

## NOTES TO FINANCIAL STATEMENTS

(At 31st March, 2004)

### 1. CORPORATE INFORMATION AND GROUP REORGANISATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 9th October, 2002 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 22nd August, 2003.

Upon incorporation, the Company had an authorised share capital of HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each. On 28th October, 2002, an aggregate of 1,000,000 shares were allotted and issued nil paid. Apart from the foregoing, no other transactions were carried out by the Company during the period from 9th October, 2002 (date of incorporation) to 31st March, 2003. Accordingly, the Company had not recorded any assets or liabilities as at 31st March, 2003, nor any profits or losses for the period then ended.

The principal place of business of the Company is located at Units 0902-0903 and 0905-0906, 9/F, Tower B, Regent Centre, 70 Ta Chuen Ping Street, Kwai Chung, New Territories, Hong Kong. The Company's principal activity is investment holding. The Group's principal activities are the manufacture and trading of sportswear and garments.

#### **Group reorganisation**

Pursuant to a reorganisation scheme (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Main Board of the Stock Exchange, the Company became the holding company of the companies now comprising the Group on 6th August, 2003. This was accomplished by acquiring the entire issued ordinary share capital of Jespar Age Limited ("Jespar"), which is, as at the date of this report, the intermediate holding company of other subsidiaries, in consideration of and in exchange for the allotment and issue of an aggregate of 27,000,000 shares of HK\$0.01 each in the Company, credited as fully paid, to the then shareholder of Jespar, and the existing 1,000,000 nil paid shares being credited as fully paid at par.

Further details of the Group Reorganisation are set out in note 25 to the financial statements and in the prospectus of the Company dated 12th August, 2003.

The directors consider Time Easy Investment Holdings Limited, a company incorporated in the British Virgin Islands ("BVI"), to be the Company's ultimate holding company at the balance sheet date.

## Notes to Financial Statements

(At 31st March, 2004)

### 2. IMPACT OF A REVISED HONG KONG STATEMENT OF STANDARD ACCOUNTING PRACTICE

The revised Hong Kong Statement of Standard Accounting Practice (“SSAP”) No. 12 “Income taxes” is effective for the first time for the current year’s financial statements.

SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The principal impact of the revision of this SSAP on these financial statements is described below:

Measurement and recognition:

- deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are generally fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future; and
- a deferred tax liability has been recognised on the revaluation of the Group’s land and buildings.

Disclosures:

- the related note disclosures are now more extensive than previously required. These disclosures are presented in notes 10 and 24 to the financial statements and include a reconciliation between the accounting profit and the tax expense for the year.

Further details of these changes are included in the accounting policy for deferred tax in note 3 and in note 24 to the financial statements.

## *Notes to Financial Statements*

*(At 31st March, 2004)*

### **3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Basis of presentation and consolidation**

The Group Reorganisation involved companies under common control. The consolidated financial statements have been prepared using the merger basis of accounting in accordance with SSAP 27, "Accounting for group reconstructions". On this basis, the Company has been treated as the holding company of its subsidiaries throughout the financial years presented rather than from the date of their acquisition. Accordingly, the consolidated results and cash flows of the Group for the years ended 31st March, 2003 and 2004 include the results and cash flows of the Company and its subsidiaries with effect from 1st April, 2002 or since their respective dates of incorporation, where this is a shorter period. The comparative consolidated balance sheet as at 31st March, 2003 has been prepared on the basis that the current group structure has been in place at that date.

In the opinion of the directors, the consolidated financial statements prepared on the above basis present more fairly the results, cash flows and state of affairs of the Group as a whole.

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

#### **Basis of preparation**

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of certain fixed assets and long term investments, as further explained below.

#### **Subsidiaries**

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

## Notes to Financial Statements

(At 31st March, 2004)

### 3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

#### Fixed assets and depreciation

Fixed assets are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

In prior years, the Group's leasehold land and buildings were stated at cost less accumulated depreciation and any impairment losses. Following the listing of the Company's shares on the Stock Exchange during the year, the Group's leasehold land and buildings are now stated at valuation less accumulated depreciation and any impairment losses which, in the opinion of the directors, are more appropriate in reflecting the fair value of the assets. The financial effect arising from the remeasurement of certain of the Group's fixed assets on a valuation basis amounted to a surplus on revaluation in the amount of HK\$5,386,000 which was recognised in the asset revaluation reserve. Further details of this change in accounting policy are set out in note 14 to the financial statements.

## *Notes to Financial Statements*

*(At 31st March, 2004)*

### **3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

#### **Fixed assets and depreciation** *(continued)*

Changes in the values of fixed assets are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over the following estimated useful lives:

Leasehold land and buildings	Over the lease terms or the approved operating periods of the subsidiaries established in the People's Republic of China (the "PRC") to which the land use right is granted, whichever is shorter
Leasehold improvements	5 years or over the lease terms, whichever is shorter
Plant and machinery	5 years
Furniture, fixtures, equipment and motor vehicles	5 years

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

#### **Leased assets**

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

## Notes to Financial Statements

(At 31st March, 2004)

### 3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### **Leased assets** *(continued)*

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

#### **Long term investments**

Long term investments are non-trading investments in unlisted investment funds intended to be held on a long term basis, and are stated at their estimated fair values, on an individual basis. The fair values of such unlisted investment funds are determined by reference to the individual market prices of the underlying securities held by the funds.

The gains or losses arising from changes in the fair value of an investment are dealt with as movements in the asset revaluation reserve, until the investment is sold, collected, or otherwise disposed of, or until the investment is determined to be impaired, when the cumulative gain or loss derived from the investment recognised in the asset revaluation reserve, together with the amount of any further impairment, is charged to the profit and loss account in the period in which the impairment arises.

#### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

#### **Provisions**

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

## Notes to Financial Statements

(At 31st March, 2004)

### 3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account, or in equity if it relates to items that are recognised, in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

## Notes to Financial Statements

(At 31st March, 2004)

### 3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### **Income tax** *(continued)*

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 deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

#### **Revenue recognition**

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (i) from the sale of goods and samples, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods (including samples) sold; and
- (ii) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

#### **Foreign currencies**

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.



## Notes to Financial Statements

(At 31st March, 2004)

### 3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### **Foreign currencies** *(continued)*

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

#### **Related parties**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

#### **Cash and cash equivalents**

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

## Notes to Financial Statements

(At 31st March, 2004)

### 3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

#### Pension schemes and other retirement benefits

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

In addition, the Group also operates a defined contribution retirement benefits scheme (the "Retirement Scheme") for those employees who are eligible to participate in this Scheme. Contributions to the Retirement Scheme are charged to the profit and loss account as incurred. The Retirement Scheme operates in a similar way to the MPF Scheme, except that when an employee leaves the Retirement Scheme before his/her interest in the Group's employer contributions vested fully, the ongoing contributions payable by the Group are reduced by the relevant amount of the forfeited employer contributions.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to make contributions for its employees who are registered as permanent residents in Mainland China. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

## *Notes to Financial Statements*

*(At 31st March, 2004)*

### **4. SEGMENT INFORMATION**

Segment information is presented by way of the Group's primary segment reporting basis, by geographical segment. No further business segment information is presented as the Group is solely engaged in the manufacture and sale of sportswear and garments.

The principal activity of the Group is the manufacture and trading of sportswear and garments. Each of the Group's geographical segments, based on the location of customers (the destination of sales), represents a strategic business unit that offers products to customers located in different geographical areas which are subject to risks and returns that are different from those of the other geographical segments. The Group's customer-based geographical segments are as follows:

- (a) Hong Kong
- (b) Mainland China
- (c) Japan
- (d) South Korea
- (e) Australia

In addition, segment assets and capital expenditure are further analysed by the geographical location of the assets (the origin of sales), where the Group's assets are located in different geographical areas from its customers and segment revenue from external customers or segment assets are 10% or more of the Group's total amount. There are two asset-based geographical segments, Hong Kong and Mainland China.

## Notes to Financial Statements

(At 31st March, 2004)

## 4. SEGMENT INFORMATION (continued)

## (i) Geographical segments based on the location of customers

Group - 2004							
	Hong Kong HK\$'000	Mainland China HK\$'000	Japan HK\$'000	South Korea HK\$'000	Australia HK\$'000	Others HK\$'000	Consolidated HK\$'000
Segment revenue:							
Sales to external customers	13,591	85,561	135,734	54,150	3,722	32,653	325,411
Other revenue	164	-	1,541	660	43	392	2,800
Total	<u>13,755</u>	<u>85,561</u>	<u>137,275</u>	<u>54,810</u>	<u>3,765</u>	<u>33,045</u>	<u>328,211</u>
Segment results	<u>3,918</u>	<u>22,458</u>	<u>19,764</u>	<u>10,775</u>	<u>938</u>	<u>5,782</u>	63,635
Interest and other unallocated income							806
Unallocated expenses							(26,569)
Profit from operating activities							37,872
Finance costs							(2,275)
Profit before tax							35,597
Tax							(3,511)
Net profit from ordinary activities attributable to shareholders							<u>32,086</u>
Segment assets	<u>9,008</u>	<u>27,142</u>	<u>44,335</u>	<u>16,714</u>	<u>2,912</u>	<u>12,574</u>	112,685
Unallocated assets							61,663
							<u>174,348</u>
Segment liabilities	<u>753</u>	<u>3,215</u>	<u>11,165</u>	<u>2,691</u>	<u>1,496</u>	<u>1,826</u>	21,146
Unallocated liabilities							62,840
							<u>83,986</u>
Other segment information:							
Depreciation	291	876	3,579	1,208	68	690	6,712
Unallocated amount							2,024
							<u>8,736</u>
Capital expenditure	548	1,034	7,465	1,739	1,059	1,386	13,231
Unallocated amount							1,909
							<u>15,140</u>

## Notes to Financial Statements

(At 31st March, 2004)

### 4. SEGMENT INFORMATION *(continued)*

#### (i) Geographical segments based on the location of customers *(continued)*

Group – 2003

	Hong Kong HK\$'000	Mainland China HK\$'000	Japan HK\$'000	South Korea HK\$'000	Australia HK\$'000	Others HK\$'000	Consolidated HK\$'000
Segment revenue:							
Sales to external customers	39,830	54,144	83,972	33,650	9,827	20,907	242,330
Other revenue	1,068	–	739	–	240	479	2,526
<b>Total</b>	<b>40,898</b>	<b>54,144</b>	<b>84,711</b>	<b>33,650</b>	<b>10,067</b>	<b>21,386</b>	<b>244,856</b>
Segment results	11,966	13,192	17,298	7,545	2,707	5,177	57,885
Interest and other unallocated income							201
Unallocated expenses							(22,312)
Profit from operating activities							35,774
Finance costs							(1,499)
Profit before tax							34,275
Tax							(3,444)
Net profit from ordinary activities attributable to shareholders							30,831
Segment assets	24,333	11,319	9,441	4,559	1,151	3,874	54,677
Unallocated assets							38,422
							93,099
Segment liabilities	1,861	1,171	3,576	1,587	299	932	9,426
Unallocated liabilities							45,681
							55,107
Other segment information:							
Depreciation	713	944	1,477	592	176	365	4,267
Unallocated amount							1,339
							5,606
Capital expenditure	2,013	4,014	4,084	1,717	422	1,027	13,277
Unallocated amount							20,312
							33,589

