

NOTES TO FINANCIAL STATEMENTS

for the year ended 31 March 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. The Group is principally engaged in the manufacture of knitted-to-shape and non knitted-to-shape garments.

2. ADOPTION OF 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") issued by the Hong Kong Society of Accountants. Adoption of these SSAPs has resulted in the following changes in the Group's accounting policies.

Foreign Currencies

The revisions to SSAP 11 "Foreign Currency Translation" have eliminated the choice of translating the income statements of overseas subsidiaries for the year. They are now required to be translated at an average rate. Accordingly, on consolidation, the assets and liabilities of the Company's overseas subsidiaries are translated at exchange rates prevailing on the balance sheet date and income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's exchange reserve. Such translation differences are recognised as income or as expenses in the period in which the subsidiary is disposed of. This change in accounting policy has been applied retrospectively, resulting in a decrease of approximately HK\$312,000 and HK\$356,000 of the opening balance of retained earnings and the translation reserve as at 1 April 2001 and 1 April 2002 respectively. The change in accounting policy has resulted in a decrease in the Group's profit for the year ended 31 March 2002 and an increase in the Group's loss for the year ended 31 March 2003 of approximately HK\$44,000 and HK\$15,000 respectively.

Cash Flow Statements

In the current year, the Group has adopted SSAP 15 (Revised) "Cash Flow Statements" ("SSAP 15 (Revised)"). Under SSAP 15 (Revised), cash flows are classified under three headings—operating, investing and financing, rather than the previous five headings. Interest income and expense, which were previously presented under a separate heading, are classified as operating and financing cash flows respectively. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities. Cash flows of overseas subsidiaries have been re-translated at the rates prevailing at the dates of the cash flows rather than the rate of exchange ruling on the balance sheet date. The change in exchange rates used for translation of the cash flows of overseas subsidiaries have not had any material effect on the comparative amounts shown in the cash flow statement.

NOTES TO FINANCIAL STATEMENTS

for the year ended 31 March 2003

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE *(Continued)* **Employee Benefits**

In the current year, the Group has adopted SSAP 34 "Employee Benefits" ("SSAP 34"), which introduces measurement rules for employee benefits, including retirement benefit plans. SSAP 34 also outlines the treatment of the Group's potential long service payments to the employees under the Hong Kong Employment Ordinance. The amount recognised as a liability for long service payments should be the net total of the present value of the defined benefit obligation at the balance sheet date minus the fair value at the balance sheet date of plan assets (if any) out of which the obligations are to be settled directly. The Group should also recognise the net of current service cost, interest cost, the expected return on any plan assets and/or any reimbursement right recognised as an asset, actuarial gains and losses, past service cost and the effect of any curtailments or settlements, except to the extent that another SSAP requires or permits their inclusion in the cost of an asset. This change in accounting policy has been applied retrospectively, resulting in a decrease of approximately HK\$769,000 and HK\$810,000 to the opening balance of retained earnings at 1 April 2001 and 1 April 2002. The change in policy has resulted in a decrease in the profit for the year ended 31 March 2002 by HK\$41,000 and an increase in the loss for the year ended 31 March 2003 by HK\$44,000.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial information has been prepared under the historical cost convention.

The principal accounting policies which have been adopted in preparing these financial statements set out in this report and which conform with accounting principles generally accepted in Hong Kong are as follows:

Basis of consolidation

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

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

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

NOTES TO FINANCIAL STATEMENTS

for the year ended 31 March 2003

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

Goodwill (negative goodwill) represents the excess (deficit) of the cost of an acquisition over (below) the fair value of the Group's share of the net assets of the acquired subsidiary or associate at the effective date of acquisition.

Negative goodwill arising on acquisitions prior to 1 April 2001 is held in reserves and will be credited to the consolidated income statement at the time of disposal of the relevant subsidiary or associate.

Negative goodwill arising on acquisitions after 1 April 2001 is recognised as income on a systematic basis over the remaining weighted average useful life of the non-monetary assets acquired.

Goodwill arising on acquisitions is recognised as an asset and is amortised using the straight line method over its estimated useful life, which is generally 3 to 20 years.

