1. GROUP REORGANISATION

The Company was incorporated as an exempted company with limited liability in the Cayman islands on 7th June 2002 under the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

Pursuant to a reorganisation scheme 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 of Hong Kong Limited (the "Stock Exchange") on 8th November 2002, the Company became the holding company of the companies now comprising the Group on 19th October 2002 (the "Group Reorganisation"). This was accomplished by acquiring the entire issued share capital of Falcon Vision Limited ("Falcon Vision"), the then holding company of the subsidiaries listed out in note 18 to the financial statements, in consideration of and in exchange for the allotment and issue of 10,000,000 ordinary shares of HK$0.01 each in the share capital of the Company, credited as fully paid, to the former shareholders of Falcon Vision; and the crediting as fully paid at par the existing 10,000,000 nil paid shares held by the former shareholders of Falcon Vision. Further details of the Group Reorganisation are set out in Appendix 5 of the Company's prospectus dated 28th October 2002 (the "Prospectus").

2. CORPORATE INFORMATION

The registered office of the Company is located at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, British West Indies.

The principal activity of the Company is investment holding. The principal activities of the Company's principal subsidiaries are set out in note 18 to the financial statements.

The directors consider the Company's ultimate holding company at 31st March 2004 to be Star Master International Limited, which is incorporated in the British Virgin Islands.

3. ADOPTION OF REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

In the current year, the Group adopted SSAP 12 (Revised) "Income taxes" which are effective for the first time for the current year's financial statements and prescribes new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting the revised SSAP are summarised as follows:

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 specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively.

3. ADOPTION OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs") (Continued)

The adoption of SSAP 12 (Revised) has no material impact on the Group's financial statements in prior years and comparative figures have not been restated.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with all applicable SSAPs and interpretation issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. A summary of the significant accounting policies followed by the Group in the preparation of the financial statements is set out below:

(a) Basis of preparation

The measurement basis used in the preparation of the financial statements is historical cost as modified for the revaluation of certain properties as explained in the accounting policies set out below.

(b) Basis of presentation and consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31st March 2004. The results of subsidiaries acquired or disposed during the year are consolidated from or to their effective dates of acquisition or disposal, respectively.

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

(c) Subsidiaries

A subsidiary is an enterprise controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Subsidiaries are incorporated in the financial statements so long as the controls are not intended to be temporary because the subsidiaries were acquired and held exclusively with a view to its subsequent disposal in the near future.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less any impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Associates

An associate is an enterprise over which the Group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee.

The Group's share of post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Where a group enterprise transacts with an associate of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associate, except where unrealised losses provide evidence of an impairment of the asset transferred.

(e) Investments in securities

Investments held on a continuing basis for an identified long-term purpose with no significant influence exercised by the Group are classified as investment securities. Investment securities are recognised on a trade-date basis and are stated in the balance sheet at cost less any provision for diminution in value which is expected to be other than temporary. The amounts of provision or any profits or losses arising from sale of investment securities are accounted for in the income statement.

(f) Property, plant and equipment

i. Valuation

Land and buildings held for use in the production or supply of goods or for administrative purpose are stated in the balance sheet at their revalued amounts, being the fair value on the basis of their existing use at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Any revaluation increase arising on the revaluation of such land and buildings is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such land and buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the revaluation reserve relating to a previous revaluation of that asset.

On the subsequent sale or retirement of a revaluated property, the attributable revaluation surplus remaining in the revaluation reserve is transferred to retained profits.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Property, plant and equipment (Continued)

i. Valuation (Continued)

Construction in progress is investment in land and buildings on which construction work has not been completed and which, upon completion, management intend to hold for production purposes. These properties are carried at cost except for the land which is revalued at the fair value on the basis of their existing use at the date of valuation, which includes development and construction expenditure incurred and interest and other direct costs attributable to the development less any accumulated impairment losses. On completion, the properties are transferred to land and buildings at valuation less accumulated impairment losses.

Property, plant and equipment other than land and buildings and construction in progress are stated at cost less accumulated depreciation and accumulated 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 the property, plant and equipment have been put into operations, such as repairs and maintenance, is normally charged to the income statement 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 property, plant and equipment, the expenditure is capitalised as an additional cost of that asset.

ii. Depreciation

Depreciation is provided on the straight-line basis to write off the cost of each asset over its estimated useful life, and after taking into account their estimated residual value. The principal annual rates used for this purpose are as follows:

Leasehold land	:	Over the unexpired terms of respective leases
Buildings	:	2% to 5%
Construction in progress	:	Nil
Leasehold improvements	:	20%
Plant and machinery	:	6.67%
Furniture and fixtures	:	20%
Office equipment	:	10% to 20%
Motor vehicles	:	10% to 30%

iii. Disposition

Gains or losses arising from the retirement or disposal of property, plant and equipment are determined as the difference between the estimated net disposal proceeds and the carrying amount of the relevant asset and are recognised in the income statement on the date of retirement or disposal.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of raw materials 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 manufacturing overheads, and/or, where appropriate, subcontracting charges. Net realisable value is based on estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(h) Leased assets

Assets held under finance leases have been capitalised. The interest element of the rental payments is charged to the income statement over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding. Depreciation is provided in accordance with the Group's depreciation policies.

All other leases are accounted for as operating leases and the rental payments are charged to the income statement on a straight-line basis over the relevant lease term.

(i) Current assets and current liabilities

Current assets are expected to be realised within twelve months of the balance sheet date or in the normal course of the Company's operating cycle. Current liabilities are expected to be settled within twelve months of the balance sheet date or in the normal course of the Company's operating cycle.

(j) 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 the profit before taxation 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 income statement 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 recongised 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 taxable profit nor the accounting profit.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Taxation (Continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, 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 is 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.

