relating to future periods	Total minimum lease payments
	$'000	*$'000*	*$'000*
As at 31 March 2002			
Within one year	9,351	895	10,246
After one year but within two years	3,874	521	4,395
After two years but within five years	2,277	1,094	3,371
After five years	35,410	12,464	47,874
	41,561	14,079	55,640
	50,912	14,974	65,886
As at 31 March 2001			
Within one year	15,158	1,486	16,644
After one year but within two years	4,226	696	4,922
After two years but within five years	796	1,080	1,876
After five years	35,531	12,771	48,302
	40,553	14,547	55,100
	55,711	16,033	71,744

As at 31 March 2002, finance lease obligations with the outstanding principal of $4,998,000 (2001: $5,020,000) were secured by personal guarantees issued by the then shareholders. The relevant lessors have agreed that such guarantees are to be released upon the listing of the company's shares on the SEHK and replaced by corporate guarantees of the company.

24 Amount due to shareholders

The balance was unsecured, interest free and had no fixed terms of repayment and was due to the then shareholders of the group.

The balance at 31 March 2002 was subsequently settled in full in April 2002 (note 31).

25 Deferred taxation

(a) Movements on deferred taxation comprise:

	2002 $'000	2001 $'000
Balance at beginning of period	1,642	2,322
Transfer to the proforma combined income statement (note 6(a))	(197)	(680)
Balance at end of period	1,445	1,642
Representing:		
Deferred tax assets	4,391	4,391
Deferred tax liabilities	(2,946)	(2,749)
	1,445	1,642

(b) Major component of deferred tax of the group is set out below:

	2002 $'000	2001 $'000
Depreciation in excess of related tax allowances	1,445	1,642

The directors are of the opinion that the group has no intention to dispose of its properties in the foreseeable future. Accordingly, deferred tax liability of $777,000 has not been provided on the revaluation surpluses of properties outside Hong Kong. There were no other material unprovided deferred taxation liabilities at the balance sheet dates.

26 Share capital

The following is a summary of movements in the authorised and issued share capital of the company:

	Note	Number of ordinary shares of $0.1 each	$'000
Authorised:			
On incorporation and at 31 March 2002	(a)	3,800,000	380
Increase in authorised share capital	(c)	1,996,200,000	199,620
At 29 April 2002, the listing date		2,000,000,000	200,000

26 Share capital *(continued)*

	Note	Number of ordinary shares of $0.1 each	$'000
Issued and fully paid:			
Ordinary shares issued nil paid on incorporation and subsequently credited as fully paid as part of the consideration for the acquisition of the entire issued share capital of Ever Century	(b)	1,000,000	100
Ordinary shares issued as the remaining consideration for the acquisition of the entire issued share capital of Ever Century	(d)	65,000,000	6,500
Proforma share capital at 31 March 2001 and 31 March 2002		66,000,000	6,600
New issue on public offer and placing	(e)	256,000,000	25,600
Capitalisation of share premium account for 958,000,000 ordinary shares credited as fully paid	(f)	958,000,000	95,800
Exercise of over-allotment option	(g)	48,000,000	4,800
Total issued share capital as at the date of approval of the proforma financial information		1,328,000,000	132,800

During the period from 12 March 2001 (date of incorporation) to the date of approval of the proforma financial information, the following changes in the company's authorised and issued share capital were recorded:

(a) On 12 March 2001, the company was incorporated with an authorised share capital of $380,000 divided into 3,800,000 ordinary shares of $0.1 each.

(b) On 26 March 2001, one share was allotted and issued nil paid to the initial subscriber and then transferred to Efulfilment Enterprises Limited. On the same date, an aggregate of 999,999 shares were allotted and issued nil paid as to 679,999 shares to Efulfilment Enterprises Limited, 160,000 shares to Wisehead Group Limited and 160,000 shares to Sharp Asset Holdings Limited.

(c) On 11 April 2002, pursuant to written resolutions of all the shareholders of the company, the authorised share capital of the company was increased from $380,000 to $200,000,000 by the creation of 1,996,200,000 additional ordinary shares of $0.1 each, ranking pari passu in all respects with the existing ordinary shares of the company.

(d) On 11 April 2002, pursuant to the reorganisation described in note 1 to the proforma financial information, the company allotted and issued 65,000,000 ordinary shares of $0.1 each, credited as fully paid, and also credited as fully paid the 1,000,000 nil paid ordinary shares of $0.1 each as set out in (b) above, in consideration for the acquisition of the entire issued share capital of Ever Century.

(e) On 26 April 2002, 256,000,000 ordinary shares of $0.1 each were issued to the public at $0.385 each for a total cash consideration of $98,560,000 before the related issue expenses.

26 Share capital *(continued)*

(f) On 11 April 2002, conditional on the share premium account of the company being credited as a result of the issue of new ordinary shares to the public as mentioned in (e) above, a total of 958,000,000 ordinary shares of $0.1 each were allotted as fully paid at par to the shareholders whose names appeared on the register of members of the company at that date, in proportion to their respective shareholdings by way of capitalisation of the sum of $95,800,000 standing to the credit of the share premium account of the company.