On the disposal of an investment in a subsidiary or an associate, the attributable amount of unamortised goodwill (negative goodwill) or the negative goodwill previously credited to reserves is included in the determination of the profit or loss on disposal.

Revenue recognition

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

Sub-contracting income is recognised when services are rendered.

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

Property, plant and equipment

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

Construction in progress is carried at cost less any identified impairment loss. Depreciation of this asset, on the same basis as other property assets, commences when the asset is ready for its intended use.

The gain or loss arising on the 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.

NOTES TO FINANCIAL STATEMENTS

for the year ended 31 March 2003

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

Depreciation and amortisation is 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 land	Over the remaining term of the relevant leases
Buildings	Over the shorter of the term of leases or 50 years
Leasehold improvements	Over the remaining term of the relevant leases
Plant and machinery	25%
Furniture, fixtures and equipment	25%
Motor vehicles	25%

Subsidiaries

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

Associate

The consolidated income statement includes the Group's share of the post-acquisition results of its associate for the year. In the consolidated balance sheet, the interest in the associate is stated at the Group's share of the net assets of the associate.

When the Group transacts with its associate, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associate, except where unrealised losses provides evidence of an impairment of the asset transferred.

Intangible asset

The intangible asset represents the rights to use permanent quotas and are stated at cost less amortisation and impairment, if any. Amortisation is provided to write off the cost of quotas over 5 years using straight line method.

Temporary textile quota entitlement

The cost of temporary textile quota entitlement is charged to the income statement at the time of utilisation.

Inventories

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

NOTES TO FINANCIAL STATEMENTS

for the year ended 31 March 2003

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme are charged as an expense as they fall due.

Operating leases

The operating lease rentals are charged to the income statement on a straight line basis over the lease terms.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the timing differences, computed using 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.

Foreign currencies

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

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

Impairment

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

4. TURNOVER

Turnover represents the amounts received and receivable for goods sold and sub-contracting services provided to outside customers during the year.

NOTES TO FINANCIAL STATEMENTS

for the year ended 31 March 2003

5. OTHER OPERATING INCOME

	2003 HK\$'000	2002 HK\$'000
Exchange gain	911	1,747
Gain on disposal of property, plant and equipment	–	148
Interest income	466	592
Sundry income	2,343	2,817
	<u>3,720</u>	<u>5,304</u>

6. (LOSS) PROFIT FROM OPERATIONS

	2003 HK\$'000	2002 HK\$'000
(Loss) profit from operations has been arrived at after charging:		
Amortisation of intangible asset included in selling expenses	820	820
Auditors' remuneration	729	734
Compensation for defective products	2,131	–
Cost of temporary textile quota entitlements	36,740	36,869
Depreciation and amortisation		
– owned assets	7,796	6,045
– assets held under finance leases	–	120
	<u>7,796</u>	<u>6,165</u>
Loss on disposal of property, plant and equipment	121	–
Minimum lease payments under operating leases in respect of rented premises	661	261
Total staff costs	<u>87,223</u>	<u>78,760</u>

NOTES TO FINANCIAL STATEMENTS

for the year ended 31 March 2003

7. REMUNERATION OF DIRECTORS AND EMPLOYEES

	2003 HK\$'000	2002 HK\$'000
Directors		
Fees	57	33
Salaries and other benefits	3,738	3,466
Retirement benefit scheme contributions	58	56
	<u>3,853</u>	<u>3,555</u>

The emoluments of the directors were within the following bands:

Nil – HK\$1,000,000	6	6
HK\$1,000,001 – HK\$1,500,000	1	1
	<u>7</u>	<u>7</u>

The amount disclosed above include directors' fees of HK\$57,534 (2002: HK\$33,334) paid to independent non-executive directors.

Employees

Of the five individuals with the highest emoluments in the Group, four (2002: four) were directors of the Company whose emoluments are included in the disclosures above. The emoluments of the remaining individual were as follows:

	2003 HK\$'000	2002 HK\$'000
Salary and other benefits	458	421
Performance related incentive payments	–	36
Retirement benefit scheme contribution	12	12
	<u>470</u>	<u>469</u>

The emoluments of the remaining highest paid individual were within the following band:

Nil – HK\$1,000,000	1	1
	<u>1</u>	<u>1</u>

During the year, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any emoluments during the year.

