

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

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 and trading in knitted-to-shape and non knitted-to-shape garments.

2. ADOPTION OF REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, Statement of Standard Accounting Practice ("SSAP") 12 (Revised) "Income Taxes" issued by the Hong Kong Society of Accountants.

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts for 2003 have been restated accordingly. As a result of this change in accounting policy, the balance of retained profits at 1st April, 2003 has been decreased by HK\$120,000 (1st April, 2002: HK\$1,083,000). The loss for the year ended 31st March, 2004 has been increased by HK\$362,000 (2003: decreased by HK\$963,000).

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements 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 31st March, each year.

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

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 1st 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 1st 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.

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 been 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, other than construction in progress, 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

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, other than construction in progress, over their estimated useful lives, using the straight line method, at the following rates per annum:

Freehold land	Nil
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%

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.

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 which are stated at cost less amortisation and impairment, if any. Amortisation is provided to write off the cost of quotas over 5 years using the straight line method.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

Retirement benefit costs

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

Leases

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

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

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and the associate, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Gains 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. An impairment loss is recognised as an expense immediately.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long service payments

The Group's obligation under long service payments recognised in the balance sheet is determined using the projected unit credit method, with actuarial valuation being carried out at each balance sheet date.

Past service cost is recognised immediately to the extent that the benefits have already been vested.

4. TURNOVER

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

5. OTHER OPERATING INCOME

	2004 HK\$'000	2003 HK\$'000
Exchange gains, net	1,795	911
Interest income	243	466
Sundry income	2,572	2,343
	4,610	3,720

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

6. LOSS FROM OPERATIONS

	2004 HK\$'000	2003 <i>HK\$'000</i>
Loss from operations has been arrived at after charging:		
Amortisation of intangible asset included in selling expenses	440	820
Auditors' remuneration	696	729
Compensation for defective products	7	2,131
Cost of temporary textile quota entitlements	18,351	36,740
Depreciation and amortisation of property, plant and equipment		
– owned assets	8,725	7,796
– assets held under a finance lease	55	–
Loss on disposal of property, plant and equipment	27	121
Minimum lease payments under operating leases in respect of rented premises	645	661
Total staff costs including directors' remuneration	83,553	87,223

7. REMUNERATION OF DIRECTORS AND EMPLOYEES

	2004 HK\$'000	2003 <i>HK\$'000</i>
Directors		
Fees	82	57
Salaries and other benefits	3,738	3,738
Retirement benefit scheme contributions	58	58
	3,878	3,853

	Number of directors	
	2004	2003
The emoluments of the directors were within the following bands:		
Nil – HK\$1,000,000	7	6
HK\$1,000,001 – HK\$1,500,000	1	1

The amount disclosed above include directors' fees of HK\$82,000 (2003: HK\$57,000) paid to independent non-executive directors.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

7. REMUNERATION OF DIRECTORS AND EMPLOYEES *(Continued)*

Employees

Of the five individuals with the highest emoluments in the Group, four (2003: four) were directors of the Company whose emoluments are included in the disclosures above. The emoluments of the remaining individual were as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Salary and other benefits	388	458
Performance related incentive payments	66	–
Retirement benefit scheme contributions	12	12
	466	470

	Number of individual	
	2004	2003
The emoluments of the remaining highest paid individual were within the following band:		
Nil – HK\$1,000,000	1	1

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.

8. FINANCE COSTS

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Interest on bank borrowings wholly repayable within five years	462	717
Finance charges on a finance lease	7	–
	469	717

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

9. INCOME TAX EXPENSE

	2004 HK\$'000	2003 <i>HK\$'000</i> (Restated)
The charge (credit) comprises:		
Underprovision of Hong Kong Profits Tax in prior year	6	7
Deferred tax charge (credit) (<i>note 21</i>)		
– Current year	351	(2,374)
– Effect on change in tax rate	11	–
	368	(2,367)

No provision for Hong Kong Profits Tax has been made in the financial statements since the assessable profit is wholly absorbed by tax losses brought forward.

No provision for Hong Kong Profits Tax had been made in the financial statements for the year ended 31st March, 2003 as the Group incurred a tax loss for that year.

The tax charge (credit) for the year can be reconciled to the loss per the consolidated income statement as follows:

	2004 HK\$'000	2003 <i>HK\$'000</i>
Loss before taxation	(4,844)	(42,352)
Tax at Hong Kong Profits Tax rate of 17.5% (2003: 16%)	(848)	(6,776)
Tax effect of expenses not deductible for tax purpose	409	2,690
Tax effect of income not taxable for tax purpose	(623)	(214)
Tax effect of tax losses not recognised	1,413	1,699
Underprovision of income tax in prior years	6	7
Increase in opening deferred tax liability resulting from a change in tax rate	11	–
Tax loss not recognised by of an associate	–	229
Others	–	(2)
	368	(2,367)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

10. DIVIDEND

No dividend was paid or proposed during the year, nor has any dividend been proposed since the balance sheet date (2003: nil).

