NOTES TO FINANCIAL STATEMENTS

31 March 2004

1. GENERAL INFORMATION

Grandtop International Holdings Limited (the "Company") was incorporated in the Cayman Islands on 21 June 2002 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. It became the holding company of the Group on 22 October 2002 as a result of the group reorganisation ("Group Reorganisation") for the purpose of the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange"). The shares of the Company were listed on the Main Board of the Stock Exchange on 12 November 2002. Further details of the Group Reorganisation are set out in Appendix 6 of the Company's prospectus dated 30 October 2002.

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 15 to the financial statements.

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

In the current year, the Group adopted the following revised SSAPs issued by the Hong Kong Society of Accountants ("HKSA") which are effective for the first time for the accounting periods commencing on or after 1 January 2003:

SSAP 12 (revised) : Income tax

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 difference arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (revised), the new accounting policy has been applied retrospectively.

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.

NOTES TO FINANCIAL STATEMENTS (continued)

31 March 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with all applicable SSAPs and Interpretations issued by the HKSA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange. 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.

(b) Basis of presentation and consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 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 intra-group transactions have been eliminated on consolidation.

The consolidated financial statements for the year ended 31 March 2003 were prepared using the merger basis of accounting in accordance with SSAP 27 "Accounting for Group Reconstructions". On this basis, the Company is treated as the holding company of the Group throughout the years presented rather than from the subsequent date of acquisition of its present subsidiaries on 22 October 2002. Accordingly, the consolidated financial statements of the Group for the years ended 31 March 2003 include the results of the Company and its subsidiaries with effect from 1 April 2002 or since their respective dates of incorporation where this is a shorter period. The consolidated balance sheets as at 31 March 2003 have been prepared on the basis as if the current structure of the Group had been in existence at that date.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

(c) Subsidiaries

A subsidiary is an entity in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of the board of directors or the Company has the power, directly or indirectly, to govern the financial and operating policies so as to obtain benefits from their activities. In the Company's balance sheet, investments in subsidiaries are stated at cost less any provision for impairment loss.

NOTES TO FINANCIAL STATEMENTS (continued)

31 March 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Fixed Assets and Depreciation

An item of fixed assets is recognised as an asset when it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the asset to the Group can be measured reliably.

Fixed assets are stated at cost less accumulated depreciation and impairment. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for tis intended use. Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

Depreciation is provided on the straight-line method so as to write down the cost of fixed assets to their estimated realisable value over their anticipated useful lives at the following annual rates:

Leasehold Land	:	Over the unexpired terms of respective leases
Buildings	:	2.5%
Leasehold improvements	:	20%
Office Equipment	:	20%
Furniture and Fixtures	:	20%
Motor Vehicles	:	20%

Gains or losses arising from the retirement or disposal of a fixed assets are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal.

(e) 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.

(f) Current assets and liabilities

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

NOTES TO FINANCIAL STATEMENTS (continued)

31 March 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Translation of foreign currencies

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

(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.

(i) 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 changed to 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 the revalued assets.

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 dose 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. Calculation of recoverable amount

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.

NOTES TO FINANCIAL STATEMENTS (continued)

31 March 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 is the profit for the year, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable.

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 recognized to the extent that it is probable that taxable profits will be available against which deductible temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than a business combination) of other assets and liabilities in a transaction that effects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investment in subsidiaries and associates, except where the Company 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 profits will be available to allow all or part of the asset to be recovered.

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

(k) 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 balances sheet date of the expenditures expected to be required to settle the obligation.

NOTES TO FINANCIAL STATEMENTS (continued)

31 March 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) 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) Termination benefits are recognised when, and only when, the company 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.

(iii) The Group has a defined contribution retirement benefits scheme (the "Scheme") for its qualified employees, which was registered under the Occupational Retirement Scheme Ordinance (Chapter 426 of Laws of Hong Kong) and exempted from registration requirements of Section 5 of the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong). Contributions are made based on a percentage of the employees' basic salaries and are charged to the combined income statement as they become payable in accordance with rules of the Scheme. The assets of the 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 Scheme except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the Scheme.

(iv) 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.