(g) On 15 May 2002, the over-allotment option granted by the company referred to in the prospectus has been exercised in full, so that 48,000,000 additional new shares of $0.1 each were issued at $.0385 each to meet the over-allocations in the placing.

27 Reserves

	Land and buildings revaluation reserve (note (i)) $'000	Contributed surplus (note (ii)) $'000	PRC statutory reserve (note (iii)) $'000	Retained earnings $'000	Total $'000
At 1 April 2000	—	6,400	9	86,618	93,027
Profit for the year	—	—	—	61,845	61,845
Transfer to PRC statutory reserve	—	—	10	(10)	—
At 31 March 2001	—	6,400	19	148,453	154,872
At 1 April 2001	—	6,400	19	148,453	154,872
Revaluation surplus (note 13(c))	16,849	—	—	—	16,849
Profit for the year	—	—	—	82,279	82,279
Interim dividend declared in respect of the year (note 10)	—	—	—	(24,000)	(24,000)
At 31 March 2002	16,849	6,400	19	206,732	230,000

Notes:

(i) The land and buildings revaluation reserve has been set up and will be dealt with in accordance with the accounting policy adopted for the revaluation of land and buildings held for own use (note 2(d)).

(ii) The excess of the nominal value of shares of the subsidiaries acquired pursuant to the reorganisation over the nominal value of the shares of the company issued in exchange is credited to the contributed surplus.

(iii) In accordance with the relevant PRC laws applicable to enterprises with foreign investment, the company's subsidiary in the PRC is required to transfer at least 10% of its annual net profit determined under PRC accounting regulations to the general reserve. This reserve can be used to convert into paid-in capital and offset to reduce prior years' losses, if any.

(iv) The company became the holding company of the subsidiaries now comprising the group pursuant to the reorganisation which took place on 11 April 2002 and hence the company did not have any reserve available for distribution at 31 March 2002.

28 Notes to the proforma combined cash flow statement

(a) Reconciliation of profit from ordinary activities before taxation to net cash inflow from operating activities:

	2002 $'000	2001 $'000
Profit from ordinary activities before taxation	90,671	67,943
Interest expense	17,064	26,794
Interest element of finance lease rentals	1,791	1,608
Interest income	(1,554)	(1,262)
Depreciation of fixed assets	26,572	28,483
Amortisation of permanent textile quota entitlements	3,989	2,694
Increase in inventories	(13,713)	(5,617)
(Increase)/decrease in trade receivables	(28,936)	48,920
Increase in prepayments, deposits and other receivables	(5,328)	(5,324)
Decrease in trade payables and bills payable	(20,011)	(23,104)
Increase/(decrease) in accrued expenses and other payables	1,564	(7,261)
Net cash inflow from operating activities	72,109	133,874

(b) Analysis of changes in financing

	Short term bank loans $'000	Long term bank loans $'000	Finance lease obligations $'000	Amount due to the then shareholders $'000	Other payable $'000
At 1 April 2000	73,481	16,729	42,154	51,155	7,770
Net cash flows from financing	29,447	(408)	(10,785)	28,948	—
Inception of finance lease contracts	—	—	24,342	—	—
At 31 March 2001	102,928	16,321	55,711	80,103	7,770

	Short term bank loans $'000	Long term bank loans $'000	Finance lease obligations $'000	Amount due to the then shareholders $'000	Other payable $'000
At 1 April 2001	102,928	16,321	55,711	80,103	7,770
Net cash flows from financing	47,032	17,388	(17,981)	(35,819)	(7,770)
Inception of finance lease contracts	—	—	13,182	—	—
At 31 March 2002	149,960	33,709	50,912	44,284	—

28 Notes to the proforma combined cash flow statement *(continued)*

(c) Material non-cash transactions

	2002 $'000	2001 $'000
Finance lease obligations incurred for the year	13,182	24,342
Set-off of amount due from related company against consideration payable for acquisition of leasehold land	—	37,742

29 Operating lease comitments

At 31 March 2002, the total future minimum lease payments under non-cancellable operating leases relating to properties are repayable as follows:

	2002 $'000	2001 $'000
Within 1 year	2,135	1,632

The group leases a number of properties under operating leases. The leases typically run for an initial period of one to two years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

30 Contingent liabilities

At 31 March 2002, material contingent liabilities not provided for in the proforma financial information were as follows:

	2002 $'000	2001 $'000
Bills discounted with recourse	47,849	49,235

In addition, a writ of summons dated 29 February 2000 was filed by a supplier of the group against Tack Fat Swimwear Manufacturing Limited, a wholly-owned subsidiary of the company, claiming a sum of US$202,850 (equivalent to $1,582,000) for an alleged breach of the payment terms under certain purchase contracts. Based on the advice obtained from the legal advisers acting for Tack Fat Swimwear Manufacturing Limited, the directors of the company are of the view that Tack Fat Swimwear Manufacturing Limited has a valid defence and counterclaim against the supplier. Consequently, no provision for such litigation or the associated legal costs has been included in the proforma financial information.