11. LOSS PER SHARE

The calculation of the basic loss per share is based on the following data:

	2004 HK\$'000	2003 <i>HK\$'000</i>
Loss for the year for purpose of basic loss per share		
– as originally stated	(4,991)	(39,182)
– adjustment on adoption of SSAP 12 (revised) (<i>note 2</i>)		963
– as restated		(38,219)
	2004	2003
Ordinary shares in issued for the purposes of basic loss per share	236,402,000	236,402,000

The diluted loss per share has not been presented as there were no dilutive potential ordinary shares in existence during the two years ended 31st March, 2004.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

12. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Leasehold improvements	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP							
COST							
At 1st April, 2003	108,801	7,084	23,684	4,738	7,049	12,058	163,414
Exchange realignment	424	59	381	29	59	936	1,888
Additions	–	2,628	2,458	641	844	3,456	10,027
Transfer	16,450	–	–	–	–	(16,450)	–
Disposals	–	–	(38)	(106)	(205)	–	(349)
At 31st March, 2004	125,675	9,771	26,485	5,302	7,747	–	174,980
DEPRECIATION AND AMORTISATION							
At 1st April, 2003	11,999	2,745	13,430	3,550	5,401	–	37,125
Exchange realignment	(8)	48	242	24	49	–	355
Provided for the year	3,021	591	3,526	681	961	–	8,780
Eliminated on disposals	–	–	(16)	(28)	(32)	–	(76)
At 31st March, 2004	15,012	3,384	17,182	4,227	6,379	–	46,184
NET BOOK VALUES							
At 31st March, 2004	110,663	6,387	9,303	1,075	1,368	–	128,796
At 31st March, 2003	96,802	4,339	10,254	1,188	1,648	12,058	126,289

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

12. PROPERTY, PLANT AND EQUIPMENT (Continued)

An analysis of the net book value of the Group's land and building is set out below:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Under medium term leases		
Hong Kong	9,416	9,640
The People's Republic of China ("Mainland China")	81,889	82,430
Freehold		
Thailand	19,358	4,732
	110,663	96,802

The net book value of motor vehicles includes an amount of HK\$166,000 (2003: Nil) in respect of assets held under finance lease.

13. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY
	2004 & 2003 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 in 2001 and after deducting the dividends received by the Company from the profits of certain subsidiaries before the group reorganisation.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

13. INVESTMENTS IN SUBSIDIARIES (Continued)

Particulars of the subsidiaries of the Company as at 31st March, 2004 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\$377,455	100%	Manufacture and export of knitted-to-shape garments
Rich Source Limited	Hong Kong	HK\$10,000	100%	Trading in knitted-to-shape and non knitted-to-shape garments
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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

13. INVESTMENTS IN SUBSIDIARIES *(Continued)*

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 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	
	2004	2003
	HK\$'000	HK\$'000
Share of net assets	—	—

Particulars of the Company's incorporated associate at 31st March, 2004 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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

15. INTANGIBLE ASSET

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
COST		
At beginning and end of the year	4,100	4,100
AMORTISATION		
At beginning of the year	3,660	2,840
Provided for the year	440	820
At end of the year	4,100	3,660
NET BOOK VALUES		
At end of the year	-	440

The intangible asset represents the rights to use permanent quotas and is amortised on a straight-line basis over 5 years.

16. INVENTORIES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Raw materials	17,686	22,342
Work in progress	13,233	10,417
Finished goods	3,652	4,462
	34,571	37,221

Included in above are raw materials of HK\$8,019,000 (2003: HK\$6,522,000) and finished goods of Nil (2003: HK\$393,000) which are carried at net realisable value.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

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	
	2004 HK\$'000	2003 HK\$'000
0 – 30 days	11,798	20,698
31 – 60 days	743	285
61 – 90 days	167	144
Over 90 days	97	52
	12,805	21,179

18. AMOUNT DUE FROM AN ASSOCIATE

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Amount receivable from Pak Tak Kwong Tai:		
Interest bearing portion	3,305	3,274
Non-interest bearing portion	778	1,817
	4,083	5,091
Allowance on doubtful receivable	(2,099)	(624)
	1,984	4,467

The amount is unsecured and repayable on demand. Interest income was charged at 6% (2003: 8%) per annum on the interest bearing portion.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