(k) Cash equivalents

Cash equivalents represent 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Recognition of revenue

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. sale of goods is recognised 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 sold;

ii. interest income is recognised on a time-apportioned basis taking into account the principal outstanding and the effective interest rate applicable; and

iii. dividend income from investment in securities is recognised when the shareholder's right to receive payment is established.

(m) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to determine whether there is any indication of impairment of assets, or whether there is any indication that an impairment loss previously recognised no longer exists or may have decreased. If any such indication exists, the recoverable amount of the asset is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement 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 policy for that revalued asset.

i. Calculation of recoverable amount

The recoverable amount of an asset is the higher of its net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of asset that generates cash inflows independently (i.e. a cash-generating unit).

ii. Reversals of impairment losses

An impairment loss is reversed 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the effect of the time value of money is material, the amount of a provision is the present value at the balance sheet date of the expenditures expected to be required to settle the obligation.

(o) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group. Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(p) Foreign currencies

Transactions in foreign currencies are translated into Hong Kong dollars at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. All gains and losses on translation of foreign currencies are dealt with in the income statement.

On consolidation, the balance sheet items of overseas subsidiaries, jointly-controlled entities and associates are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date whilst the income and expense items are translated at the average rates for that period. The resulting translation differences are dealt with in the exchange reserve.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Related party transactions

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. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

(r) Employee benefits

i. Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

ii. Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance and to the state-managed retirement benefits schemes for the employees of the Group's entities in the People's Republic of China (the "PRC") are recognised as an expense in the income statement as incurred.

iii. When the Group grants employees options to acquire shares of the Company at nil consideration, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.

iv. Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(s) Deferred expenditure

Material items of expenditure that do not relate solely to revenue which has already been accounted for are deferred to the extent that they are recoverable out of future revenue, and will contribute to the future earning capacity of the Group.

Deferred expenditure is amortised over the period in which the related benefits are expected to be realised. Deferred expenditure is reviewed annually to determine the amount, if any, that is no longer recoverable and any such amount is written off to the income statement in the year of determination.

5. SEGMENT INFORMATION

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

In accordance with the Group's internal financial reporting system, the Group has determined that business segments as the primary reporting format and geographical segment information as the secondary reporting format.

In determining the Group's geographical segments, revenues and results are based on the country in which the customer is located.

Analysis of assets and liabilities by business segments and by geographical segments have not been prepared as most of the Group's assets and liabilities were unable to be allocated in view of the nature of the Group's business.

(a) Business segments

	Woven wear 2004 HK$'000	Knitwear 2004 HK$'000	Sweaters 2004 HK$'000	Premium 2004 HK$'000	Consolidated 2004 HK$'000
Segment revenue	59,295	69,451	8,534	7,281	144,561
Segment results	7,708	7,385	1,045	577	16,715
Finance costs					(1,802)
Share of results of an associate					566
Profit before tax and minority interests					15,479
Tax					(1,435)
Profit after tax and before minority interests					14,044
Minority interests					209
Net profit from ordinary activities attributable to shareholders					14,253

5. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

	Woven wear 2003 HK$'000	Knitwear 2003 HK$'000	Sweaters 2003 HK$'000	Premium 2003 HK$'000	Consolidated 2003 HK$'000
Segment revenue	83,763	58,680	11,648	9,021	163,112
Segment results	20,113	10,705	2,796	490	34,104
Finance costs					(1,715)
Share of results of an associate					512
Profit before tax					32,901
Tax					(2,666)
Net profit from ordinary activities attributable to shareholders					30,235

(b) Geographical segments

	Chile 2004 HK$'000	**Australia 2004 HK$'000**	**Europe 2004 HK$'000**	**Canada 2004 HK$'000**	**Others 2004 HK$'000**	**Consolidated 2004 HK$'000**
Segment revenue	**98,512**	**15,704**	**14,762**	**6,910**	**8,673**	**144,561**
Segment results	**11,197**	**1,942**	**1,821**	**898**	**857**	**16,715**

	Chile 2003 HK$'000	Peru 2003 HK$'000	Australia 2003 HK$'000	Europe 2003 HK$'000	Others 2003 HK$'000	Consolidated 2003 HK$'000
Segment revenue	126,258	10,446	7,182	8,416	10,810	163,112
Segment results	30,633	2,348	127	423	573	34,104

6. 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:

	2004 HK$'000	2003 HK$'000
Turnover:		
Sale of goods	144,561	163,112
Other revenue:		
Interest income	4	320
Dividend income from unlisted investments	83	835
Exchange gain	–	84
Sundry income	524	305
	611	1,544
Total revenue	145,172	164,656

7. PROFIT FROM OPERATIONS

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

	2004 HK$'000	2003 HK$'000
Staff costs (excluding directors' remuneration):		
Wages and salaries	5,160	4,440
Retirement benefits contributions	134	130
	5,294	4,570
Cost of inventories *(Note)*	102,888	111,818
Depreciation		
– owned assets	2,028	1,610
– assets held under finance leases	73	41
Auditors' remuneration		
– under provision for the previous year	200	–
– provision for the year	700	400
Rental payment in respect of premises under operating leases	240	71
Amortisation of deferred expenditure	75	75

Note: Cost of inventories includes approximately HK$382,000 (2003: HK$391,000) and HK$2,016,000 (2003: HK$1,512,000) relating to depreciation expenses and staff costs respectively, which amount is also included in the respective total amounts disclosed separately above for each of these types of expenses.

8. FINANCE COSTS

	Group	
	2004 HK$'000	2003 HK$'000
Interest expenses on:		
Bank loans and overdrafts wholly repayable within five years	413	145
Import and export loans wholly repayable within five years	145	187
Obligations under finance leases	22	15
	580	347
Bank charges	1,222	1,368
	1,802	1,715

9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

Directors' remuneration disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance is as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
Fees	**171**	78
Other emoluments:		
Basic salaries, housing benefits, other allowances and benefits in kind	**3,260**	1,988
Mandatory provident fund scheme contribution	**29**	22
	3,460	2,088

Included in the directors' remuneration were fees of HK$171,000 (2003: 78,000) paid to independent non-executive directors during the year.