## Notes to Financial Statements

(At 31st March, 2004)

### 4. SEGMENT INFORMATION *(continued)*

#### (ii) Geographical segments based on the location of assets

	Hong Kong HK\$'000	Mainland China HK\$'000	Consolidated HK\$'000
<b>Group – 2004</b>			
<b>Year ended 31st March, 2004</b>			
Segment assets	<b>48,152</b>	<b>64,533</b>	<b>112,685</b>
Capital expenditure	<b>2,352</b>	<b>10,879</b>	<b>13,231</b>
Unallocated amount			<b>1,909</b>
			<b>15,140</b>
<b>Group – 2003</b>			
<b>Year ended 31st March, 2003</b>			
Segment assets	<b>43,358</b>	<b>11,319</b>	<b>54,677</b>
Capital expenditure	<b>9,263</b>	<b>4,014</b>	<b>13,277</b>
Unallocated amount			<b>20,312</b>
			<b>33,589</b>

## Notes to Financial Statements

(At 31st March, 2004)

### 5. TURNOVER AND REVENUE

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts. All significant intra-group transactions have been eliminated on consolidation.

An analysis of the Group's turnover and other revenue is as follows:

	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
<b>Turnover</b>		
Sale of goods	<b>325,411</b>	242,330
<b>Other revenue</b>		
Sale of samples	<b>2,800</b>	2,526
Interest income	<b>288</b>	126
Others	<b>518</b>	75
	<b>3,606</b>	2,727
	<b>329,017</b>	245,057

## Notes to Financial Statements

(At 31st March, 2004)

### 6. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging:

	Note	<b>2004</b> <b>HK\$'000</b>	2003 <i>HK\$'000</i>
Cost of inventories sold		<b>264,576</b>	186,746
Auditors' remuneration		<b>780</b>	600
Depreciation*	14	<b>8,736</b>	5,606
Write off of fixed assets		<b>103</b>	–
Staff costs* (excluding directors' remuneration – note 7):			
Wages and salaries		<b>62,395</b>	48,097
Pension scheme contributions (defined contribution scheme)		<b>1,351</b>	1,431
Less: Forfeited contributions		<b>(18)</b>	(27)
Net pension scheme contribution		<b>1,333</b>	1,404
Total staff costs		<b>63,728</b>	49,501
Minimum lease payments under operating leases in respect of land and buildings*		<b>3,680</b>	3,162
Exchange losses, net		<b>225</b>	–

\* Included in the respective balances are the following amounts which are also included in cost of inventories sold disclosed above:

	<b>2004</b> <b>HK\$'000</b>	2003 <i>HK\$'000</i>
Depreciation	<b>6,712</b>	4,270
Staff costs	<b>54,803</b>	41,951
Minimum lease payments under operating leases in respect of land and buildings	<b>2,841</b>	2,357



## Notes to Financial Statements

(At 31st March, 2004)

### 7. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Section 161 of the Companies Ordinance, is as follows:

	<b>2004</b>	<b>Group</b>
	<b>HK\$'000</b>	2003
		<i>HK\$'000</i>
Fees	<b>210</b>	–
Other emoluments:		
Salaries, allowances and benefits in kind	<b>2,328</b>	2,815
Performance related bonuses	<b>500</b>	–
Pension scheme contributions	<b>141</b>	129
	<b>3,179</b>	2,944

Fees include HK\$140,000 (2003: nil) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2003: nil).

The number of directors whose remuneration fell within the following bands is as follows:

	<b>Number of directors</b>	
	<b>2004</b>	2003
Nil to HK\$1,000,000	<b>6</b>	6
HK\$1,000,001 to HK\$1,500,000	<b>1</b>	1
	<b>7</b>	7

The directors' remuneration shown above does not include the estimated monetary value of the Group's owned premises provided rent-free to two executive directors of the Company during the year ended 31st March, 2004. The estimated rental value of such accommodation was approximately HK\$672,000 (2003: HK\$200,000) for the year ended 31st March, 2004.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

## Notes to Financial Statements

(At 31st March, 2004)

### 8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2003: three) directors, details of whose remuneration are set out in note 7 above. Details of the remuneration of the remaining two (2003: two) non-director, highest paid employees for the year are set out below:

	<b>2004</b>	<b>Group</b>
	<b>HK\$'000</b>	2003
		<i>HK\$'000</i>
Salaries, allowances and benefits in kind	<b>742</b>	824
Performance related bonuses	<b>300</b>	–
Pension scheme contributions	<b>57</b>	55
	<b>1,099</b>	879

The remuneration of both of the non-director, highest paid employees fell within the band of nil to HK\$1,000,000.

### 9. FINANCE COSTS

	<b>2004</b>	<b>Group</b>
	<b>HK\$'000</b>	2003
		<i>HK\$'000</i>
Interest on overdrafts and bank loans wholly repayable within five years	<b>2,193</b>	1,499
Interest on finance leases	<b>82</b>	–
	<b>2,275</b>	1,499

## Notes to Financial Statements

(At 31st March, 2004)

### 10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 16%) on the estimated assessable profits arising in Hong Kong during the year. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31st March, 2004. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

During the year, Macau Complementary Tax has not been provided as the Group did not derive any assessable profits. During the year ended 31st March, 2003, Macau Complementary Tax has been calculated at the rate of 15.75% on the estimated assessable profits of certain wholly-owned subsidiaries of the Company.

汕頭市鷹美製衣有限公司 (“EN (Shantou)”) and Shantou SEZ Far East (International) Garments Factory Co., Ltd. (“FE (Shantou)”) are entitled to be exempted from enterprise income tax for the first two profit-making years and a 50% reduction in the enterprise income tax for the succeeding three years. Moreover, under the relevant tax laws and regulations in Mainland China, EN (Shantou) and FE (Shantou) may set off losses incurred by them in a financial year against profits made by them in the succeeding financial year or years, subject to a maximum of five financial years.