NOTES TO FINANCIAL STATEMENTS

for the year ended 31 March 2003

8. FINANCE COSTS

	2003 HK\$'000	2002 HK\$'000
Interest on bank borrowings wholly repayable within five years	717	695
Finance charges on finance leases	—	9
	717	704

9. TAXATION

	2003 HK\$'000	2002 HK\$'000
The (credit) charge comprises:		
Hong Kong Profits Tax		
— current year	—	3,520
— under (over) provision in prior year	7	(711)
Deferred taxation (<i>Note 20</i>)	(1,411)	300
	(1,404)	3,109

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group incurred a tax loss for the year.

Hong Kong Profits Tax is calculated at 16% on the estimated assessable profit for last year.

The associate did not have any tax charge for the year.

10. DIVIDEND

The directors of the Company do not recommend the payment of a final dividend (2002: final dividend of HK4.6 cents per share).

11. (LOSS) EARNINGS PER SHARE

The calculation of basic (loss) earnings per share is based on the loss for the year of HK\$39,182,000 (2002: profit for the year of HK\$44,022,000) and on the 236,402,000 (2002: weighted average of 201,949,057) ordinary shares in issue during the year.

Diluted (loss) earnings per share have not been presented as there were no dilutive potential ordinary shares in existence during the two years ended 31 March 2003.

NOTES TO FINANCIAL STATEMENTS

for the year ended 31 March 2003

12. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
THE GROUP							
COST							
At 1 April 2002	105,319	3,567	16,400	4,085	6,552	1,714	137,637
Exchange realignment	(5)	(3)	(1)	–	1	3	(5)
Additions	3,487	3,520	7,471	810	496	10,341	26,125
Disposals	–	–	(186)	(157)	–	–	(343)
At 31 March 2003	108,801	7,084	23,684	4,738	7,049	12,058	163,414
DEPRECIATION AND AMORTISATION							
At 1 April 2002	9,760	2,175	10,058	3,133	4,406	–	29,532
Exchange realignment	–	1	3	1	1	–	6
Provided for the year	2,239	569	3,428	566	994	–	7,796
Eliminated on disposals	–	–	(59)	(150)	–	–	(209)
At 31 March 2003	11,999	2,745	13,430	3,550	5,401	–	37,125
NET BOOK VALUES							
At 31 March 2003	96,802	4,339	10,254	1,188	1,648	12,058	126,289
At 31 March 2002	95,559	1,392	6,342	952	2,146	1,714	108,105

The land and buildings are situated in:

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Under medium term leases		
Hong Kong	9,640	9,862
The People's Republic of China ("Mainland China")	82,430	82,145
Freehold		
Thailand	4,732	3,552
	96,802	95,559

NOTES TO FINANCIAL STATEMENTS

for the year ended 31 March 2003

13. INVESTMENTS IN SUBSIDIARIES

THE COMPANY
2003 & 2002
HK\$'000

Unlisted shares, at cost 187,890

The carrying amount of the unlisted shares is based on the book value of the underlying net assets of the subsidiaries as at the date on which they were acquired by the Company at the time of the group reorganisation on 9 November 2001 and after deducting the dividends received by the Company from the profits of certain subsidiaries before group reorganisation.

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

Name of subsidiary	Place of incorporation or registration	Issued and fully paid ordinary share capital/ registered capital	Proportion of nominal value of issued capital held by the Company	Principal activities
Addlink Limited *	British Virgin Islands	US\$62,000	100%	Investment holding
Pak Tak Holdings (Hong Kong) Limited	Hong Kong	HK\$10,000	100%	Investment holding
Pak Tak Knitting & Garment Factory Limited	Hong Kong	HK\$3,000,000	100%	Manufacture of and trading in knitted-to-shape and non knitted-to-shape garments
Pak Tak Knitting & Garment Factory (Thailand) Company Limited*	Thailand	Baht20,000,000	60%	Manufacture of knitted-to-shape garments
Pak Tak Knitting & Garment Factory (Vietnam) Co., Ltd.	Vietnam	US\$308,485	100%	Manufacture and export of knitted-to-shape garment
Rich Source Limited	Hong Kong	HK\$10,000	100%	Trading in knitted-to-shape and non knitted-to-shape garments