(m) Textile Quota Entitlement

Permanent textile quota entitlements allocated by the Trade and Industry Department of Hong Kong are not capitalised in the consolidated balance sheet. Purchased textile quota entitlements are recognised at costs and are amortised on straight-line basis over three years.

NOTES TO FINANCIAL STATEMENTS (continued)

31 March 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) 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. Revenue derived from the provision of marketing and compliance monitoring services is recognised when services are performed and upon each shipment made by the Group's Hong Kong garment and fashion manufacturing clients to the US buyers;

ii. Revenue derived from the provision of sales support services is recognised when services are performed and upon each shipment made by the Group's Hong Kong garment and fashion manufacturing clients to the US;

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

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

v. service income is recognised when services are provided; and

vi. Sales of merchandise are recognised when goods are delivered and title is passed.

(o) Investment 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.

(p) 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.

NOTES TO FINANCIAL STATEMENTS (continued)

31 March 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Intangible Assets

i Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary company at the date of acquisition.

Goodwill on acquisitions occurring on or after 1 January 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life. Goodwill is generally amortised over a period of 20 years.

Goodwill on acquisitions that occurred prior to 1 January 2001 was taken to reserves. Any impairment arising on such goodwill is accounted for in profit and loss account.

The gain or loss on disposal of an entity includes the unamortised balance of goodwill relating to the entity disposed of or, for pre 1 January 2001 acquisitions, the related goodwill written off against reserves to the extent it has not previously been realised in the profit and loss account.

ii CSR System

It represents development costs for the Group's CSR System, which are stated at cost less any impairment losses.

Expenditure incurred on development of CSR System are recognised as an intangible asset where the technical feasibility and intention of completing the CSR System under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis over their estimated useful lives of 10 years from the date on which the CSR System commences operations to reflect the pattern in which the related economic benefits are recognised. Development cost that do not meet that above criteria are expensed as incurred. Development costs previously recognised as expenses are not recognised as an asset in subsequent period.

iii Impairment of intangible assets

Where an indication of impairment exists, the carrying amount of any intangible asset, including goodwill previously written off against reserves, is assessed and written down immediately to its recoverable amount.

NOTES TO FINANCIAL STATEMENTS (continued)

31 March 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) 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.

(s) 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.

(t) Related party transactions

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

4. 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 because this is more relevant to the Group in making operating and financial decisions.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

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.

NOTES TO FINANCIAL STATEMENTS (continued)

31 March 2004

4. SEGMENT INFORMATION (continued)

(i) Business segment

	Apparel Sourcing, Quality Assurance and Social Compliance Monitoring Services		Marketing and Compliance Monitoring Services		Sales Support Services		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment revenue:								
Turnover	89,523	–	26,266	29,607	3,621	5,162	119,410	34,769
Segment results	9,167	–	19,652	23,283	385	1,552	29,204	24,835
Finance costs							(188)	(32)
Taxation							(781)	(119)
							28,235	24,684
Profit before Minority Interests								
Minority Interests							(4,738)	–
Profit attributable to shareholders							23,497	24,684

(ii) Geographical segment

	Hong Kong		Russia		South Korea		Panama		US		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment revenue	29,887	34,769	40,478	-	35,182	-	7,040	-	6,823	-	119,410	34,769
Segment results	20,037	24,835	4,216	-	3,227	-	985	-	739	-	29,204	24,835

NOTES TO FINANCIAL STATEMENTS (continued)

31 March 2004

5. TURNOVER AND REVENUE

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

	2004 HK$'000	2003 HK$'000
Turnover:		
Provision of apparel sourcing, quality assurance and social compliance monitoring services	89,523	–
Provision of sales support services	3,621	5,162
Provision of marketing and compliance monitoring services	26,266	29,607
	119,410	34,769
Other revenue:		
Interest income	19	60
Dividend income from listed securities	80	56
Sundry income	–	21
	99	137
Total revenue	119,509	34,906

6. 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	3,033	1,092
Retirement benefits contributions	264	128
	3,297	1,220
Auditors' remuneration	500	500
Depreciation of owned fixed assets	1,109	847
Loss on disposal of a subsidiary	72	–
Amortisation of intangible assets		
– Goodwill	118	–
– System development costs	465	113
Operating lease rental in respect of rental premises	308	260
Cost of inventories expensed	75,686	–