The emoluments of the directors were within the following bands:

	Number of directors	
	2004	2003
Nil – HK$1,000,000	**4**	5
HK$1,000,000 – HK$1,500,000	**1**	–

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

The five highest paid employees during the year included in three (2003: three) directors, detail of whose remuneration are set out above. Details of the remuneration of the remaining two (2003: two) non-director, highest paid employees are as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
Basic salaries, housing benefits, other allowances and benefits in kind	**433**	414
Mandatory provident fund scheme contribution	**11**	18
	444	432

During the year, no emoluments were paid by the Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

10. TAX

	2004 HK$'000	2003 HK$'000
Current tax:		
Hong Kong Profits Tax		
Current year	**1,327**	2,700
Over provision in prior years	**–**	(34)
	1,327	2,666
Share of taxation of associates in the PRC	**108**	–
	1,435	2,666

Hong Kong Profits Tax is calculated at 17.5% (2003: 16%) of the estimated assessable profit for the year. The Profits Tax rate has been increased with effect from the 2003/04 year of assessment. Provisions for overseas subsidiaries were made at prevailing local tax rate.

No provision for deferred tax liabilities has been made as the Group and the Company had no material temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements (2003: Nil).

The charge for the year can be reconciled to the profit per the income statement as follows:

	2004 HK$'000	2004 %	2003 HK$'000	2003 %
Profit before taxation	**15,479**		32,901	
Tax at the domestic income tax rate of 17.5% (2003: 16%)	**2,708**	**17.5**	5,264	16
Tax effect of income that are not taxable in determining taxable profit	**(1,349)**	**(8.7)**	(2,620)	(8.0)
Tax effect of expenses that are not deductible in determining taxable profit	**(32)**	**(0.2)**	37	0.1
Tax effect of over provision in prior year	**–**	**–**	(34)	(0.1)
Share of taxation of associate in the PRC	**108**	**0.7**	142	0.4
Others	**–**	**–**	(123)	(0.4)
Tax expenses and effective tax rate for the year	**1,435**	**9.3**	2,666	8.0

The Group has not recognised deferred tax assets in respect of tax losses due to the unpredictability of future profit streams.

11. NET (LOSS)/PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company for the year ended 31st March 2004 was approximately HK$1,297,000 (for the period ended 31st March 2003: profit, HK$2,800,000).

12. DIVIDENDS

	2004 HK$'000	2003 HK$'000
Special dividend	–	10,000
Interim dividend paid at HK1.5 cents per ordinary share	–	3,000
	–	13,000

An interim dividend of HK1.5 cents per ordinary share was paid by the Company for the year ended 31st March 2003.

The special dividends for the year ended 31st March 2003 were declared and paid by a subsidiary of the Company to its then shareholders prior to the Group Reorganisation as explained in note 1, which was completed on 19th October 2002. The dividend rates and the number of shares ranking for dividends are not presented as such information is not meaningful for the purpose of these financial statements.

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK$14,253,000 (2003: HK$30,235,000) and the weighted average of 1,600,136,180 (2003: as adjusted, 1,499,002,736) ordinary shares in issue during the year.

The weighted average number of shares used to calculate the basic earnings per share for the year ended 31st March 2003 included the pro forma issued share capital of the Company deemed to have been issued throughout the year, comprising the 20,000,000 shares in issue as at the date of the Prospectus and the capitalisation issue of 144,000,000 shares, as set out in detail in note 27 to the financial statements. The weighted average number of shares used to calculate the basic earnings per share for the years ended 31st March 2003 and 2004 were adjusted according to an ordinary resolution passed in the Annual General Meeting of the Company held on 18th September 2003 in connection to the bonus issue of 200,000,000 shares on the basis of one bonus ordinary share for every one existing share in the issued share capital of the Company on 18th September 2003 and according to an ordinary resolution passed in the Extraordinary General Meeting of the Company held on 20th February 2004 in connection to the bonus issue of 1,200,000,000 shares on the basis of three bonus ordinary shares for every one existing share in the issued share capital of the Company on 21st January 2004.

Diluted earnings per share amount for the year ended 31st March 2004 has not been presented as the effect of the assumed conversion of the Company's outstanding share options would be anti-dilutive.

There were no potential dilutive shares in existence for the year ended 31st March 2003 accordingly, no diluted earnings per share has been presented.

14. EMPLOYEE BENEFITS

Retirement benefits scheme

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the scheme vest immediately.

The employees of the Company's subsidiary in the People's Republic of China (the "PRC") are members of the state-sponsored retirement benefit scheme organised by the relevant local government authority in the PRC. The subsidiary is required to contribute, based on a certain percentage of the basic salary of its employees, to the retirement benefit scheme and has no further obligations for the actual payment of pensions or post-retirement benefits beyond the annual contributions. The state-sponsored retirement benefit scheme represent for the entire pension obligations payable to retired employees.

There is no forfeited contribution which could be utilised to reduce the level of the contribution by the Group and therefore there was no such balance as at 31st March 2004.

The Group does not have any other pension schemes for its employees in respect of its subsidiaries outside Hong Kong and the PRC. In the opinion of the directors of the Company, the Group did not have any significant contingent liabilities as at 31st March 2004 in respect of the retirement of its employees.

15. DEFERRED EXPENDITURE

Deferred expenditure represents expenditure incurred to establish and launch retail business in the PRC. Such expenditure is deferred and written off on straight-line basis over a period of not more than 20 years to reflect the pattern in which the related economic benefits are recognised.