NOTES TO FINANCIAL STATEMENTS

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13. INVESTMENTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation or registration	Issued and fully paid ordinary share capital/ registered capital	Proportion of nominal value of issued capital held by the Company	Principal activities
Richtime Knitting Limited	Hong Kong	HK\$10,000	100%	Not yet commenced business
普寧市百德針織有限公司 *	Mainland China	HK\$15,000,000	100%	Manufacture of knitted-to-shape garments

* The financial statements of these companies are not audited by Deloitte Touche Tohmatsu.

All of the above subsidiaries, except for Addlink Limited, are indirectly held by the Company.

All subsidiaries operate principally in their respective place of incorporation or registration.

普寧市百德針織有限公司 is incorporated in Mainland China as a wholly foreign owned enterprise.

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

14. INTEREST IN AN ASSOCIATE

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Share of net assets	—	1,433

Particulars of the Company's corporate associate at 31 March 2003 are as follows:

Name of associate	Place of incorporation and operation	Proportion of nominal value of issued capital held by the Group	Principal activities
Pak Tak (Kwong Tai) Knitting Factory Limited ("Pak Tak Kwong Tai")	Hong Kong	49%	Trading of knitwear and other apparel products

The financial statements of the associate are not audited by Deloitte Touche Tohmatsu.

NOTES TO FINANCIAL STATEMENTS

for the year ended 31 March 2003

15. INTANGIBLE ASSET

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
COST		
At beginning and end of the year	<u>4,100</u>	<u>4,100</u>
AMORTISATION		
At beginning of the year	2,840	2,020
Provided for the year	820	820
At end of the year	3,660	2,840
NET BOOK VALUES		
At end of the year	440	1,260

The intangible asset represents the rights to use permanent quotas.

16. INVENTORIES

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Raw materials	22,342	40,174
Work in progress	10,417	14,082
Finished goods	4,462	1,990
	37,221	56,246

Included in above are raw materials of HK\$6,522,000 (2002: Nil) and finished goods of HK\$393,000 (2002: Nil) which are carried at net realisable value.

NOTES TO FINANCIAL STATEMENTS

for the year ended 31 March 2003

17. TRADE DEBTORS

The Group allows an average credit period of 30 days to its trade customers.

The following is an aged analysis of trade debtors:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
0 – 30 days	20,698	15,025
31 – 60 days	285	1,812
61 – 90 days	144	244
Over 90 days	52	331
	<u>21,179</u>	<u>17,412</u>

18. AMOUNT DUE FROM AN ASSOCIATE

The balance includes an amount of approximately HK\$3,274,000 (2002: HK\$3,044,000) which is unsecured, bears interest at 8% per annum and is repayable on demand. The remaining balance is interest free, unsecured and is repayable on demand.

19. TRADE CREDITORS

The following is an aged analysis of trade creditors:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
0 – 30 days	11,489	13,012
31 – 60 days	2,349	2,133
61 – 90 days	1,721	7,094
Over 90 days	15	1,047
	<u>15,574</u>	<u>23,286</u>

NOTES TO FINANCIAL STATEMENTS

for the year ended 31 March 2003

20. DEFERRED TAXATION

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Balance at beginning of the year	1,411	1,111
(Release) charge for the year (Note 9)	(1,411)	300
	<u> </u>	<u> </u>
Balance at end of the year	<u> </u> —	<u> </u> 1,411
At the balance date, the major component of the deferred taxation liability was as follows:		
Excess of tax allowances over depreciation	<u> </u> —	<u> </u> 1,411

The major components of the unprovided deferred taxation liability (asset) and unprovided deferred tax for the year are as follows:

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Tax effect of timing differences because of:		
Excess of tax allowances over depreciation	2,107	—
Tax effect of taxation losses	(3,435)	—
	<u> </u>	<u> </u>
	<u> </u> (1,328)	<u> </u> —

The net deferred tax asset has not been recognised for the Group as it is not certain that the tax benefits will be utilised in the foreseeable future.