According to the confirmation obtained by the Group from the PRC tax bureau, the first profit-making year of both EN (Shantou) and FE (Shantou) is year ended 31st December, 2002.

	<b>2004</b>	<b>Group</b>
	<b>HK\$'000</b>	2003 HK\$'000
Current tax charge for the year:		
Hong Kong	<b>3,400</b>	1,995
Elsewhere	<b>600</b>	1,549
Deferred tax credit – note 24	<b>–</b>	(100)
Overprovision of current tax in respect of prior years	<b>(489)</b>	–
Total tax charge for the year	<b>3,511</b>	3,444

### Notes to Financial Statements

(At 31st March, 2004)

#### 10. TAX (continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

	Hong Kong		Mainland China		Macau		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	Profit before tax	<u>28,061</u>		<u>7,423</u>		<u>113</u>		<u>35,597</u>
Tax at the statutory tax rate	4,911	17.5	1,113	15.0	18	15.75	6,042	17.0
Income not subject to tax	(1,386)	(4.9)	(313)	(4.2)	(18)	(15.75)	(1,717)	(4.8)
Expenses not deductible for tax	173	0.6	-	-	-	-	173	0.5
Adjustments in respect of current tax of previous years	(489)	(1.7)	-	-	-	-	(489)	(1.4)
Others	(298)	(1.1)	(200)	(2.7)	-	-	(498)	(1.4)
Tax charge at the Group's effective rate	<u>2,911</u>	<u>10.4</u>	<u>600</u>	<u>8.1</u>	<u>-</u>	<u>-</u>	<u>3,511</u>	<u>9.9</u>

#### Group – 2003

	Hong Kong		Mainland China		Macau		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	Profit before tax	<u>18,619</u>		<u>5,960</u>		<u>9,696</u>		<u>34,275</u>
Tax at the statutory tax rate	2,979	16.0	894	15.0	1,527	15.75	5,400	15.8
Income not subject to tax	(2,368)	(12.7)	(894)	(15.0)	-	-	(3,262)	(9.5)
Expenses not deductible for tax	930	5.0	-	-	-	-	930	2.7
Others	354	1.9	-	-	22	0.23	376	1.1
Tax charge at the Group's effective rate	<u>1,895</u>	<u>10.2</u>	<u>-</u>	<u>-</u>	<u>1,549</u>	<u>15.98</u>	<u>3,444</u>	<u>10.1</u>

## Notes to Financial Statements

(At 31st March, 2004)

### 11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31st March, 2004 dealt with in the financial statements of the Company was HK\$18,391,000 (period from 9th October, 2002 (date of incorporation) to 31st March, 2003: nil) (note 27).

### 12. DIVIDENDS

	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
Interim – HK3 cents per ordinary share based on 200,000,000 shares in issue	<b>6,000</b>	–
Proposed final – HK3.5 cents per ordinary share based on 340,000,000 shares in issue	<b>11,900</b>	–
Dividend declared and paid by a subsidiary to its then shareholder prior to the Group Reorganisation	–	15,000
	<b>17,900</b>	15,000

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

### 13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK\$32,086,000 (2003: HK\$30,831,000), and the weighed average of 188,328,767 (2003: 170,000,000) ordinary shares deemed to have been in issue during the year.

The weighted average number of shares used to calculate the earnings per share for the year ended 31st March, 2003 includes the pro forma issued share capital of the Company, comprising 1,000,000 shares issued nil paid on incorporation of the Company, 27,000,000 shares issued as consideration for the acquisition of the entire issued share capital of Jespar and the capitalisation issue of 142,000,000 shares, as further detailed in note 25 to the financial statements.

Diluted earnings per share amounts for the years ended 31st March, 2004 and 2003 have not been disclosed as no diluting events existed during these years.

## Notes to Financial Statements

(At 31st March, 2004)

## 14. FIXED ASSETS

## Group

	<b>Leasehold land and buildings</b>	<b>Leasehold improvements</b>	<b>Plant and machinery</b>	<b>Furniture, fixtures, equipment and motor vehicles</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost or valuation:					
At beginning of year	20,180	9,389	20,993	4,615	55,177
Additions	87	2,177	9,451	3,425	15,140
Write off	–	–	(123)	(16)	(139)
Surplus on revaluation	3,861	–	–	–	3,861
At 31st March, 2004	<u>24,128</u>	<u>11,566</u>	<u>30,321</u>	<u>8,024</u>	<u>74,039</u>
Analysis of cost or valuation:					
At cost	–	11,566	30,321	8,024	49,911
At 31st March, 2004 valuation	<u>24,128</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>24,128</u>
	<u>24,128</u>	<u>11,566</u>	<u>30,321</u>	<u>8,024</u>	<u>74,039</u>
Accumulated depreciation:					
At beginning of year	524	5,288	8,674	2,322	16,808
Provided during the year	1,001	2,050	4,650	1,035	8,736
Write off	–	–	(35)	(1)	(36)
Written back on revaluation	(1,525)	–	–	–	(1,525)
At 31st March, 2004	<u>–</u>	<u>7,338</u>	<u>13,289</u>	<u>3,356</u>	<u>23,983</u>
Net book value:					
<b>At 31st March, 2004</b>	<u><b>24,128</b></u>	<u><b>4,228</b></u>	<u><b>17,032</b></u>	<u><b>4,668</b></u>	<u><b>50,056</b></u>
At 31st March, 2003	<u>19,656</u>	<u>4,101</u>	<u>12,319</u>	<u>2,293</u>	<u>38,369</u>

## Notes to Financial Statements

(At 31st March, 2004)

### 14. FIXED ASSETS (continued)

The Group's leasehold land and buildings were revalued at 31st March, 2004 by Greater China Appraisal Limited, independent professionally qualified valuers, at open market value, based on their existing use. A revaluation surplus of HK\$5,386,000 resulting therefrom has been credited to the asset revaluation reserve.