Group	HK$'000
Cost:	
At 1st April 2003 and 31st March 2004	**1,500**
Amortisation:	
At 1st April 2003	75
Charge for the year	75
At 31st March 2004	**150**
Net book value:	
At 31st March 2004	**1,350**
At 31st March 2003	1,425

16. DEPOSITS AND PREPAYMENTS

The Group has appointed an independent third party in the PRC to pursue and arrange for the establishment of a new subsidiary to engage in the manufacture and sale of garment products in the PRC. During the year, the directors of the Company has identified appropriate investment target and the negotiation of terms in investment was in progress.

The amount of deposits and prepayments was paid to the independent third party in respect of the acquisition costs of land use right, building construction, leasehold improvements and plant and machinery.

17. PROPERTY, PLANT AND EQUIPMENT

Group

	Land and buildings HK$'000	Construction in progress HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture and fixtures HK$'000	Office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
At cost or valuation:								
At 1st April 2003	23,337	3,000	5,225	2,076	1,414	880	1,491	37,423
Additions	–	4,193	51	1,357	138	131	270	6,140
Exchange realignment	–	(84)	–	2	–	–	–	(82)
At 31st March 2004	**23,337**	**7,109**	**5,276**	**3,435**	**1,552**	**1,011**	**1,761**	**43,481**
Depreciation:								
At 1st April 2003	464	–	1,655	119	621	709	386	3,954
Charge for the year	687	–	601	148	212	186	267	2,101
At 31st March 2004	**1,151**	**–**	**2,256**	**267**	**833**	**895**	**653**	**6,055**
Carrying amount:								
At 31st March 2004	**22,186**	**7,109**	**3,020**	**3,168**	**719**	**116**	**1,108**	**37,426**
At 31st March 2003	22,873	3,000	3,570	1,957	793	171	1,105	33,469

As at 31st March 2004, land and buildings which are situated in Hong Kong and the PRC and motor vehicles with carrying amounts of approximately HK$22,331,000 (2003: HK$22,873,000) and HK$700,000 (2003: HK$774,000) respectively were pledged to banks under fixed charges for general banking facilities granted to the Group.

Apart from the Group's land and buildings brought forward at 1st April 2002 which are stated at valuation, all other property, plant and equipment are stated at cost.

At 31st March 2004, had the Group's land and buildings been carried at historical cost less accumulated depreciation, their carrying amount would have been approximately HK$20,430,000 (2003: HK$21,048,000).

17. PROPERTY, PLANT AND EQUIPMENT (Continued)

The carrying amount of the Group's land and buildings comprises:

	2004 HK$'000	2003 HK$'000
In Hong Kong, held under long-term leases	15,038	15,269
Outside Hong Kong, held under medium-term leases	7,293	7,604
	22,331	22,873

The carrying amount of the Group's motor vehicles includes an amount of HK$700,000 (2003: HK$774,000) in respect of assets held under finance leases.

18. INVESTMENTS IN SUBSIDIARIES

	Company	
	2004 HK$'000	2003 HK$'000
Unlisted shares, at cost	42,769	42,769
Due from subsidiaries	26,877	27,023
	69,646	69,792

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the principal subsidiaries of the Company are as follows:

Name of company	Place of incorporation/ establishment and operation	Particulars of issued and paid-up share capital/ registered capital	Percentage of equity attributable to the Company	Principal activities
Falcon Vision Limited	British Virgin Islands	Ordinary US$1,000	100%	Investment holding
Rontex Holdings Limited	Hong Kong	Ordinary HK$100,000	100%	Trading of garment products
Ronco Trading Company Limited	Hong Kong	Ordinary HK$1,000,000	100%	Trading of premium products and investment holding

18. INVESTMENTS IN SUBSIDIARIES (Continued)

Name of company	Place of incorporation/ establishment and operation	Particulars of issued and paid-up share capital/ registered capital	Percentage of equity attributable to the Company	Principal activities
Take Luck Development Limited	Hong Kong	Ordinary HK$10,000	100%	Property holding and investment holding
Sunexpress Limited	British Virgin Islands	Ordinary US$1	100%	Provision of marketing and sales support services
Keen Choice Technology Limited	Hong Kong	Ordinary HK$10,000	100%	Investment holding
寧波朗迪紡織品有限公司 * (Rontex Co., Ltd.)	People's Republic of China	Registered capital US$1,380,000	51%	Manufacture and sale of garment products
湖州朗迪毛衫有限公司 ** (Huzhou Ronco Sweater Co., Ltd.)	People's Republic of China	Registered capital US$1,209,000	52%	Manufacture and sale of garment products

* Rontex Co., Ltd. was formed as a Chinese foreign equity joint venture company in the People's Republic of China under the joint venture agreement dated 27th October 2003 entered into between Ronco Trading Co. Ltd., Mr. Niu Teng and Mr. Wang Wei Ben. Pursuant to the JV agreement, the paid-up capital of Rontex Co., Ltd. increased from US$700,000 to US$1,380,000 while the capital contributed by the Group remained unchanged. Prior to the execution of the JV Agreement, Rontex Co., Ltd. is a wholly-owned subsidiary of the Company held through Ronco Trading Company Limited. Accordingly, the Group's interest in Rontex Co., Ltd. has been diluted from 100% to 51%.

** Huzhou Ronco Sweater Co., Ltd. ("Huzhou Ronco") was formed as a Chinese-foreign equity joint venture in the People's Republic of China. Huzhou Ronco has commenced business in April 2004.

18. INVESTMENTS IN SUBSIDIARIES (Continued)

Except Falcon Vision Limited, which is directly owned by the Company, all other subsidiaries are indirectly held.