NOTES TO FINANCIAL STATEMENTS (continued)

31 March 2004

7. FINANCE COSTS

	2004 HK$'000	2003 HK$'000
Interest expenses on:		
Mortgage loan not wholly repayable within five years	184	31
Bank charges	4	1
	188	32

8. DIRECTORS' REMUNERATION

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:

	2004 HK$'000	2003 HK$'000
Fees	120	100
Other emoluments:		
Basic salaries, housing benefits, other allowances and benefits in kind	1,656	1,460
Discretionary bonuses	–	–
Provident fund scheme contribution	28	29
	1,804	1,589

Included in the directors' remuneration were fees of HK$120,000 (2003: HK$100,000) paid to independent non-executive directors during the year.

The remuneration of all the directors fell within the nil to HK$1,000,000 band for current and prior year.

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

NOTES TO FINANCIAL STATEMENTS (continued)

31 March 2004

9. EMPLOYEES' REMUNERATION

Of the five individuals with highest emoluments of the Group, three (2003: three) were directors of the Company, whose emoluments are set out in note 8 above. The emoluments of the remaining two (2003: two) individuals were as follows:

	2004 HK$'000	2003 HK$'000
Salaries, allowances and benefits in kind	576	554
Discretionary bonuses	–	–
Contributions to retirement benefits scheme	20	70
	596	624

The aggregated emoluments of each of these remaining two (2003: two) highest paid individuals fell within the nil to HK$1,000,000 band for current and prior year.

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. TAXATION

Hong Kong Profits Tax is calculated at 17.5% (2003: 16%) of the estimated assessable profits arising from Hong Kong for the year. During the year, the Hong Kong Profits Tax rate was increased from 16% to 17.5% with effect from the 2003/2004 year of assessment. The effect of this increase has been reflected in the calculation of current and deferred tax balance at the balance sheet date.

Overseas tax has been provided at the applicable rates on the estimated assessable profit in respective countries of operations for the year.

	2004 HK$'000	2003 HK$'000
Current taxation:		
– Hong Kong Profits Tax for the year	18	60
– Other jurisdictions	799	–
– Overprovision in previous year	(36)	(41)
	781	19
Deferred tax:	–	100
	781	119

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 statement (2003: 100,000).

NOTES TO FINANCIAL STATEMENTS (continued)

31 March 2004

10. TAXATION (continued)

The charge for the years ended 31 March 2004 can be reconciled to the profit per the income statement as follows:

	2004		2003	
	HK$'000	%	HK$'000	%
Profit before taxation	29,016		24,803	
Tax at the domestic income tax rate of 17.5% (2003: 16%)	5,078	17.5	3,968	16.0
Tax effect of expenses that are not deductible in determining taxable profit	82	0.3	135	0.5
Tax effect of income that is not taxable in determining taxable profit	(4,118)	(14.2)	(3,979)	(16.0)
Overprovision of profits tax in prior year	–	–	(5)	–
Effect of different tax rates of subsidiaries and associates operating in other jurisdictions	(261)	(0.9)	–	–
Tax expense and effective tax rate for the year	781	2.7	119	0.5

11. DIVIDENDS

	2004	2003
	HK$'000	HK$'000
Special dividend paid (Note i)	–	6,000
Interim dividend declared and paid	–	3,600
	–	9,600

Notes:

(i) The special dividend for the year ended 31 March 2003 was paid on 31 July 2002 and represents special dividend paid by the relevant subsidiaries of the Group to their then shareholders prior to the Group Reorganisation as explained in note 1 to the financial statements, which was completed on 22 October 2002.

(ii) The Board of Directors do not recommend the payment of a final dividend for the year ended 31 March 2004 (2003: Nil).

NOTES TO FINANCIAL STATEMENTS (continued)

31 March 2004

12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year ended 31 March 2004 of HK$23,497,000 (2003: HK$24,684,000) and the weighted average of 320,000,000 (2003: 320,000,000) ordinary shares in issue during the year. The weighted average number of shares outstanding for the year ended 31 March 2003 has been retrospectively adjusted for the effects of the bonus issue during the year.