Had these land and buildings been carried at historical cost less accumulated depreciation, their carrying amounts would have been approximately HK\$18,743,000 (2003: HK\$19,656,000).

The net book value of the Group's fixed assets held under finance leases included in the total amount of plant and machinery at 31st March, 2004, amounted to HK\$2,164,000 (2003: nil).

The Group's leasehold land and buildings as at 31st March, 2004 are held under the following lease terms:

	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
Long term leases outside Hong Kong	<b>1,949</b>	2,150
Medium term leases in Hong Kong	<b>18,600</b>	14,583
Medium term leases outside Hong Kong	<b>3,579</b>	2,923
	<b>24,128</b>	19,656

At 31st March, 2004, one of the Group's leasehold land and buildings with net book value of approximately HK\$18,600,000 (2003: HK\$14,583,000) was pledged to secure mortgage loan facilities granted to the Group (note 22).

Two of the Group's properties with net book value of HK\$20,720,000 in aggregate have been provided as rent-free accommodation to two executive directors of the Company during the year (note 7).

## Notes to Financial Statements

(At 31st March, 2004)

### 15. LONG TERM INVESTMENTS

	<b>2004</b>	<b>Group</b>
	<b>HK\$'000</b>	2003 HK\$'000
Unlisted investment funds, at fair value	<b>4,500</b>	4,276

A revaluation surplus of HK\$224,000 (2003: HK\$62,000) has been credited to the asset revaluation reserve during the year.

As at 31st March, 2004, the unlisted investment funds were pledged as security for the banking facilities granted to the Group (note 22).

### 16. INVESTMENTS IN SUBSIDIARIES

	<b>2004</b>	<b>Company</b>
	<b>HK\$'000</b>	2003 HK\$'000
Unlisted investments, at cost	<b>43,368</b>	–

The balances with subsidiaries are unsecured, interest-free and repayable on demand.

Particulars of subsidiaries of the Company are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued share/paid-up registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Jespar Age Limited	BVI/Hong Kong	US\$1,000	100	–	Investment holding
Eagle Nice Development Limited	Hong Kong	Ordinary HK\$2; Non-voting deferred HK\$10,000 (Note (a))	–	100	Manufacture and trading of sportswear and garments



## Notes to Financial Statements

(At 31st March, 2004)

### 16. INVESTMENTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued share/paid-up registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Far East (International) Garment Limited	Hong Kong	Ordinary HK\$2; Non-voting deferred HK\$10,000 (Note (a))	–	100	Manufacture and trading of sportswear and garments
Nittsukou Limited	BVI/Hong Kong	US\$1,000	–	100	Dormant
Goldfish Investments Limited	Samoa/Macau	US\$1,000	–	100	Dormant
Good Wish Enterprises Limited	Samoa/Macau	US\$1,000	–	100	Dormant
Metrogold Profits Limited	Samoa/Macau	US\$1,000	–	100	Dormant
汕頭市鷹美製衣有限公司 (Note (b))	PRC/ Mainland China	HK\$7,000,000 (Note (c))	–	100	Manufacture and trading of sportswear and garments
Shantou SEZ Far East (International) Garments Factory Co., Ltd. 汕頭經濟特區遠東 (國際)製衣廠有限公司 (Note (b))	PRC/ Mainland China	HK\$15,000,000	–	100	Manufacture and trading of sportswear and garments

## Notes to Financial Statements

(At 31st March, 2004)

### 16. INVESTMENTS IN SUBSIDIARIES *(continued)*

Notes:

- (a) The non-voting deferred shares carry no rights to dividends, no rights to attend or vote at general meetings and no rights to receive any surplus assets in a return of capital in a winding-up (other than the nominal amount paid up or credited as paid up on such shares, after the sum of HK\$100,000,000,000 per ordinary share has been distributed to the holders of the ordinary shares of the company in such winding-up).
- (b) EN (Shantou) and FE (Shantou) are registered as wholly-foreign owned enterprises under the PRC law.
- (c) On 17th September, 2003, the application for the increase of registered capital of EN (Shantou) from HK\$7 million to HK\$9.5 million was approved by the relevant authority in the PRC. Subsequent to the balance sheet date, the additional capital contribution of HK\$2.5 million has been fully paid up on 10th May, 2004.

### 17. INVENTORIES

	<b>2004</b>	<b>Group</b>
	<b>HK\$'000</b>	2003
		<i>HK\$'000</i>
Raw materials	<b>15,986</b>	4,310
Work in progress	<b>27,307</b>	7,692
Finished goods	<b>1,227</b>	5,495
	<b>44,520</b>	17,497

No inventories were carried at net realisable value at the balance sheet date (2003: nil).

## Notes to Financial Statements

(At 31st March, 2004)

### 18. ACCOUNTS AND BILLS RECEIVABLE

The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period of 30 days. Overdue balances are regularly reviewed by senior management of the Group.