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

19. INTERESTS IN AN ASSOCIATE

	Group	
	2004	2003
	HK$'000	HK$'000
Share of net assets	**9,767**	9,309
Loans to an associate	**1,376**	3,286
	11,143	12,595

The balances with the associate are unsecured. Other than an amount of approximately HK$Nil at 31st March 2004 (2003: HK$1,891,000) which carries interest at 5% per annum for the setting up of production facilities, the balances are interest-free and have no fixed repayment terms and are used for general working capital purposes. In the opinion of the directors, the amounts are unlikely to be repaid within one year from the balance sheet date and are therefore classified as non-current.

Particulars of the associate are as follows:

Name of company	Business structure	Place of establishment/ registration and operation	Percentage of equity interest attributable to the Group	Principal activities
北京朗迪服裝有限公司 (Beijing Rontex Garments Co., Limited)	Corporate	People's Republic of China	40%	Manufacture and sale of garment products

20. OPTION TO ACQUIRE AN EQUITY INTEREST OF A COMPANY

During the year, the Group has acquired from an independent third party, which are independent of and not connected with the directors, chief executive or substantial shareholder of the Company or any of its subsidiaries or an associate of any of them, the option (the "Option") to acquire equity interests of a Company (the "Investee Company") which is pursuing to be listed in the American Stock Exchange (AMEX). The Company paid HK$15,000,000 as consideration to the independent third party for the grant of the Option. However, subject to the approval of the listing committee of the corresponding stock exchange granting the listing of and permission to deal in the shares of the Investee Company, the acquisition of Option will be revoked and the consideration will be refunded.

The option was acquired by piece-meal method and was funded with internally generated funds. The directors of the Company have studied the financial information such as liquidity, profitability, prospects etc. and researches of the Investee Company. The directors of the Company are of the opinion that this long-term investment could enhance long-term interests and returns to our shareholders.

21. INVESTMENTS IN SECURITIES

	Group	
	2004	2003
	HK$'000	HK$'000
Investments in securities:		
Unlisted equity securities outside Hong Kong, at cost	**600**	600
Listed equity securities in Hong Kong, at cost	**9,346**	–
	9,946	600
Market value of listed equity securities in Hong Kong	**8,966**	–

Note: The investments in securities are unlisted equity securities outside Hong Kong and listed equity securities in Hong Kong and are carried at cost less any provisions for permanent diminution in value.

22. INVENTORIES

	Group	
	2004	2003
	HK$'000	HK$'000
Raw materials	**236**	4,160
Work in progress	**988**	981
Finished goods	**4,130**	2,740
	5,354	7,881

As at 31st March 2004, no inventories were stated at net realisable value (2003: Nil).

23. TRADE RECEIVABLES

An ageing analysis of trade receivables (net of provisions for bad and doubtful debts) at the balance sheet date is as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
0 – 30 days	5,331	5,427
31 – 60 days	167	866
61 – 90 days	417	393
Over 90 days	468	423
	6,383	7,109

More than 90% of the sales to the Group's customers were covered by at sight letters of credit. The remaining portion of sales to the Group's customers were on open account basis with average credit terms of 30 days.

24. INTEREST-BEARING BANK BORROWINGS

	Group	
	2004	2003
	HK$'000	HK$'000
Bank loan, secured:		
Within one year	8,466	2,876
In the second year	4,114	–
Portion classified as current liabilities	(8,466)	(2,876)
Long term portion	4,114	–

25. TRADE PAYABLES

An ageing analysis of trade payables at the balance sheet date is as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
0 – 30 days	4,378	4,777
31 – 60 days	1,482	404
61 – 90 days	146	570
Over 90 days	757	42
	6,763	5,793

26. FINANCE LEASE PAYABLES

The Group leases a motor vehicle. These leases are classified as finance leases and have remaining lease terms of one year.

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

Group

	Minimum lease payments		Present value of minimum lease payments	
	2004	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable:				
Within one year	**159**	232	**149**	208
In the second year	**85**	236	**84**	225
	244	468	**233**	433
Less: Future finance charges	**(11)**	(35)	**–**	–
	233	433	**233**	433
Portion classified as current liabilities			**(149)**	(208)
Non-current portion			**84**	225

27. SHARE CAPITAL

The following movements in the Company's authorised and issued share capital took place during the period from 7th June 2002 (date of incorporation) to 31st March 2004:

(a) On incorporation, the authorised share capital of the Company was HK$200,000 divided into 20,000,000 shares of HK$0.01 each. On 20th June 2002, 10,000,000 shares were allotted and issued at nil paid.

(b) On 19th October 2002, the authorised share capital of the Company was increased from HK$200,000 to HK$100,000,000 by the creation of 9,980,000,000 additional shares of HK$0.01 each, ranking pari passu with the existing share capital of the Company.

(c) On 19th October 2002, as part of the Group Reorganisation described in note 1 to the financial statements, the Company (i) issued an aggregate of 10,000,000 new shares of HK$0.01 each in the share capital of the Company, credited as fully paid at par; and (ii) credited as fully paid at par the existing 10,000,000 shares issued nil paid on 20th June 2002 as set out in (a) above, in consideration of and in exchange for the acquisition of the entire issued share capital of Falcon Vision. The excess of the fair value of the shares of Falcon Vision, determined on the basis of the consolidated net assets of Falcon Vision at that date over the nominal value of the Company's shares issued in exchange therefore and the capitalisation of the 10,000,000 shares allotted and issued nil paid, amounting of HK$42,569,000, was credited to the Company's contributed surplus as detailed in note 28 to the financial statements.

27. SHARE CAPITAL (Continued)

(d) On 4th November 2002, a total of 144,000,000 shares of HK$0.01 each were allotted as fully paid at par to the holders of the shares whose names appeared on the register of members of the Company in proportion to their then respective shareholdings at the close of business on 19th October 2002, by way of capitalisation of the sum of HK$1,440,000 standing to the credit of the share premium account of the Company, conditional on the share premium account being credited as a result of the new issue and placing of shares to the public and places as detailed in (e) below.