There were no potential dilutive shares in existence for the two years ended 31 March 2004 and, accordingly, no diluted earnings per share has been presented.

13. (LOSS)/PROFITS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The Group consolidated profit attributable to shareholders is HK$23,497,000 (2003: HK$24,684,000) of which net loss of HK$895,000 (period ended 31 March 2003: profit of HK$9,589,000) is dealt with in the financial statements of the Company. Details are shown in note 27 of the financial statements.

NOTES TO FINANCIAL STATEMENTS (continued)

31 March 2004

14. FIXED ASSETS

The Group

	Land and Buildings HK$'000	Leasehold Improvements HK$'000	Furniture and Fixtures HK$'000	Office Equipment HK$'000	Motor Vehicles HK$'000	Total HK$'000
Cost:						
As at 1 April 2003	14,130	620	630	681	753	16,814
Additions	–	–	–	7	–	7
Acquisition of subsidiaries	–	3,586	1,483	717	–	5,786
Disposals	–	(1,543)	(624)	(346)	–	(2,513)
As at 31 March 2004	**14,130**	**2,663**	**1,489**	**1,059**	**753**	**20,094**
Accumulated depreciation:						
As at 1 April 2003	489	64	368	302	600	1,823
Acquisition of subsidiaries	–	614	135	10	–	759
Written back on disposals	–	(762)	(314)	(148)	–	(1,224)
Charge for the year	599	166	85	124	135	1,109
As at 31 March 2004	**1,088**	**82**	**274**	**288**	**735**	**2,467**
Net book value:						
As at 31 March 2004	**13,042**	**2,581**	**1,215**	**771**	**18**	**17,627**
As at 31 March 2003	13,641	556	262	379	153	14,991

At 31 March 2004, all of the Group's land and buildings are situated in Hong Kong under long-term leases.

The Group's leasehold land and building, with an aggregate net book value of approximately HK$9,436,000 as at 31 March 2004 (2003: HK$9,608,000), was pledged to secure a mortgage loan granted to the Group. Details are set out in note 23 to the financial statements.

15. INVESTMENTS IN SUBSIDIARIES

The Company

	2004 HK$'000	2003 HK$'000
Unlisted share, at cost	**32,916**	22,316
Amounts due from subsidiaries	**46,137**	24,512
Amounts due to subsidiaries	**(34,433)**	–
	44,620	46,828

The amounts due from/(to) subsidiaries are unsecured, interest-free and has no fixed term of repayment.

NOTES TO FINANCIAL STATEMENTS (continued)

31 March 2004

15. INVESTMENTS IN SUBSIDIARIES

The following list contains the particulars of the subsidiaries of the Company. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation/ establishment operation	Particular of issued and paid up capital	Attributable equity interest held by Company	Attributable equity interest held by subsidiary	Principal activity
Sun Ace Group Limited	British Virgin Islands	Ordinary US$1	100%	–	Investment holding
Sun Tai Hing Garment Making Company Limited	Hong Kong	Ordinary HK$115,000	–	100%	Provision of sales support services
Dragon City Limited	Samoa	Ordinary US$1	–	100%	Provision of marketing and compliance monitoring services
Fair Good Limited	British Virgin Islands	Ordinary US$1	100%	–	Investment holding
Easy Billion International Enterprise Limited	Hong Kong	Ordinary HK$2	–	100%	Investment holding
View Joy Limited	British Virgin Islands	Ordinary US$1	–	51%	Provision of apparel sourcing, quality assurance and compliance monitoring services

NOTES TO FINANCIAL STATEMENTS (continued)

31 March 2004

16. INTANGIBLE ASSETS

The Group

	Goodwill HK$'000	Cost of CSR System HK$'000	Total HK$'000
Cost:			
At 1 April 2003	–	4,645	4,645
Goodwill on acquisition	5,913	–	5,913
At 31 March 2004	**5,913**	**4,645**	**10,558**
Accumulated amortisation:			
At 1 April 2003	–	113	113
Amortisation charge for the year	118	465	583
At 31 March 2004	**118**	**578**	**696**
Net book value:			
At 31 March 2004	**5,795**	**4,067**	**9,862**
At 31 March 2003	–	4,532	4,532

17. ADVANCES TO AGENTS

The Group

	2004 HK$'000	2003 HK$'000
Costs	**18,870**	18,870
Carrying amounts brought forward	**17,297**	18,870
Less: Expenditure recognised in the income statement for the year	**(4,717)**	(1,573)
Carrying amounts carried forward	**12,580**	17,297
Portion classified as current assets	**(4,717)**	(4,717)
Long term portion	**7,863**	12,580

Included above is advances to certain independent agents for setting up various overseas representative offices including Beijing, Harbin and Shenyang in the PRC and New York and Los Angeles in the US.

