

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2003

1. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company is an investment holding company. Principal activities of its subsidiaries are set out in note 23.

2. ADOPTION OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted for the first time the following new and revised Statements of Standard Accounting Practice (“SSAPs”).

SSAP No. 1 (Revised)	Presentation of financial statements
SSAP No. 11 (Revised)	Foreign currency translation
SSAP No. 15 (Revised)	Cash flow statement
SSAP No. 34	Employee benefits

The adoption of these new or revised SSAPs has resulted in the introduction of the statement of changes in equity and a change in the format of presentation of the cash flow statement as well as additional disclosures. These changes have not had any material effect on the results for the current or prior period. Accordingly, no prior period adjustment has been required.

3. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

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

All significant inter-company transactions and balances within the Group have been eliminated on consolidation.

The results of subsidiaries acquired and disposed of during the year are included in the consolidated income statement from or up to their effective dates of acquisition or disposal, respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2003

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in subsidiaries

Investments in subsidiaries are stated at cost less any identified impairment loss.

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and accumulated impairment losses.

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

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

Leasehold improvements	10 — 20%
Machinery and equipment	5 — 33 $\frac{1}{3}$ %
Furniture and office equipment	10 — 33 $\frac{1}{3}$ %
Motor vehicles	10 — 20%

Impairment

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

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

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

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

Revenue recognition

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

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

Dividends are recognised by the Company when the Company's right to receive payment has been established.

Operating leases

Rental expenses under operating leases are charged to the income statement on a straight line basis over the period of the respective leases.

Taxation

The charge for taxation is based on the results for the year after adjusting for items which are non-assessable or disallowed. Certain items of income and expense are recognised for tax purposes in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed under the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

Quotas

Revenue from the sale of, and the cost of acquiring, temporary quotas are dealt with in the income statement in the period in which they arise. Quotas allocated by the authorities are not capitalised and are not included as assets in the balance sheet. The cost of permanent quotas acquired are amortised over a fixed period not exceeding five years or the remaining life of the relevant quota agreement, whichever is the shorter.

NOTES TO THE FINANCIAL STATEMENTS

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on translation are dealt with in the income statement.

Retirement benefit scheme

The retirement benefit costs charged in the income statement represent the contributions payable in respect of the current year to the Group's Mandatory Provident Fund scheme.

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

(A) Business segments

The Group is only engaged in the garment business and therefore no business segment analysis is presented.

(B) Geographical segments

The Group's operations are located in Hong Kong. All the Group's turnover and contribution to results were derived from the sales to the United States of America ("USA").

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
USA	7,163	17,865	—	—
Hong Kong	36,570	38,265	—	62
The PRC	24,386	23,372	866	2,134
	<u>68,119</u>	<u>79,502</u>	<u>866</u>	<u>2,196</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2003

5. OTHER OPERATING INCOME

Included in other operating income is bank deposit interest income amounting to approximately HK\$176,000 (2002: HK\$326,000) earned during the year.

6. PROFIT FROM OPERATIONS

	2003 HK\$'000	2002 HK\$'000
Profit from operations has been arrived at after charging:		
Directors' remuneration (<i>note (i)</i>)	1,105	1,114
Other staff costs	5,111	6,461
Other staff's retirement benefit scheme contributions	198	237
	<u>6,414</u>	<u>7,812</u>
Auditors' remuneration:		
— current year	394	412
— (over) underprovision in prior years	(12)	91
	<u>382</u>	<u>503</u>
Allowance for inventories	1,211	—
Depreciation	2,985	3,140
Loss on disposal of property, plant and equipment	44	102
Operating lease rentals in respect of rented premises	642	661
Quota expenses	<u>16,250</u>	<u>23,304</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2003

6. PROFIT FROM OPERATIONS (Continued)

(i) Information regarding directors' and employees' emoluments

	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Directors' emoluments</i>		
Directors' fees:		
Executive	80	80
Independent non-executive	100	100
	180	180
Other emoluments to executive directors:		
Salaries and others	910	910
Retirement benefit scheme contributions	15	24
	925	934
	1,105	1,114

The emoluments of each of the directors were below HK\$1,000,000.