(e) On 6th November 2002, a total of 36,000,000 shares of HK$0.01 each were issued to the public at a price of HK$1.00 each for a total cash consideration, before related expenses, of HK$36,000,000.

(f) An ordinary resolution was passed in the annual general meeting of the Company held on 18th September 2003 for a bonus issue of shares of the Company on the basis of one bonus share for every one existing share then held.

(g) An ordinary resolution was passed in the Extraordinary meeting held on 20th February 2004 for a bonus issue of shares of the Company on the basis of three bonus shares for every one existing share then held.

A summary of the above movements in the issued share capital of the Company is as follow:

	Notes	Number of shares issued	Par value HK$'000
Share allotted and issued nil paid	*(a)*	10,000,000	–
Share issued as consideration for the acquisition of entire share capital of Falcon Vision	*(c)*	10,000,000	100
Application of contributed surplus to paid up nil paid shares	*(c)*	–	100
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	*(d)*	144,000,000	–
Pro forma issued share capital as at 1st April 2001 and 31st March 2002		164,000,000	200
New issue and placing of shares to the public	*(e)*	36,000,000	360
Capitalisation of the share premium account as set out above	*(d)*	–	1,440
Issued share capital as at 31st March 2003		200,000,000	2,000
Issued share capital as at 1st April 2003		200,000,000	2,000
Bonus issue of shares on the basis of one bonus share for every one share	*(f)*	200,000,000	2,000
Bonus issue of shares on the basis of three bonus share for every one share	*(g)*	1,200,000,000	12,000
Exercise of share options *(Note 28)*		2,208,000	22
Issued share capital as at 31st March 2004		1,602,208,000	16,022

28. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives or rewards to eligible persons for their contributions to the Group. Eligible persons of the Scheme include any full-time or part-time employees of the Company or any member of the Group, including any directors, advisors or consultants of the Group. The Scheme became effective upon the listing of the Company's shares on the Stock Exchange on 8th November 2002, and unless otherwise cancelled or amended, will remain in force for a period of 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme must not exceed 30% of the shares in issue from time to time.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval by all 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 closing 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 for a period of 28 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercisable period of the share options granted is determined by the directors, which the share options must be exercised in any event not later than 10 years from the date of grant. The Scheme does not require a minimum period for which the share options must be held or a performance target which must be achieved before the share options can be exercised.

The exercise price of the share options is determined by the directors of the Company, and shall not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the 5 trading days immediately preceding the date of the offer; and (iii) the nominal value of the Company's shares.

The financial impact of share options granted is not recorded in the balance sheet of the Company nor the Group until such time as the options are exercised, and no charge is recorded in the income statement or balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercisable date are deleted from the register of outstanding options.

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

On 4th November 2003, all executive directors of the Company and 12 employees were granted options to subscribe for an aggregate of 20,000,000 Shares (representing 10% of the shares in issue as at the date of commencement of listing of Shares on the Stock Exchange) under the Scheme.

28. SHARE OPTION SCHEME (Continued)

The following share options were granted on 4th November 2003 and remain outstanding under the Scheme during the period from 4th November 2003 to 31st March 2004:

Name or category of participant	At 1st April 2003	Granted during the year	Adjustment during the year***	Exercised during the year	Lapsed during the year*	At 31st March 2004	Date of grant of share options** (dd/mm/yyyy)	Exercise period of share options (dd/mm/yyyy)	Adjusted Exercise price of share options*** HK$	Adjusted Closing Price of Company's share on 3rd November 2003 immediately before grant date of share options**** HK$
Directors										
Mr. Cheung Keng Ching ("Mr. Cheung")	–	1,850,000	5,550,000	–	–	7,400,000 *****	04/11/2003	04/11/2003 to 03/11/2008	0.3325	0.35
Madam Chou Mei ("Mrs. Cheung")	–	1,850,000	5,550,000	–	–	7,400,000 *****	04/11/2003	04/11/2003 to 03/11/2008	0.3325	0.35
Mr. Lau Ka Man, Kevin	–	3,000,000	9,000,000	–	–	12,000,000	04/11/2003	04/11/2003 to 03/11/2008	0.3325	0.35
Employees other than directors										
In aggregate	–	13,300,000	39,900,000	(2,208,000)	(31,768,000)	19,224,000	04/11/2003	04/11/2003 to 03/11/2008	0.3325	0.35
	–	20,000,000	60,000,000	(2,208,000)	(31,768,000)	46,024,000				

* Those share options lapsed during the year refer to share options held by employees resigned during the year.

** The vesting period of the share options is from the date of grant until the commencement of the exercise period.

*** The number of issuable shares and the exercise price of the share options is subject to adjustment in the case of capitalisation issue, rights issue, sub-division or consolidation of the Company's shares or reduction of capital of the Company. On 20th February 2004, an ordinary resolution was passed in extraordinary general meeting in connection with the bonus issue of shares on the basis of three bonus share for every one existing share. Before adjustment the old exercise price was HK$1.33 each share.

**** Before adjustment as a result of bonus issue of shares on 20th February 2004, the closing price of the Company's share immediate before the grant date of share option was HK$1.40.

***** As spouse, Mr. Cheung and Mrs. Cheung are respectively deemed to have interest in the share option held by each other.

28. SHARE OPTION SCHEME (Continued)

At 31st March 2004, the Company has 46,024,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the capital structure of the Company as at 31st March 2004, result in the issue of 46,024,000 additional ordinary shares of HK$0.01 each of the Company and additional share capital of HK$460,000 and share premium of HK$14,843,000.