In 2003, the Group entered into certain agency agreements (the "Agency Agreement") with certain independent agents in the PRC and the US (the "Agency") pursuant to which the Agency will be responsible for all the operating and promotion costs of each overseas representative office including staff costs, decoration, furniture and fixtures and daily operating expenses. The Agency Agreement is non-cancellable and with initial terms for four years.

NOTES TO FINANCIAL STATEMENTS (continued)

31 March 2004

18. INVESTMENTS IN SECURITIES

The Group

	2004 HK$'000	2003 HK$'000
Investments in securities, at cost		
Listed in Hong Kong	31,260	6,520
Less: Portion disclosed under current assets	–	(1,000)
Long term portion	31,260	5,520
Market value	8,926	1,292

19. INVENTORIES

The Group

	2004 HK$'000	2003 HK$'000
Finished goods	544	–

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

20. TRADE RECEIVABLES

The Group

General credit terms granted by the Group to its customers ranged from 0-30 days. The following is an aged analysis of the trade receivables at the balance sheet date.

	2004 HK$'000	2003 HK$'000
0 – 30 days	5,442	2,985
31 – 60 days	–	598
	5,442	3,583

NOTES TO FINANCIAL STATEMENTS (continued)

31 March 2004

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2004	**2003**	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments	**5,339**	3,604	**543**	13
Deposits	**336**	79	**–**	–
Other receivables	**117**	180	**–**	–
Investment deposits (Note (i))	**6,895**	–	**–**	–
	12,687	3,863	**543**	13

Note:

(i) Deposits totaling HK$6,895,000 are held by agents appointed of by the Group, who are engaged to search for the potential investments in American Stock Exchange ("AMEX").

22. TRADE AND OTHER PAYABLES

	Group		Company	
	2004	**2003**	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000
Accrued expenses due within 30 days or on demand	**1,783**	895	**1,042**	3

23. INTEREST-BEARING BANK BORROWINGS

The Group

	2004	2003
	HK$'000	HK$'000
Mortgage loan repayable:		
Within one year or on demand	**258**	251
In the second year	**266**	524
In the third to fifth years, inclusive	**844**	555
Beyond five years	**4,990**	5,279
	6,358	6,609
Portion classified as current liabilities	**(258)**	(251)
Long term portion	**6,100**	6,358

NOTES TO FINANCIAL STATEMENTS (continued)

31 March 2004

23. INTEREST-BEARING BANK BORROWINGS (continued)

As at 31 March 2004, the Group's mortgage loan was secured by the followings:

(a) legal charge over the leasehold land and building of the Group with an aggregate net book value of approximately HK$9,436,000 (2003: HK$9,608,000) (note 14); and

(b) corporate guarantee executed by the Company.

24. DEFERRED TAX

The Group

	2004 HK$'000	2003 HK$'000
Movements in deferred taxation comprise:		
Balance as at 1 April 2003/2002	167	67
Transferred from income statement (Note 10)	–	100
Balance as at 31 March 2004/2003	167	167

Deferred tax relates principally to the differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

The Company did not have any significant unprovided deferred tax at the balance sheet date (2003: Nil).