19. TRADE CREDITORS

The following is an aged analysis of trade creditors:

	THE GROUP	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
0 – 30 days	8,714	11,489
31 – 60 days	3,940	2,349
61 – 90 days	642	1,721
Over 90 days	133	15
	13,429	15,574

20. OBLIGATIONS UNDER A FINANCE LEASE

	Minimum lease payments		Present value of minimum lease payments	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
THE GROUP				
Amount payable under finance lease:				
Within one year	73	–	65	–
In the second to fifth year inclusive	97	–	93	–
	170	–	158	–
Less: Future finance charges	(12)	–	–	–
Present value of lease obligations	158	–	158	–
Less: Amount due within one year shown under current liabilities			(65)	–
Amount due after one year			93	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

20. OBLIGATIONS UNDER A FINANCE LEASE *(Continued)*

The Group has leased certain of its motor vehicles under finance leases. The average lease term is 3 years. For the year ended 31st March, 2004, the average effective borrowing rate was 6.32% per annum. The interest rate is fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

21. DEFERRED TAX

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting periods:

	Accelerated tax depreciation	Tax losses	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
THE GROUP			
At 1st April, 2002			
– as originally stated	1,411	–	1,411
– prior period adjustment (<i>note 2</i>)	1,083	–	1,083
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– as restated	2,494	–	2,494
Charge (credit) to income statement for the year	253	(2,627)	(2,374)
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At 31st March, 2003	2,747	(2,627)	120
Charge to income statement for the year	147	204	351
Effect of a change in tax rate charged (credited)			
to income statement for the year	257	(246)	11
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At 31st March, 2004	3,151	(2,669)	482

At the balance sheet date, the Group has unused tax losses of HK\$37,021,000 (2003: HK\$30,111,000). A deferred tax asset has been recognised in respect of HK\$15,251,000 (2003: HK\$16,418,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK\$21,770,000 (2003: HK\$13,693,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK\$16,627,000 (2003: HK\$3,027,000) that will expire within five years. Other losses may be carried forward indefinitely.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

22. PROVISION FOR LONG SERVICE PAYMENTS

Under the Hong Kong Employment Ordinance, the Group is required to make long service payments to its employees in Hong Kong upon the termination of their employment or retirement when the employee fulfils certain conditions and the termination meets the required circumstances. However, where an employee is simultaneously entitled to a long service payment and to a retirement scheme payment, the amount of the long service payment may be reduced by certain benefits arising from the retirement scheme.

The most recent actuarial valuation of the present value of the Group's obligations under long service payments was carried out at 31st March, 2004 by Hewitt Associates LLC, an independent firm of human resource consultants and actuaries. The present value of the Group's obligations under long service payments, the related current service cost and past service cost were measured using the projected unit credit method.

The main actuarial assumptions used in the actuarial valuation at 31st March, 2004 were as follows:

Discount rate	6% per annum
Expected rate of salary increases	Nil for the first 2 years 2% per annum for the next 2 years 3.5% per annum thereafter

Amounts recognised in income statement in respect of the long service payments are as follows:

	2004 HK\$'000	2003 <i>HK\$'000</i>
Current service cost	(13)	19
Interest cost	48	–
	35	19

The charge for the year has been included in administrative expenses.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

22. PROVISION FOR LONG SERVICE PAYMENTS *(Continued)*

Movements in the net liability in the current period were as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
At beginning of the year	829	810
Amounts charged to income	35	19
At end of the year	864	829

23. SHARE CAPITAL

	Number of shares		Value	
	2004	2003	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Ordinary shares of HK\$0.1 each				
Authorised:				
At beginning and end of the year	500,000,000	500,000,000	50,000	50,000
Issued and fully paid:				
At beginning and end of the year	236,402,000	236,402,000	23,640	23,640

NOTES TO THE FINANCIAL STATEMENTS

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24. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted pursuant to a shareholders' resolution passed on 9th 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 had been granted or agreed to be granted under the Scheme since the adoption.

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For the year ended 31st March, 2004

25. RESERVES

	THE COMPANY	
	2004 HK\$'000	2003 HK\$'000
SHARE PREMIUM		
At beginning and end of the year	5,987	5,987
CONTRIBUTED SURPLUS		
At beginning of the year	181,059	191,933
Dividend paid	–	(10,874)
At end of the year	181,059	181,059
RETAINED PROFITS		
At beginning of the year	7,973	7,838
(Loss) profit for the year	(96)	135
At end of the year	7,877	7,973
TOTAL RESERVES	194,923	195,019

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 9th November, 2001 and has been adjusted for the dividend declared from this reserve after 9th 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

25. RESERVES (Continued)

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

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Contributed surplus	181,059	181,059
Retained profits	7,877	7,973
	188,936	189,032

26. MAJOR NON-CASH TRANSACTION

During the year, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the lease of HK\$199,000 (2003: nil).