Valuation of share option

The directors do not consider it appropriate to disclose a theoretical value of the options granted, because a number of factors crucial for the valuation cannot be determined. Accordingly, the directors believe that any valuation of the share options based on various speculative assumptions would not be meaningful, but would be misleading to the shareholders of the Company.

29. RESERVES

Group

	Share premium HK$'000	Contributed surplus HK$'000 *(note 29(a))*	Exchange reserve HK$'000	Revaluation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1st April 2002	–	918	61	8,022	29,125	38,126
Issue of shares	35,640	–	–	–	–	35,640
Share issue expenses	(8,129)	–	–	–	–	(8,129)
Capitalisation issue *(note 27(d))*	(1,440)	–	–	–	–	(1,440)
Profit for the year	–	–	–	–	30,235	30,235
Dividends paid *(note 12)*	–	–	–	–	(13,000)	(13,000)
Exchange realignment	–	–	(39)	–	–	(39)
At 31st March 2003	26,071	918	22	8,022	46,360	81,393
At 1st April 2003	26,071	918	22	8,022	46,360	81,393
Issue of shares on exercise of share options	712	–	–	–	–	712
Bonus issue of shares	(14,000)	–	–	–	–	(14,000)
Profit for the year	–	–	–	–	14,253	14,253
Dilution of Group's share of interest in a subsidiary	–	–	–	(907)	–	(907)
Exchange realignment	–	–	(71)	–	–	(71)
At 31st March 2004	**12,783**	**918**	**(49)**	**7,115**	**60,613**	**81,380**
Reserves retained by:						
Company and subsidiaries	12,783	918	(49)	924	58,924	73,500
Associate	–	–	–	6,191	1,689	7,880
At 31st March 2004	**12,783**	**918**	**(49)**	**7,115**	**60,613**	**81,830**
Company and subsidiaries	26,071	918	22	1,831	45,130	73,972
Associate	–	–	–	6,191	1,230	7,421
At 31st March 2003	26,071	918	22	8,022	46,360	81,393

29. RESERVES (Continued)

Company

	Share premium HK$'000	Contributed surplus HK$'000 *(note 29(a))*	Retained profits HK$'000	Total HK$'000
Arising on acquisition of Falcon Vision *(note 27(c))*	–	42,569	–	42,569
Issue of shares	35,640	–	–	35,640
Share issue expenses	(8,129)	–	–	(8,129)
Capitalisation issue *(note 27(d))*	(1,440)	–	–	(1,440)
Profit for the year	–	–	2,800	2,800
Interim dividend paid *(note 12)*	–	–	(3,000)	(3,000)
At 31st March 2003	26,071	42,569	(200)	68,440
At 1st April 2003	26,071	42,569	(200)	68,440
Issue of shares on exercise of share option	712	–	–	712
Bonus issue of shares	(14,000)	–	–	(14,000)
Profit for the year	–	–	(1,097)	(1,097)
At 31st March 2004	**12,783**	**42,569**	**(1,297)**	**54,055**

Notes:

(a) The contributed surplus of the Group represents the difference between the nominal value of share capital of the subsidiaries acquired pursuant to the Group Reorganisation, as set out in note 1 to the financial statements, over the nominal value of the shares of the Company issued in exchange therefor.

The contributed surplus of the Company represents the excess of the fair value of the subsidiaries acquired pursuant to the Group Reorganisation over the nominal value of the shares of the Company issued in exchange therefor.

Under the Companies Law (2001 Second Revision) of the Cayman Islands, the contributed surplus account is distributable to the shareholders of the Company under certain circumstances.

30. DEEMED DISPOSAL OF A SUBSIDIARY

Rontex Co., Ltd. was formed as a Chinese foreign equity joint venture company in the People's Republic of China under the joint venture agreement dated 27th October 2003 entered into between Ronco Trading Co. Ltd., Mr. Niu Teng and Mr. Wang Wei Ben. Pursuant to the JV agreement, the paid-up capital of Rontex Co., Ltd. increased from US$700,000 to US$1,380,000 while the capital contributed by the Group remained unchanged. Prior to the execution of the JV Agreement, Rontex Co., Ltd. is a wholly-owned subsidiary of the Company held through Ronco Trading Company Limited. Accordingly, the Group's interest in Rontex Co., Ltd. has been diluted from 100% to 51%.

The effect of the deemed disposal to the financial statements were as follows:

Net assets disposed of:

	2004 HK$'000
Deferred expenditure	1,425
Fixed assets	12,784
Trade receivables	3,354
Inventories	2,382
Prepayments, deposits and other receivables	5,232
Cash and bank balances	5,295
Trade and other payables	(7,087)
Interest bearing bank borrowings	(5,761)
Accruals and other payables	(1,552)
Amount due from immediate holding company	(2,317)
Finance Lease obligation	(310)
Minority interests	(6,454)
	6,991
Share of asset revaluation reserves and exchange reserves on dilution of interest	(994)
Loss on deemed disposal of a subsidiary	(702)
Cash inflow from dilution of interest in a subsidiary	5,295

Deemed disposal of the subsidiary did not has significant effect to the Group's results as a whole.

31. OPERATING LEASE ARRANGEMENTS

The Group leases office properties under operating arrangement which is negotiated for terms of two years.

At 31st March 2004, the Group had total future minimum lease payments under non-cancellable operating leases failing due as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
Within one year	**–**	180

As at 31st March 2004, the Company did not have any significant operating lease commitments.

32. DISPOSAL OF A SUBSIDIARY

	2004	2003
	HK$'000	HK$'000
Net assets disposed of:		
Cash on hand	**–**	8
Gain or loss on disposal	**–**	–
Consideration satisfied by cash	**–**	8
Net cash flow arising on disposal	**–**	–

33. NON-CASH TRANSACTIONS

During the year, the Group entered into the following major non-cash transactions:

(a) The Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of HK$Nil (2003: HK$532,000).