The Company had no other significant unprovided deferred taxation during the year or at the balance sheet date.

NOTES TO FINANCIAL STATEMENTS

for the year ended 31 March 2003

21. MINORITY INTERESTS

	2003 HK\$'000	2002 HK\$'000
At beginning of the year	1,940	1,464
Share of net result	(1,766)	473
Share of exchange reserve	(1)	3
	<u>173</u>	<u>1,940</u>
At end of the year	<u>173</u>	<u>1,940</u>

22. SHARE CAPITAL

	Number of shares		Share capital	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Ordinary shares of HK\$0.1 each				
Authorised:				
At beginning of the year	500,000,000	—	50,000	—
On incorporation	—	1,000,000	—	100
Increase during the year	—	499,000,000	—	49,900
	<u>500,000,000</u>	<u>500,000,000</u>	<u>50,000</u>	<u>50,000</u>
At end of the year	<u>500,000,000</u>	<u>500,000,000</u>	<u>50,000</u>	<u>50,000</u>
Issued and fully paid:				
At beginning of the year	236,402,000	—	23,640	—
Allotted and issued as nil-paid on incorporation	—	1,000,000	—	—
Nil-paid shares credited as fully paid from contributed surplus	—	—	—	100
Issue of shares in consideration for the acquisition of the issued share capital of Addlink Limited	—	1,000,000	—	100
Issue on public flotation	—	42,000,000	—	4,200
Issue of shares by capitalisation of share premium account	—	184,000,000	—	18,400
Issue of shares under over — allotment options exercised	—	8,402,000	—	840
	<u>236,402,000</u>	<u>236,402,000</u>	<u>23,640</u>	<u>23,640</u>
At end of the year	<u>236,402,000</u>	<u>236,402,000</u>	<u>23,640</u>	<u>23,640</u>

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23. SHARE OPTION SCHEME

The Company's share option scheme ("the Scheme") was adopted pursuant to a shareholders' resolution passed on 9 November 2001 for the purpose of providing incentives or rewards to directors and full-time employees of the Group and will expire on the tenth anniversary date of the adoption of the Scheme. Under the Scheme, the directors of the Company may grant options to directors and full-time employees of the Group to subscribe for shares in the Company at a price equal to the higher of: (1) the nominal value of the shares; or (2) the average closing prices of the shares as stated in the Stock Exchange's daily quotations for the five trading days immediately preceding the date of grant of the options; or (3) the closing price of the shares as stated in the Stock Exchange's daily quotations on the date of grant of the options, which must be a business day.

Options granted may be accepted by the grantee within 28 days from the date of grant of the option. The exercise period for the share options granted is determinable by the directors of the Company and should not expire later than 10 years from the date of grant. A price of HK\$1 is payable by the grantee upon acceptance of the grant of an option under the Scheme.

Unless shareholders' approval is sought, the shares which may be issued upon exercise of all options to be granted under the Scheme or any other share option scheme of the Company must not in aggregate exceed 22,800,000 shares of the Company.

In addition, the total number of shares of the Company issued and to be issued upon exercise of the options granted to each participant (including both exercised and unexercised options) under the Scheme or any other share option scheme of the Company in any 12-month period must not exceed 1% of the shares of the Company in issue on the date of grant.

No options under the Scheme were granted or exercised during the year and there were no outstanding options at 31 March 2003.