25. SHARE CAPITAL

	2004		2003	
	Number of shares '000	Amount HK$'000	Number of shares '000	Amount HK$'000
Authorised:				
Ordinary shares at HK$0.01 each	10,000,000	100,000	10,000,000	100,000
Issued and fully paid:				
Ordinary shares				
At HK$0.01 each	320,000	3,200	240,000	2,400

NOTES TO FINANCIAL STATEMENTS (continued)

31 March 2004

25. SHARE CAPITAL (continued)

The following movements in the Company's authorised and issued share capital took place during the period from 21 June 2002 (date of incorporation) to 31 March 2004:

(a) the Company was incorporated with an authorised share capital of HK$200,000 divided into 20,000,000 shares with a nominal value of HK$0.01 each;

(b) on 3 July 2002, 10,000,000 shares of HK$0.01 each was allotted and issued at nil consideration;

(c) on 22 October 2002, the share capital of the Company was increased to HK$100,000,000 by the creation of a further 9,980,000,000 additional shares of HK$0.01 each, ranking pari passu with the existing share capital of the Company;

(d) on 22 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 credited as fully paid at par; and (ii) credited as full paid at par the existing 10,000,000 shares issued nil paid on 3 July 2002 as set out in (b) above, in consideration of and in exchange for the acquisition of the entire issued share capital of Sun Ace Group Limited ("Sun Ace");

(e) on 22 October 2002, a total of 184,000,000 shares of HK$0.01 each were allotted and issued as fully paid, by way of capitalisation issue of HK$1,840,000 standing to the credit of the share premium account of the Company, to the holders of shares whose names appear on the register of members of the company at the close of business on the date following the date of the Prospectus at 30 October 2002, conditional as a result of the new issue and placing of shares as detailed in (f) below; and

(f) on 12 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 each to the public by way of new issue and placement of shares upon the listing of the Company's shares on the Main Board of the Stock Exchange.

(g) On 30 March 2004, the Company issued Bonus shares on the basis of one bonus share on every three shares held by way of capitalisation of the balance standing to the credit of the Company's share premium accounts.

NOTES TO FINANCIAL STATEMENTS (continued)

31 March 2004

25. SHARE CAPITAL (continued)

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

		Number of shares in issue '000	Issued share capital HK$'000
Shares allotted and issued at nil paid	(b)	10,000	–
Shares issued as consideration for the acquisition of the entire share capital of Sun Ace	(d)	10,000	100
Application of contributed surplus to pay up nil paid shares	(d)	–	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	(e)	184,000	–
Pro forma issued share capital as at 1 April 2002 and 31 March 2002		204,000	200
New issue and placing of shares to the public	(f)	36,000	360
Capitalisation of the share premium account as set out above	(e)	–	1,840
Share issue expenses		–	–
At 31 March 2003		240,000	2,400
Bonus issue of shares on the basis of one bonus share for every three shares	(g)	80,000	800
At 31 March 2004		**320,000**	**3,200**

26. SHARE OPTION SCHEME

The Company's existing share option scheme ("Share Option Scheme") became effective on 22 October 2002. The major terms of the Share Option Scheme, in conjunction with the requirements of chapter 17 of the Listing Rules on the Stock Exchange, are set out as follows:

a) Purpose

The purpose of providing incentives and rewards to full-time employees of the Group in recognition of their contribution to the Group.

NOTES TO FINANCIAL STATEMENTS (continued)

31 March 2004

26. SHARE OPTION SCHEME (continued)

b) Participants of the Share Option Scheme

Subject to the terms of the Share Option Scheme, the Directors may, at its absolute discretion, invite full-time employees of the Group including executive directors of the Company or any of its subsidiaries ("Eligible Persons") to take up options to subscribe for Shares.

c) Total number of Shares available for issue under the Share Option Scheme

The total number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other scheme of the Company must not exceed 30% of the total issued share capital of the Company from time to time.

d) Maximum entitlement of each Eligible Persons

The total number of Shares issued and to be issued on the exercise of options granted and to be granted (including both exercised and outstanding options) in any 12-month period up to the date of grant to each Eligible Person shall not exceed 1% of the total issued share capital of the Company in issue unless (i) a shareholders' circular is dispatched to the shareholders; (ii) the shareholders approve the grant of the options in excess of the limit referred to herein; and (iii) the relevant Eligible Person and its associates abstain from voting on the resolution.

e) Time of acceptance and exercise of the Share Option Scheme

An offer of the grant of an option shall be made to Eligible Persons by letter in such form as the Board may from time to time determine and shall remain open for acceptance by the Eligible Persons concerned for a period of 28 days from the date upon which it is made provided that no such offer shall be open for acceptance after the 10th anniversary of the Adoption Date or after the Share Option Scheme has been terminated.