27. CAPITAL COMMITMENTS

	THE GROUP	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Capital expenditure in respect of the acquisition of property, plant and equipment:		
contracted for but not provided for in the financial statements	29,199	2,291
authorised but not contracted for	-	313

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

28. 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:

	2004 HK\$'000	2003 <i>HK\$'000</i>
Within one year	694	542
In the second to fifth year inclusive	1,123	1,256
	1,817	1,798

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.

29. CONTINGENT LIABILITIES

At 31st March, 2004, the Group did not have any contingent liabilities (2003: Nil).

At 31st March, 2004, the Company had issued corporate guarantees to banks in connection with facilities granted to certain of its subsidiaries amounting to approximately HK\$106 million (2003: HK\$116 million).

30. EMPLOYEE RETIREMENT BENEFITS

	2004 HK\$'000	2003 <i>HK\$'000</i>
Retirement benefit contribution made during the year	943	707

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all qualifying employees in Hong Kong. The assets of the 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 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

30. EMPLOYEE RETIREMENT BENEFITS *(Continued)*

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.

31. RELATED PARTY TRANSACTIONS

Name of related party	Nature of transaction	2004 HK\$'000	2003 HK\$'000
Pak Tak Kwong Tai	Rental income <i>(Note 1)</i>	24	24
	Sales of goods <i>(Note 2)</i>	6,186	6,470
	Interest income <i>(Note 3)</i>	221	253

Notes:

- (1) Rental income was based on the tenancy agreement.
- (2) These transactions were carried out at cost plus a percentage profit mark-up.
- (3) The interest rate was charged at 6% to 8% (2003: 8%) per annum.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

32. 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:

RESULT

	Turnover		Contribution to loss	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i> (Restated)
Sales of knitted-to-shape garments	317,388	398,541	(5,250)	(42,975)
Sales of non knitted-to-shape garments	6,885	9,437	(2,004)	(798)
Sub-contracting income	5,906	5,652	(1,731)	(149)
	330,179	413,630	(8,985)	(43,922)
Other operating income			4,610	3,720
Loss from operations			(4,375)	(40,202)
Finance costs			(469)	(717)
Share of result of an associate			–	(1,433)
Loss before taxation			(4,844)	(42,352)
Income tax expense			(368)	2,367
Loss before minority interests			(5,212)	(39,985)
Minority interests			221	1,766
Loss for the year			(4,991)	(38,219)

There were no inter-segment sales during the two years ended 31st March, 2004.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

32. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

FINANCIAL POSITIONS

	2004 HK\$'000	2003 HK\$'000 (Restated)
Assets		
Segment assets:		
– Knitted-to-shape garments	41,426	56,938
– Non knitted-to-shape garments	5,846	1,419
– Sub-contracting	104	43
– Unallocated segment assets	128,796	126,729
Total segment assets	176,172	185,129
Unallocated corporate assets	32,078	30,386
Consolidated total assets	208,250	215,515
Liabilities		
Segment liabilities:		
– Knitted-to-shape garments	11,954	16,370
– Non knitted-to-shape garments	2,230	355
Total segment liabilities	14,184	16,725
Unallocated corporate liabilities	21,194	20,833
Consolidated total liabilities	35,378	37,558

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

32. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

FINANCIAL POSITIONS (Continued)

	2004 HK\$'000	2003 HK\$'000
Other information		
Capital additions in unallocated segment assets	10,027	26,125
Depreciation		
– Knitted-to-shape garments	7,453	7,265
– Non knitted-to-shape garments	441	263
– Sub-contracting	886	268
	8,780	7,796
Amortisation of intangible assets		
– Knitted-to-shape garments	374	764
– Non knitted-to-shape garments	22	28
– Sub-contracting	44	28
	440	820

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2004

32. 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	
	2004 HK\$'000	2003 HK\$'000
United States of America	294,702	367,246
Europe	14,299	23,278
Asia	13,625	15,672
Australia	4,535	4,365
Others	3,018	3,069
	330,179	413,630

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 assets		Additions to property, plant and equipment	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Mainland China	129,858	131,363	5,324	10,840
Hong Kong	22,483	32,447	628	362
Thailand	21,801	17,833	4,068	12,298
Vietnam	2,030	3,486	7	2,625
Total segment assets	176,172	185,129	10,027	26,125
Unallocated corporate assets	32,078	30,386		
Consolidated total assets	208,250	215,515		