Employees' emoluments

The five highest paid individuals of the Group included two directors (2002: two directors). The emoluments of the remaining three (2002: three) highest paid employees are as follows:

	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries and others	1,211	1,414
Retirement benefit scheme contributions	36	30
	1,247	1,444
	1,247	1,444

The emoluments of each of the three (2002: three) highest paid employees were below HK\$1,000,000.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2003

7. TAXATION

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
The taxation charge comprises:		
Hong Kong Profits Tax		
— current year	(1,255)	(1,030)
— overprovision in prior year	—	6
	<u>(1,255)</u>	<u>(1,024)</u>
Deferred taxation		
— deferred taxation credit	309	130
— attributable to a change in tax rate	(88)	—
	<u>221</u>	<u>130</u>
	<u>(1,034)</u>	<u>(894)</u>

Hong Kong Profits Tax is calculated at 16% (2002: 16%) of the estimated assessable profit of the year.

Details of deferred taxation provided and significant potential unprovided deferred taxation are set out in note 17.

8. DIVIDEND

The directors do not recommend the payment of a dividend for the year ended March 31, 2003. The final dividend of HK\$1,670,310 is calculated based on 167,031,016 shares in issue on July 3, 2002.

9. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the Group's profit for the year of approximately HK\$3,893,000 (2002: HK\$2,233,000) and on 167,031,016 (2002: weighted average number of 168,281,405) ordinary shares in issue during the year.

No diluted earnings per share figures have been shown as there were no dilutive potential ordinary shares outstanding in either year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2003

10. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements	Machinery and equipment	Furniture and office equipment	Motor vehicles	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
THE GROUP					
COST					
At April 1, 2002	1,940	13,215	3,601	2,434	21,190
Additions	—	667	199	—	866
Disposals	—	(186)	(115)	(297)	(598)
At March 31, 2003	<u>1,940</u>	<u>13,696</u>	<u>3,685</u>	<u>2,137</u>	<u>21,458</u>
DEPRECIATION					
At April 1, 2002	1,599	8,142	2,421	2,034	14,196
Provided for the year	297	1,971	573	144	2,985
Eliminated on disposals	—	(117)	(106)	(297)	(520)
At March 31, 2003	<u>1,896</u>	<u>9,996</u>	<u>2,888</u>	<u>1,881</u>	<u>16,661</u>
NET BOOK VALUES					
At March 31, 2003	<u>44</u>	<u>3,700</u>	<u>797</u>	<u>256</u>	<u>4,797</u>
At March 31, 2002	<u><u>341</u></u>	<u><u>5,073</u></u>	<u><u>1,180</u></u>	<u><u>400</u></u>	<u><u>6,994</u></u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2003

10. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Leasehold improvements <i>HK\$'000</i>	Furniture and office equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE COMPANY			
COST			
At April 1, 2002 and March 31, 2003	124	90	214
DEPRECIATION			
At April 1, 2002	56	39	95
Provided for the year	25	18	43
At March 31, 2003	81	57	138
NET BOOK VALUES			
At March 31, 2003	<u>43</u>	<u>33</u>	<u>76</u>
At March 31, 2002	<u>68</u>	<u>51</u>	<u>119</u>

11. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Unlisted shares	—	—
Amounts due from subsidiaries	<u>22,209</u>	22,193
	<u>22,209</u>	<u>22,193</u>

Particulars of the principal subsidiaries of the Company as at March 31, 2003 are set out in note 23.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2003

12. INVENTORIES

	THE GROUP	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	6,990	6,335
Work in progress	8,598	6,821
Finished goods	4,077	3,403
	19,665	16,559
	19,665	16,559

Included above are raw materials of approximately HK\$522,000 (2002: Nil) which are carried at net realisable value.

13. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade receivables of approximately HK\$7,163,000 (2002: HK\$23,141,000).

The aged analysis for trade receivables at the balance sheet date is as follows:

	THE GROUP	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 30 days	3,389	22,714
Over 30 days but less than 60 days	3,774	424
Over 90 days	—	3
	7,163	23,141
	7,163	23,141

Credit policy:

Apart from payment by letter of credit, settlement is generally on an open account basis with credit terms ranging from 30 days to 60 days following the month of sale.

It is the policy of the Group to allow settlement on an open account basis only by customers who have good payment records and well-established relationships with the Group. The credit period for such customers is reviewed periodically in response to financial conditions, orders on hand and other credit information.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2003

14. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of approximately HK\$7,954,000 (2002: HK\$20,776,000) all aged within 90 days.