31 Related party transactions

During the year, the following significant related party transactions took place:

(a) Recurring transactions

	Note	2002 $'000	2001 $'000
Warehouse rentals	(i)	372	164
Directors' quarters rentals paid to	(ii)		
— Jumbo Team		816	600
— Granco		816	600
Guangzhou office rentals	(iii)	490	215

Notes:

(i) Historically, the group occupied a warehouse property owned jointly by Mr Kwok Wing and his mother free of rental. In October 2000, the group entered into formal lease arrangements with Mr Kwok Wing and his mother for leasing of the warehouse property. The lease currently in force will expire on 22 October 2002 and the monthly rental payable by the group under such lease is $31,000, which was determined by reference to open market value.

(ii) During the year, the group entered into lease arrangement with Jumbo Team Development Limited ("Jumbo Team") and Granco Enterprises Limited ("Granco") for the provision of directors' quarters to the group. Both Granco and Jumbo Team are jointly owned by the then shareholders. On 1 March 2002, the leases with Granco and Jumbo Team were renewed for a period of one year beginning on 1 April 2002. The monthly rental payable by the group under each of the new leases is $68,000, which was determined by reference to open market value.

(iii) In October 2001, the group entered into lease arrangements with Guangzhou Tack Fat Construction Co., Ltd., a company which is controlled by the then shareholders for leasing of an office property in Guangzhou, the PRC. The lease currently in force will expire on 26 October 2002 and the monthly rental payable by the group under such lease is approximately RMB43,000, which was determined by reference to open market value.

(b) Non-recurring transactions

	Note	2002 $'000	2001 $'000
Payments of subcontracting fees	(i)	283	3,764
Consideration paid for leasing of land	(ii)	—	58,964
Sales of properties	(iii)	5,300	—

Notes:

(i) During the year, the group paid subcontracting fees to Tack Fat Knitting Factory ("Tack Fat Knitting") for its manufacturing services rendered to the group. Such fees were determined by reference to the unit production cost and number of units manufactured under each order by Tack Fat Knitting. Ms Kwok Choi Ha held a 50% ownership in Tack Fat Knitting and her father, Mr Kwok Kam Chuen is a director of Luo Ding Hua Ting Long Garment Ltd, a then subsidiary of the company. On 4 May 2001, Ms Kwok disposal of her interest in Tack Fat Knitting to an independent third party.

31 Related party transactions *(continued)*

(b) Non-recurring transactions *(continued)*

Notes: *(continued)*

(ii) Pursuant to lease agreements dated 26 July 2000, the group leased two parcels of land in Cambodia from Tack Fat Investment for a period of 70 years beginning in July 2000 with option to renew, at an aggregate consideration of $58,964,000. Such consideration was determined based on the purchase price borne by Tack Fat Investment which approximated the open market value. Part of this consideration of $37,742,000 was settled in July 2000 by set-off against an equivalent amount due from Tack Fat Investment and the remaining balance of the consideration of $21,222,000 was settled in cash in October 2000. Mr Kwok Wing was interested in the above leasing transactions as a shareholder holding a 49% interest in Tack Fat Investment. On November 2000, Mr Kwok disposed of his shareholding in Tack Fat Investment to an independent third party and he does not hold any interest in Tack Fat Investment since that date.

(iii) On 28 March 2002, the group disposed of two residential properties to Granco and Jumbo Team respectively at an aggregate consideration of $5,300,000, which represented approximately the assets' net book value at the date of disposal. No material gain or loss was resulted from the above disposal.

(iv) During the year, the then shareholders provided unsecured, interest-free advances to the group. Details of the terms of the advances and the balance outstanding are disclosed in note 24 on the proforma financial information.

(v) During the year, several properties owned jointly by Mr Kwok Wing and his mother and cash deposits and personal guarantees issued by the then shareholders were provided as part of the security pledged against the banking facilities granted to the group. At 31 March 2002, bank loans and overdrafts of $246,260,000 (2001: $213,898,000) were secured by the above personal guarantees and properties while the cash deposits were released.

(vi) Personal guarantees were provided by the then shareholders in respect of certain finance lease obligations entered into by the group. Details are disclosed in note 23 on the proforma financial information.

(vii) During the year, the group made unsecured interest-free advances to Tack Fat Swimwear Manufacturing (China) Ltd.. Details of the terms of the advances and the balance outstanding are disclosed in note 18 on the proforma financial information.

The directors of the company are of the opinion that the above transactions with related parties were conducted on normal commercial terms in the ordinary course of business of the group.

32 Post balance sheet events

(a) Details of the subsequent movements in the authorised and issued share capital of the company are disclosed in note 26 on the proforma financial information.

(b) The company's shares were listed on the Main Board of the SEHK on 29 April 2002.

33 Ultimate holding company

The directors of the company consider Efulfilment Enterprises Limited, a company incorporated in the British Virgin Islands, to be the ultimate holding company at 31 March 2002.