An aged analysis of the accounts and bills receivable as at the balance sheet date, based on invoice date, is as follows:

	<b>2004</b>	<b>Group</b>
	<b>HK\$'000</b>	2003
		<i>HK\$'000</i>
Within 30 days	<b>28,022</b>	18,496
Between 31 to 60 days	<b>3,928</b>	19
Between 61 to 90 days	<b>810</b>	186
Over 90 days	<b>709</b>	60
	<hr/> <b>33,469</b> <hr/>	<hr/> 18,761 <hr/>

## Notes to Financial Statements

(At 31st March, 2004)

### 19. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Note	Group		Company	
		2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Cash and bank balances		<b>31,358</b>	913	<b>26,151</b>	–
Time deposits		<b>5,518</b>	6,479	–	–
		<b>36,876</b>	7,392	<b>26,151</b>	–
Less: Time deposits pledged for overdrafts and trade financing facilities	22	<b>(5,518)</b>	(6,479)	–	–
Cash and cash equivalents		<b>31,358</b>	913	<b>26,151</b>	–

As at the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK\$3,139,000 (2003: HK\$780,000). RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

### 20. ACCOUNTS AND BILLS PAYABLE

An aged analysis of the accounts and bills payable as at the balance sheet date, based on invoice date, is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Within 90 days	<b>19,704</b>	5,814
Between 91 to 180 days	<b>1,384</b>	3,543
Between 181 to 365 days	<b>58</b>	59
Over 365 days	–	10
	<b>21,146</b>	9,426

## Notes to Financial Statements

(At 31st March, 2004)

### 21. INTEREST-BEARING BANK BORROWINGS, SECURED

	<b>2004</b>	<b>Group</b>
	<b>HK\$'000</b>	<b>2003</b>
		<b>HK\$'000</b>
Secured bank overdrafts repayable on demand	<b>7,391</b>	3,932
Secured mortgage loans repayable:		
Within one year	<b>2,305</b>	2,239
In the second year	<b>2,371</b>	2,304
In the third to fifth years, inclusive	<b>1,009</b>	3,380
	<b>5,685</b>	7,923
Secured trust receipt loans repayable within one year	<b>18,931</b>	8,703
Other secured bank loans repayable:		
Within one year	<b>3,929</b>	4,806
In the second year	<b>1,088</b>	1,280
	<b>5,017</b>	6,086
	<b>37,024</b>	26,644
Portion classified as current liabilities	<b>(32,556)</b>	(19,680)
Long term portion	<b>4,468</b>	6,964

### 22. BANKING FACILITIES

As at 31st March, 2004, the Group's banking facilities were secured by the following:

- (i) one of the leasehold land and buildings of the Group (note 14);
- (ii) the unlisted investment funds of the Group (note 15);
- (iii) pledged bank deposits of the Group (note 19);
- (iv) corporate guarantees executed by the Company to the extent of HK\$105 million; and
- (v) unlimited corporate guarantees executed by two subsidiaries.

### Notes to Financial Statements

(At 31st March, 2004)

## 23. FINANCE LEASE PAYABLES

The Group leases certain of its plant and machinery for its garment manufacturing business. These leases are classified as finance leases and have remaining lease terms ranging from two to three years.

At 31st March, 2004, the total future minimum lease payments under finance leases and their present values were as follows:

### Group

	<b>Minimum lease payments 2004 HK\$'000</b>	Minimum lease payments 2003 HK\$'000	<b>Present value of minimum lease payments 2004 HK\$'000</b>	Present value of minimum lease payments 2003 HK\$'000
Amounts payable:				
Within one year	<b>752</b>	–	<b>730</b>	–
In the second year	<b>620</b>	–	<b>572</b>	–
In the third to fifth years, inclusive	<b>700</b>	–	<b>600</b>	–
	<hr/>	<hr/>	<hr/>	<hr/>
Total minimum finance lease payments	<b>2,072</b>	–	<b>1,902</b>	–
	<hr/>	<hr/>	<hr/>	<hr/>
Future finance charges	<b>(170)</b>	–		
	<hr/>	<hr/>		
Total net finance lease payables	<b>1,902</b>	–		
	<hr/>	<hr/>		
Portion classified as current liabilities	<b>(730)</b>	–		
	<hr/>	<hr/>		
Long term portion	<b>1,172</b>	–		
	<hr/>	<hr/>		

## Notes to Financial Statements

(At 31st March, 2004)

### 24. DEFERRED TAX LIABILITIES

#### Group

	<b>Accelerated tax depreciation</b> <i>HK\$'000</i>	<b>Asset revaluation</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
At 1st April, 2002	910	–	910
Deferred tax credited to the profit and loss account during the year ( <i>note 10</i> )	(100)	–	(100)
At 31st March, 2003 and 1st April, 2003	810	–	810
Deferred tax debited to equity during the year ( <i>note 27</i> )	–	400	400
<b>At 31st March, 2004</b>	<b>810</b>	<b>400</b>	<b>1,210</b>

At 31st March, 2004, there is no significant unrecognised deferred tax liability (2003: nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries as the Group has no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

SSAP 12 (revised) was adopted during the year, as further explained in note 2 to the financial statements. This change in accounting policy has resulted in an increase in the Group's deferred tax liability as at 31st March, 2004 by HK\$400,000 (2003: nil).

### 25. SHARE CAPITAL

	<b>2004</b> <b>HK\$'000</b>	<b>Company</b> 2003 <i>HK\$'000</i>
Authorised: 10,000,000,000 (2003: 38,000,000) ordinary shares of HK\$0.01 each	<b>100,000</b>	380
Issued and fully paid: 200,000,000 ordinary shares of HK\$0.01 each (2003: nil)	<b>2,000</b>	–

## Notes to Financial Statements

(At 31st March, 2004)

### 25. SHARE CAPITAL (continued)

The following changes in the authorised and issued share capital of the Company took place during the period from 9th October, 2002 (date of incorporation) to 31st March, 2004:

	Notes	Number of ordinary shares of HK\$0.01 each '000	Nominal value of ordinary shares HK\$'000
<u>Authorised:</u>			
Upon incorporation	(i)	38,000	380
Increase in an authorised share capital	(ii)	9,962,000	99,620
At 31st March, 2004		10,000,000	100,000
<u>Issued:</u>			
Alloted and issued as nil paid	(iii)	1,000	–
On acquisition of Jespar			
– new issue of shares	(iv)	27,000	270
– nil paid shares credited as fully paid	(iv)	–	10
Capitalisation issue credited as fully paid conditional on the share premium account of the Company being credited as a result of the issue of new shares to the public	(v)	142,000	–
Pro forma issued share capital as at 31st March, 2003		170,000	280
Capitalisation of share premium account as set out above	(v)	–	1,420
New issue of shares	(vi)	30,000	300
At 31st March, 2004		200,000	2,000