15. SHARE CAPITAL

	Number of ordinary shares	Value HK\$'000
Authorised:		
At April 1, 2001		
Ordinary shares of HK\$0.02 each	25,000,000,000	500,000
Consolidation of every 50 shares of HK\$0.02 each into 1 share of HK\$1.00 each (<i>note</i>)	(24,500,000,000)	—
Subdivision of every 1 share of HK\$1.00 each into 100 shares of HK\$0.01 each (<i>note</i>)	49,500,000,000	—
At March 31, 2002 and March 31, 2003		
Ordinary shares of HK\$0.01 each	<u>50,000,000,000</u>	<u>500,000</u>
Issued and fully paid:		
At April 1, 2001		
Ordinary shares of HK\$0.02 each	8,539,860,830	170,797
Repurchase of shares	(188,310,000)	(3,766)
	8,351,550,830	167,031
Consolidation of every 50 shares of HK\$0.02 each into 1 share of HK\$1.00 each (<i>note</i>)	(8,184,519,814)	—
Capital reduction (<i>note</i>)	—	(165,361)
At March 31, 2002 and March 31, 2003		
Ordinary shares of HK\$0.01 each	<u>167,031,016</u>	<u>1,670</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2003

15. SHARE CAPITAL (Continued)

Note:

Pursuant to the ordinary and special resolutions regarding the capital reorganisation passed in the Annual General Meeting held on August 3, 2001, every 50 issued and unissued ordinary shares of HK\$0.02 each of the Company were consolidated (the "Share Consolidation") into one share of HK\$1.00 each ("the Consolidated Share"). After the Share Consolidation, the par value of each of the issued Consolidated Shares was then reduced from HK\$1.00 to HK\$0.01 by canceling paid up capital to the extent of HK\$0.99 per Consolidated Share (the "Capital Reduction") and each of the Consolidated Shares (including the unissued Consolidated Shares arising from the Capital Reduction) was subdivided into 100 new ordinary shares of HK\$0.01 each.

16. RESERVES

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Deficit <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE COMPANY					
Balance at April 1, 2001	137,019	269,130	15	(554,939)	(148,775)
Surplus arising from repurchase of shares	—	1,288	—	—	1,288
Transferred to capital redemption reserve upon repurchase of shares	—	(3,766)	3,766	—	—
Transferred to contributed surplus as a result of the Capital Reduction	(137,019)	302,380	—	—	165,361
Elimination of deficit	—	(554,939)	—	554,939	—
Loss for the year	—	—	—	(2,124)	(2,124)
Balance at April 1, 2002	—	14,093	3,781	(2,124)	15,750
2002 final dividend paid	—	(1,670)	—	—	(1,670)
Profit for the year	—	—	—	843	843
Balance at March 31, 2003	—	12,423	3,781	(1,281)	14,923

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2003

16. RESERVES (Continued)

The contributed surplus of the Company represents the difference between the consolidated net assets of the subsidiaries acquired on May 25, 1993, the date at which the group reorganisation became effective, and the nominal value of the Company's shares issued under the group reorganisation, together with the amounts transferred from share capital and share premium account as a result of the Capital Reduction, less dividends paid, amounts utilised on redemption of shares and amount eliminated against deficit.

Under the company law in Bermuda, the contributed surplus of the Company is available for distribution to shareholders. However, a company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that:

- (i) the company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (ii) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

The Company's reserves available for distribution to shareholders at the balance sheet date are as follows:

	2003	2002
	HK\$'000	HK\$'000
— Contributed surplus	12,423	14,093
— Deficit	(1,281)	(2,124)
	11,142	11,969

NOTES TO THE FINANCIAL STATEMENTS

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17. DEFERRED TAXATION

	THE GROUP				THE COMPANY	
	Provided		Unprovided		Unprovided	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Balance at the beginning of the year	935	1,065	(2,572)	(2,232)	(2,572)	(2,232)
Effect of change in tax rate	88	—	241	—	241	—
Movements for the year	(309)	(130)	1,880	(340)	1,880	(340)
Balance at the end of the year	<u>714</u>	<u>935</u>	<u>(451)</u>	<u>(2,572)</u>	<u>(451)</u>	<u>(2,572)</u>

At the balance sheet date, the components of the Group's net deferred taxation liability (asset), provided and unprovided, in the financial statements are analysed as follows:

	THE GROUP				THE COMPANY	
	Provided		Unprovided		Unprovided	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Tax effect on timing differences in respect of:						
Excess of depreciation allowance over depreciation expenses	714	935	3	5	3	5
Tax losses	—	—	(454)	(2,577)	(454)	(2,577)
Net deferred taxation liability (asset)	<u>714</u>	<u>935</u>	<u>(451)</u>	<u>(2,572)</u>	<u>(451)</u>	<u>(2,572)</u>

The net deferred taxation asset has not been recognised in the financial statements as it is not certain that the benefit will crystallise in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2003

17. DEFERRED TAXATION (Continued)

The components of the Group's net deferred taxation (credit) charge, provided and unprovided, for the year are analysed as follows:

	THE GROUP				THE COMPANY	
	Provided		Unprovided		Unprovided	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Tax effect on timing differences in respect of:						
Shortfall of depreciation allowances over depreciation expenses	(309)	(130)	(2)	(2)	(2)	(2)
Tax losses	—	—	1,882	(338)	1,882	(338)
Effect of change in tax rate	88	—	241	—	241	—
Net deferred taxation (credit) charge	<u>(221)</u>	<u>(130)</u>	<u>2,121</u>	<u>(340)</u>	<u>2,121</u>	<u>(340)</u>

18. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group and the Company was committed to make minimum lease payments of approximately HK\$438,000 (2002: HK\$496,000) under a non-cancellable operating lease in respect of a rented premises which fall due within one year.

19. CONTINGENT LIABILITIES

At March 31, 2003, the Company had given corporate guarantees of HK\$20,000,000 (2002: HK\$20,000,000) to secure general banking facilities granted to a subsidiary. The amount utilised by the subsidiary at the balance sheet date amounted to approximately HK\$1,498,000 (2002: HK\$501,000).

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20. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted on October 11, 1999 pursuant to a resolution passed by the Company's shareholders on August 16, 1999 for the primary purposes of providing incentives to any directors or full-time employees of the Company or any of its subsidiaries ("Eligible Employees") and will expire on October 10, 2004. Under the Scheme, the Board of Directors of the Company is authorised to grant options at a consideration of HK\$1.00 per option to the Eligible Employees to subscribe for shares in the Company.

The maximum number of shares issued or which may be issuable under the Scheme cannot exceed 10% of the issued share capital of the Company excluding any shares issued pursuant to the Scheme from time to time. The number of shares in respect of which options granted and may be granted to any Eligible Employee is not permitted to exceed 25% of the aggregate number of shares for the time being issued and issuable under the Scheme.

The offer of a grant of share options may be accepted within 30 days from the date of the offer together with the payment of nominal consideration of HK\$1 in total by the grantee.

An option may be exercised at any time during a period not exceeding five years commencing after the date the option is accepted. The expiry of the option may be determined by the Board of Directors of the Company which shall not later than the last day of such period.

The exercise price is determined by the Directors of the Company, and will not be less than the greater of: (i) 80% of the average of the official closing price of the Company's shares for the 5 trading days immediately preceding the offer of the options; and (ii) the nominal value per share of the Company.

No options have been granted under the Scheme since its adoption.

21. RETIREMENT BENEFIT SCHEME

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the Scheme are held separately from those of the Group, in funds under control of a trustee. The Group contributes 5% of relevant payroll costs to the Scheme, which is matched by employees.

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22. RELATED PARTY TRANSACTIONS

During the year, the Group had the following transactions with related parties:

	2003	2002
	HK\$'000	HK\$'000
Rental charges paid to related companies (<i>note a</i>)	642	661
Consultancy fees paid to related companies (<i>note b</i>)	240	220
	<u> </u>	<u> </u>

These transactions were carried out after negotiations between the Group and the related parties and on the basis of estimated market value as determined by the directors of the Company.

Notes:

- (a) Certain directors and substantial shareholders of the Company have beneficial interests in these related companies.
- (b) The spouse and brother of a director have beneficial interests in these related companies.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2003

23. SUBSIDIARIES

Particulars of the principal subsidiaries of the Company as at March 31 2003 are as follows:

Name of subsidiary	Place of incorporation	Nominal value of issued ordinary share capital*	Proportion of nominal value of issued capital held by the Company	Principal activities
<i>Directly held</i>				
High Dragon Limited	British Virgin Islands	US\$1	100	Investment holding
Invigo Overseas Limited	British Virgin Islands	US\$1	100	Investment holding
Windstar Pacific Limited	British Virgin Islands	US\$1	100	Investment holding
<i>Indirectly held</i>				
Koniko Company Limited	Hong Kong	HK\$20 Deferred** non-voting shares HK\$22,143,000	100	Garment manufacture and trading
Orrabi Industries Limited	Hong Kong	HK\$20 Deferred** non-voting shares HK\$8,500,000	100	Inactive

* All are ordinary shares unless otherwise stated.

** None of the deferred non-voting shares are held by the Group. The deferred non-voting shares practically carry no rights to dividends or to receive notice of or to attend or vote at any general meeting of the respective companies or to participate in any distribution on winding up.

All subsidiaries carry on their business in Hong Kong.

None of the subsidiaries had issued any debt securities at the end of the year.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.