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24. RESERVES

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
SHARE PREMIUM				
At beginning of the year/period	5,987	—	5,987	—
Shares issued at a premium	—	39,314	—	39,314
Share issue expenses	—	(14,927)	—	(14,927)
Capitalisation of share premium	—	(18,400)	—	(18,400)
At end of the year/period	5,987	5,987	5,987	5,987
CONTRIBUTED SURPLUS				
At beginning of the year/period	—	—	191,933	—
Dividend paid	—	—	(10,874)	—
Arising from group reorganisation	—	—	—	192,033
Utilised to pay up nil-paid shares issued on incorporation	—	—	—	(100)
At end of the year/period	—	—	181,059	191,933
SPECIAL RESERVE				
At beginning of the year/period	32,680	3,880	—	—
Arising from debt assignment	—	29,000	—	—
Utilised to pay up nil—paid shares issued on incorporation	—	(100)	—	—
Share issued in exchange for shares in Addlink Limited	—	(100)	—	—
At end of the year/period	32,680	32,680	—	—
NEGATIVE GOODWILL				
At beginning and end of the year/period	1,232	1,232	—	—
EXCHANGE RESERVE				
At beginning of the year/period	(111)	(146)	—	—
Exchange differences arising on translation of overseas operations	375	35	—	—
At end of the year/period	264	(111)	—	—
RETAINED PROFITS				
At beginning of the year/period	164,157	120,135	7,838	—
Dividend paid	(10,874)	—	—	—
(Loss) profit for the year/period	(39,182)	44,022	135	7,838
At end of the year	114,101	164,157	7,973	7,838
TOTAL RESERVES	154,264	203,945	195,019	205,758

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24. RESERVES (Continued)

The special reserve of the Group mainly represents the difference between the nominal value of the shares of the acquired subsidiaries and the nominal value of the shares of the Company and Addlink Limited issued for the acquisition at the time of the group reorganisation on 9 November 2001 and the share premium of Addlink Limited arising from issue of shares of Addlink Limited in connection with the debt assignment.

The contributed surplus of the Company represents the difference between the consolidated shareholders' funds of the subsidiaries at the date at which they were acquired by the Company, and the nominal amount of the Company's shares issued for the acquisition at the time of the group reorganisation on 9 November 2001 and has been adjusted for the dividend declared from this reserve after 9 November 2001.

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

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

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

	2003 HK\$'000	2002 HK\$'000
Contributed surplus	181,059	191,933
Retained profits	7,973	7,838
	<u>189,032</u>	<u>199,771</u>

The retained profits of the Group include accumulated losses of HK\$1,470,000 (2002: HK\$37,000) attributable to the associate of the Group.

NOTES TO FINANCIAL STATEMENTS

for the year ended 31 March 2003

25. CAPITAL COMMITMENTS

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment:		
contracted for but not provided for in the financial statements	2,291	6,850
authorised but not contracted for	313	2,150
	<u><u>2,604</u></u>	<u><u>9,000</u></u>

The Company did not have any capital commitments at the balance sheet date.

26. LEASE COMMITMENTS

At the balance sheet date, the Group had outstanding commitments under non-cancellable operating leases in respect of rented premises which fall due, as follows:

	2003	2002
	HK\$'000	HK\$'000
Within one year	542	232
In the second to fifth year inclusive	1,256	—
	<u><u>1,798</u></u>	<u><u>232</u></u>

Operating leases are negotiated for a term of two to four years without renewal options.

The Company did not have any outstanding operating lease commitments at the balance sheet date.

27. CONTINGENT LIABILITIES

At 31 March 2003, the Group did not have any contingent liabilities (2002: Nil).

At 31 March 2003, the Company had issued corporate guarantees to banks in connection with facilities granted to certain of its subsidiaries amounting to approximately HK\$116 million (2002: HK\$126 million).

NOTES TO FINANCIAL STATEMENTS

for the year ended 31 March 2003

28. EMPLOYEE RETIREMENT BENEFITS

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all qualifying employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the MPF Scheme, which contributions is matched by employees.

The eligible employees of the Company's subsidiaries in Mainland China are members of pension schemes operated by the Chinese local government. The subsidiaries are required to contribute a certain percentage of the relevant part of the payroll of these employees to the pension schemes to fund the benefits.

Eligible employees of the Company's subsidiaries in Thailand and Vietnam currently participate in a defined contribution pension scheme operated by the local municipal government. The calculation of contributions is based on certain percentages of the employees' payroll.