## Notes to Financial Statements

(At 31st March, 2004)

### 25. SHARE CAPITAL (continued)

*Notes:*

- (i) Upon incorporation of the Company, the authorised share capital of the Company was HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each.
- (ii) Pursuant to a resolution passed on 6th August, 2003, the authorised share capital of the Company was increased from HK\$380,000 to HK\$100,000,000 by the creation of an additional 9,962,000,000 ordinary shares of HK\$0.01 each, ranking pari passu in all respects with the existing share capital of the Company.
- (iii) On 28th October, 2002, an aggregate of 1,000,000 shares of HK\$0.01 each were allotted and issued nil paid.
- (iv) Pursuant to the same resolution in (ii) above, on 6th August, 2003, 27,000,000 new shares of HK\$0.01 each in the Company were allotted and issued, credited as fully paid, and the existing 1,000,000 shares of HK\$0.01 each were credited as fully paid, at par, in consideration of and in exchange for the acquisition of the entire issued share capital of Jespar pursuant to the Group Reorganisation.
- (v) Pursuant to the same resolution in (ii) above, a total of 142,000,000 shares of HK\$0.01 each were allotted and issued as fully paid, by way of capitalisation of an amount of HK\$1,420,000 standing to the credit of the share premium account of the Company, to the holders of shares in the Company whose names appear on the register of members of the Company at the close of business on 11th August, 2003 in proportion to their then existing shareholdings in the Company, conditional upon the share premium account being credited as a result of the new issue and placing of shares as detailed in (vi) below.
- (vi) On 20th August, 2003, a total of 30,000,000 new shares of HK\$0.01 each in the Company were issued at a price of HK\$1.00 each to the public by way of new issue and placing of shares pursuant the listing of the Company's shares on the Main Board of the Stock Exchange, for a total cash consideration, before expenses, of HK\$30,000,000.

### 26. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group and customers of the Group. The Scheme became effective on 6th August, 2003 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

## Notes to Financial Statements

(At 31st March, 2004)

### 26. SHARE OPTION SCHEME (continued)

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of the offer upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than five years from date of the offer of the share options or the expiry date of the Scheme, if earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of shares.

No share options had been granted under the Scheme as at 31st March, 2004 or up to the date of approval of these financial statements. As at the date of approval of these financial statements, 20,000,000 shares are available for issue under the Scheme, representing 10% of the issued share capital of the Company at that date.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

## Notes to Financial Statements

(At 31st March, 2004)

### 27. RESERVES

#### Group

	Notes	Share premium HK\$'000	Capital reserve HK\$'000 (Note (a))	Statutory surplus reserve HK\$'000 (Note (b))	Exchange fluctuation reserve HK\$'000	Asset revaluation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st April, 2002		-	43	-	(2,712)	(155)	24,915	22,091
Surplus on revaluation		-	-	-	-	62	-	62
Arising on Group Reorganisation		-	(272)	-	-	-	-	(272)
Net profit for the year		-	-	-	-	-	30,831	30,831
Transfer to reserve		-	-	842	-	-	(842)	-
Dividend paid by a subsidiary	12	-	-	-	-	-	(15,000)	(15,000)
At 31st March, 2003 and 1st April, 2003		-	(229)	842	(2,712)	(93)	39,904	37,712
Issue of shares	25	29,700	-	-	-	-	-	29,700
Share issue expenses		(8,926)	-	-	-	-	-	(8,926)
Capitalisation issue	25	(1,420)	-	-	-	-	-	(1,420)
Surplus on revaluation		-	-	-	-	5,610	-	5,610
Deferred tax charged	24	-	-	-	-	(400)	-	(400)
Net profit for the year		-	-	-	-	-	32,086	32,086
Transfer to reserve		-	-	874	-	-	(874)	-
Interim dividend	12	-	-	-	-	-	(6,000)	(6,000)
Proposed final dividend	12	-	-	-	-	-	(11,900)	(11,900)
<b>At 31st March, 2004</b>		<b>19,354</b>	<b>(229)</b>	<b>1,716</b>	<b>(2,712)</b>	<b>5,117</b>	<b>53,216</b>	<b>76,462</b>

## Notes to Financial Statements

(At 31st March, 2004)

### 27. RESERVES (continued)

#### Company

	Notes	Share premium HK\$'000 (Note (a))	Capital reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st April, 2003		–	–	–	–
Arising on Group Reorganisation		–	43,088	–	43,088
Issue of shares	25	29,700	–	–	29,700
Capitalisation issue	25	(1,420)	–	–	(1,420)
Share issue expenses		(8,926)	–	–	(8,926)
Net profit for the year		–	–	18,391	18,391
Interim dividend	12	–	–	(6,000)	(6,000)
Proposed final dividend	12	–	–	(11,900)	(11,900)
<b>At 31st March, 2004</b>		<b>19,354</b>	<b>43,088</b>	<b>491</b>	<b>62,933</b>

#### Notes:

- (a) The capital reserve of the Group represents the difference between the aggregate of the nominal value of the share capitals of the subsidiaries acquired by the Company pursuant to the Group Reorganisation as set out in note 1 to the financial statements, over the nominal value of the share capital of the Company issued in exchange therefor and the existing 1,000,000 shares of HK\$0.01 credited at fully paid, at par.