(b) An ordinary resolution passed in the Annual General Meeting of the Company held on 18th September 2003 in connection to the bonus issue of 200,000,000 shares on the basis of one bonus ordinary share for every one existing share in the issued share capital of the Company on 18th September 2003 by way of capitalisation of the balance standing to the credit of the Company's share premium account.

(c) An ordinary resolution passed in the Extraordinary General Meeting of the Company held on 20th February 2004 in connection to the bonus issue of 1,200,000,000 shares on the basis of three bonus ordinary shares for every one existing share in the issued share capital of the Company on 21st January 2004 by way of capitalisation of the balance standing to the credit of the Company's share premium account.

34. PLEDGE OF ASSETS

As at 31st March 2004, the Group had obtained aggregate banking facilities which were secured/guaranteed by the followings:

(1) legal charges on the Group's certain land and buildings located in Hong Kong and in the PRC with an aggregate net book value of approximately HK$22,331,000 (2003: HK$22,873,000);

(2) cross guarantees among the subsidiaries of the Group;

(3) assignment of documentary credit issued in favour of a subsidiary;

(4) an corporate guarantee provided by the Company.

35. CONTINGENT LIABILITIES

As at 31st March 2004, the Group had contingent liabilities in respect of the following:

	2004 HK$'000	2003 HK$'000
Contingent liabilities arising from bills of exchange discounted with recourse	3,910	2,842
Long service payment	137	46
	4,047	2,888

The Group is liable to make long service payment upon the termination of employment of certain employees who have completed the required number of years of services and met the required circumstances under the Employment Ordinance. No provision has been made for this account in the financial statements as it is expected that the amounts will not crystallise in the foreseeable future.

As at 31st March 2004, the Company did not have any material contingent liabilities.

36. CAPITAL COMMITMENTS

At 31st March 2004, the Group had the following commitments which were not provided for in the consolidated balance sheet:

	Group	
	2004	2003
	HK$'000	HK$'000
Authorised and contracted for in respect of capital contribution in a subsidiary in the PRC	**–**	4,893

As at 31st March 2004, the Company did not have any significant capital commitments.

37. MATERIAL CONNECTED TRANSACTIONS

Pursuant to the joint venture agreement dated 27th October 2003 entered into between Ronco Trading Company Limited ("Ronco Trading"), a wholly-owned subsidiary of the Company, Mr. Niu Teng ("Mr. Niu") and Mr. Wang Wei Ben (Mr. Wang) for the formation of 寧波朗迪紡織品有限公司 ("寧波朗迪") as a Chinese-foreign equity joint venture company ("JV Company") in Ningbo, Zhejiang Province, the PRC ("JV Agreement"). Prior to the execution of the JV Agreement, 寧波朗迪 is a wholly-owned subsidiary of the Company held through Ronco Trading.

Pursuant to the JV Agreement, Ronco Trading, Mr. Niu and Mr. Wang would respectively contribute to 51%, 43% and 6% of the entire registered capital of US$1,380,000 of 寧波朗迪. The existing registered capital of 寧波朗迪 is US$700,000, all of which has been fully subscribed for and paid by Ronco Trading.

The Company's contribution to the registered capital, which in accordance with its 51% equity interests will amount to US$700,000, has already been fully satisfied by cash payments of US$556,726 and injection of assets with equivalent value of US$143,274 at the time of setting up 寧波朗迪 as its wholly-owned subsidiary. As a result, the Company is not required to invest additional capital in 寧波朗迪. On the other hand, Mr. Niu and Mr. Wang will be investing capital of US$596,700 and US$83,300 respectively, on the basis that is equivalent to their respective 43% and 6% equity interest in the JV Company.

Pursuant to the JV Agreement, the total investment of the JV Company is US$1,800,000. The amount of US$420,000 being the difference between the total investment and the total registered capital will be financed by bank borrowings, for which Ronco Trading, Mr. Niu and Mr. Wang would severally guarantee according to the respective proportion of their equity interest in the JV Company. As a result, the Company is required to finance an investment amount of US$214,200, being its proportion of its equity interest in JV Company, by bank borrowings.

Details of the Connected Transaction were set out in the circular of the Company dated 17th November 2003.

37. MATERIAL CONNECTED TRANSACTIONS (Continued)

Since Mr. Niu and Mr. Wang are the existing directors of 寧波朗迪and the JV Agreement would involve their subscription of equity interests in the Company's subsidiary, the execution of the JV Agreement constituted a connected transaction for the Company under the Listing Rules and is subject to the approval of independent shareholders of the Company. An extraordinary general meeting of the Company was held on 8th December 2003 and the ordinary resolution for approving the Connected Transaction was passed.

38. SUBSEQUENT EVENTS

In the Extraordinary General Meeting held on 18th June 2004, an ordinary resolution of bonus issue of warrant on the basis of one bonus warrant for every five shares held by shareholders whose names appear on the Register on 18th June 2004. Each warrant will be issued in registered form and will entitle the holder thereof to subscribe for fully-paid new shares at the initial subscription price of HK$0.102 per Share, subject to adjustment, from the date of issue, which is on 28th June 2004, to the date of expiry of one year from the date of issue which is 27th June 2005 (both days inclusive). Exercise in full of the warrants would result in the issue of 320,441,600 shares and the receipt by the Company would be approximately HK$32,685,043.

The shares falling to be issued upon the exercise of subscription rights attaching to the warrants will rank for any dividends and other distributions the record date for which is on or after the relevant subscription date and, subject as aforesaid, pari passu in all respects with the existing issued shares.

A summary of the principal terms and conditions of the warrants, including circumstances in which the subscription price may be adjusted, is set out in the circular of the Company dated 25th May 2004.

39. AUTHORISATION FOR ISSUE OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28th July 2004.