	2003	2002
	HK\$'000	HK\$'000
Retirement benefit contribution made during the year	707	318

29. RELATED PARTY TRANSACTIONS

Name of related party	Nature of transaction	2003	2002
		HK\$'000	HK\$'000
Pak Tak Kwong Tai	Rental income (Note 1)	24	134
	Sales of goods (Note 2)	6,470	3,904
	Sub-contracting fee received (Note 3)	—	368
	Interest income (Note 4)	253	237
普寧市高埔毛織製衣有限公司	Sub-contracting fee paid (Note 5)	—	2,019

Notes:

- Rental income was based on the tenancy agreement.
- These transactions were carried out at cost plus a percentage profit mark-up.
- Sub-contracting fee received was determined at amounts mutually agreed by the parties involved.
- The interest rate was charged at 8% per annum.
- Sub-contracting fee paid was determined at amounts mutually agreed by the parties involved. The Group has not had any transactions with this related company since 1 August 2001.

NOTES TO FINANCIAL STATEMENTS

for the year ended 31 March 2003

30. SEGMENT INFORMATION

(a) Business segments

The business activities of the Group can be categorised into knitted-to-shape garments, non knitted-to-shape garments and sub-contracting. Segment information in respect of these activities is as follows:

RESULTS

	Turnover		Contribution to (loss) profit	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Sales of knitted-to-shape garments	398,541	384,387	(42,975)	36,852
Sales of non knitted-to-shape garments	9,437	25,962	(798)	2,868
Sub-contracting income	5,652	21,139	(149)	3,361
	413,630	431,488	(43,922)	43,081
Other operating income			3,720	5,304
(Loss) profit from operations			(40,202)	48,385
Finance costs			(717)	(704)
Share of result of an associate			(1,433)	(77)
(Loss) profit before taxation			(42,352)	47,604
Taxation			1,404	(3,109)
(Loss) profit before minority interests			(40,948)	44,495
Minority interests			1,766	(473)
(Loss) profit for the year			(39,182)	44,022

There were no inter-segment sales during the two years ended 31 March 2003.

NOTES TO FINANCIAL STATEMENTS

for the year ended 31 March 2003

30. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

FINANCIAL POSITIONS

	2003 HK\$'000	2002 HK\$'000
Assets		
Segment assets:		
– Knitted-to-shape garments	56,938	65,965
– Non knitted-to-shape garments	1,419	1,788
– Sub-contracting	43	5,905
– Unallocated segment assets	126,729	109,365
Total segment assets	185,129	183,023
Interest in an associate	–	1,433
Unallocated corporate assets	30,386	82,977
	<u>215,515</u>	<u>267,433</u>
Liabilities		
Segment liabilities:		
– Knitted-to-shape garments	16,370	23,239
– Non knitted-to-shape garments	355	461
– Sub-contracting	–	872
Total segment liabilities	16,725	24,572
Unallocated corporate liabilities	20,713	13,336
	<u>37,438</u>	<u>37,908</u>
Other information		
Capital additions in unallocated segment assets	26,125	11,705
Depreciation		
– Knitted-to-shape garments	7,265	5,302
– Non knitted-to-shape garments	263	370
– Sub-contracting	268	493
	<u>7,796</u>	<u>6,165</u>
Amortisation of intangible assets		
– Knitted-to-shape garments	764	705
– Non knitted-to-shape garments	28	49
– Sub-contracting	28	66
	<u>820</u>	<u>820</u>

NOTES TO FINANCIAL STATEMENTS

for the year ended 31 March 2003

30. SEGMENT INFORMATION (Continued)

(b) Geographical market

The Group's operations are located in Hong Kong, Mainland China, Thailand and Vietnam.

The following table provides an analysis of the Group's sales by geographical market, irrespective of origin of the goods and services:

	Sales revenue by geographical market	
	2003 HK\$'000	2002 HK\$'000
United States of America	367,246	391,275
Europe	23,278	16,727
Asia	15,672	11,108
Australia	4,365	7,225
South America	—	49
Others	3,069	5,104
	413,630	431,488

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
Mainland China	131,363	145,766	10,840	7,979
Hong Kong	32,447	30,327	362	2,055
Thailand	17,833	6,930	12,298	1,671
Vietnam	3,486	—	2,625	—
	185,129	183,023	26,125	11,705