The capital reserve of the Company represents the excess of the then consolidated net assets of the subsidiaries acquired by the Company pursuant to the same reorganisation over the nominal value of the share capital of the Company issued in exchange therefor. Under the Companies Law of the Cayman Islands, the capital reserve may be distributable to the shareholders of the Company, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

- (b) In accordance with the relevant PRC regulations, the companies now comprising the Group which are registered in the PRC are required to transfer 10% of their profits after tax, as determined under the PRC accounting regulations, to the statutory surplus reserve, until the balance of the fund reaches 50% of their respective registered capitals. Subject to certain restrictions as set out in the relevant PRC regulations, the statutory surplus reserve may be used to offset against accumulated losses.

## Notes to Financial Statements

(At 31st March, 2004)

### 28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

The Group has the following major non-cash transactions during the year:

- (i) During the year, the Group Reorganisation involved the acquisition of Jespar by the issue of shares of the Company, further details of which are set out in notes 1 and 25 to the financial statements.
- (ii) During the year, the Group entered into finance lease arrangements in respect of fixed assets with a total capital value at the inception of the leases of approximately HK\$2,303,000 (2003: nil).
- (iii) During the year ended 31st March, 2003, a dividend of HK\$10,000,000 distributed by certain subsidiaries of the Company was settled through the current account with a director.

### 29. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities of the Group not provided for were as follows:

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Bills discounted with recourse	-	927	-	-
Guarantees given to in connection with credit facilities granted to subsidiaries	-	-	<b>105,513</b>	30,000
	<b>-</b>	<b>927</b>	<b>105,513</b>	<b>30,000</b>

As at 31st March, 2004, the banking and finance lease facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK\$35.9 million (2003: HK\$11.1 million).

### Notes to Financial Statements

(At 31st March, 2004)

## 30. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office premises and factories under operating lease arrangements, with leases negotiated for terms ranging from two to three years.

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>2004</b> <b>HK\$'000</b>	2003 <i>HK\$'000</i>
Within one year	<b>4,623</b>	3,274
In the second to fifth years, inclusive	<b>5,774</b>	3,430
	<b>10,397</b>	6,704

## 31. COMMITMENTS

In addition to the operating lease commitments detailed in note 30 above, the Group had the following commitments at the balance sheet date:

	<b>2004</b> <b>HK\$'000</b>	2003 <i>HK\$'000</i>
Capital commitments, contracted but not provided for:		
Purchases of fixed assets	<b>130</b>	63

The Company did not have any significant commitments at the balance sheet date (2003: nil)

## Notes to Financial Statements

(At 31st March, 2004)

### 32. POST BALANCE SHEET EVENTS

- (i) On 3rd March, 2004, the Company entered into a conditional subscription agreement (the "Subscription Agreement") with Great Pacific Investments Limited (the "Subscriber"), a wholly-owned subsidiary of Yue Yuen Industrial (Holdings) Limited, in relation to the subscription by the Subscriber of 105,000,000 new shares at HK\$1.06 per share (total subscription price amounted to HK\$111,300,000) and a convertible note at a subscription price of HK\$207,060,000, which would be convertible into 87,000,000 new shares at the initial conversion price of HK\$2.38 per share (subject to adjustment). On the same day, the Company also entered into a conditional placing agreement (the "Placing Agreement") with Barits Securities (Hong Kong) Limited ("Barits"), pursuant to which Barits agreed to procure places, on a fully underwritten basis, and the Company agreed to issue an aggregate of 35,000,000 new shares at HK\$1.06 per share. The proceeds from the new shares under the Subscription Agreement and the Placing Agreement were satisfied by cash upon completion of these agreements.

The Subscription Agreement and the Placing Agreement have been approved by the shareholders in the extraordinary general meeting and the Listing Committee of the Stock Exchange and these agreements were completed on 16th April, 2004.

Further details of the Subscription Agreement and this Placing Agreement are set out in the circular of the Company dated 24th March, 2004.

- (ii) On 19th June, 2004, Yue Mei (Shantou) Garment Manufacturing Co. Ltd., a wholly-owned subsidiary of the Company established subsequent to the balance sheet date (the "Purchaser"), entered into an agreement (the "Provisional Agreement") with Shantou Special Economic Zone Cheng Di Industrial Village Development Co. Ltd. (the "Seller"), an independent corporation established in the PRC, whereby the Seller will construct and sell, and the Purchaser will purchase a new production plant which will be located at the 15th Street District, Cheng Di Industrial Village, Shantou Special Economic Zone (the "Land"), free from encumbrances, with a cash consideration of approximately RMB102 million (approximately HK\$96.4 million).

The consideration for the above transaction will be payable in cash as follows:

- (i) as to RMB20 million (approximately HK\$18.9 million) to be placed in an escrow account, in the name of the Purchaser, within 30 days after the satisfactory completion of the Provisional Agreement;

## Notes to Financial Statements

(At 31st March, 2004)

### 32. POST BALANCE SHEET EVENTS *(continued)*

(ii) *(continued)*

- (ii) as to RMB25 million (approximately HK\$23.6 million) within 5 days after the signing of the formal sales and purchase agreement which is expected to take on or before 28th February, 2005;
- (iii) as to RMB25 million (approximately HK\$23.6 million) within 5 days after the examination and acceptance of the new production plant by the relevant PRC authorities;
- (iv) as to RMB31 million (approximately HK\$29.3 million) after the issue of the Real Estate Title Certificate to the Purchaser; and
- (v) as to the balance of RMB1 million (approximately HK\$1.0 million) upon the expiry of 2 years after the examination and acceptance of the new production plant by the relevant PRC authorities.

Up to the date of this report, the Group has placed the first RMB20 million in the escrow account.

Further details of the above transaction are set out in the announcement of the Company dated 19th June, 2004.

### 33. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23rd July, 2004.