f) Amount payable upon acceptance of the option

A non-refundable nominal consideration of $1.00 is payable by the grantee upon acceptance of an option. An option shall be deemed to have been accepted when the duplicate letter comprising acceptance of the option duly signed by the Eligible Persons together with the said consideration of $1.00 is received by the Company.

g) Basis of determining the exercise price of the option

The exercise price for Shares under the Share option scheme may be determined by the Board at its absolute discretion but in any event will not be less than the higher of:

(i) the closing price of the Shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant, which must be a business day, and

(ii) the average closing price of the Shares as stated in the daily quotations sheets of the Stock Exchange for the five business days immediately preceding the date of grant, and

(iii) nominal value of Shares.

h) Period of the Share Option Scheme

Unless otherwise provided in the terms of the Share Option Scheme, an option may be exercised at any time during the period commencing on the expiry of six calendar months after the date on which the option is deemed to be granted and accepted and expiring on a date to be determined and notified by the Board to each grantee, but in any event not later than 10 years from the date of grant of option but subject to the early termination of the Share Option Scheme.

NOTES TO FINANCIAL STATEMENTS (continued)

31 March 2004

26. SHARE OPTION SCHEME (continued)

i) Details of option granted

During the year under review and up to the date of this report, no share option was granted or agreed to be granted under the Share Option Scheme.

27. RESERVES

The Group

	Contributed surplus HK$'000	Share premium account HK$'000	Retained profits HK$'000	Total HK$'000
	(Note (i))			
At 1 April 2002	(84)	–	13,859	13,775
Share premium arising on new issue and placing of shares to the public	–	35,640	–	35,640
Capitalisation of share premium account	–	(1,840)	–	(1,840)
Share issue expenses	–	(7,854)	–	(7,854)
Profit attributable to shareholders	–	–	24,684	24,684
Special dividend paid	–	–	(6,000)	(6,000)
Interim dividend paid	–	–	(3,600)	(3,600)
At 31 March 2003	(84)	25,946	28,943	54,805
Bonus issue of shares on the basis of one bonus share for every three shares held	–	(800)	–	(800)
Profit for the year	–	–	23,497	23,497
At 31 March 2004	**(84)**	**25,146**	**52,440**	**77,502**

NOTES TO FINANCIAL STATEMENTS (continued)

31 March 2004

27. RESERVES (continued)

The Company

	Contributed surplus HK$'000	Share premium account HK$'000	Retained profits/ (Accumulated losses) HK$'000	Total HK$'000
	(Note (ii))			
At 21 June 2002 (date of incorporation)	–	–	–	–
Contributed surplus arising on the Group Reorganisation (Note (ii))	22,117	–	–	22,117
Share premium arising on new issue and placing of shares to the public	–	35,640	–	35,640
Capitalisation of share premium account	–	(1,840)	–	(1,840)
Share issue expenses	–	(7,854)	–	(7,854)
Profit for the period	–	–	9,589	9,589
Special dividend paid	–	–	(6,000)	(6,000)
Interim dividend paid	–	–	(3,600)	(3,600)
At 31 March 2003	22,117	25,946	(11)	48,052
Bonus issue of shares	–	(800)	–	(800)
Loss for the year	–	–	(894)	(894)
At 31 March 2004	**22,117**	**25,146**	**(905)**	**46,358**

Notes:

(i) The contributed surplus of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Group Reorganisation on 22 October 2002 over the nominal value of the Company's shares issued in exchange therefor.

(ii) The contributed surplus of the Company represents the difference between the fair value of the shares of Sun Ace acquired pursuant to the Group Reorganisation on 22 October 2002 over the nominal value of the Company's shares issued in exchange therefore.

(iii) 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.

NOTES TO FINANCIAL STATEMENTS (continued)

31 March 2004

28. ACQUISITION OF SUBSIDIARIES

During the year, the Group acquired 100% interests in Fair Good Limited and its subsidiaries. The effect of the acquisition to the financial statements were as follows:

	2004 HK$'000
Net assets acquired:	
Fixed assets	5,027
Trade receivables	1,730
Inventories	654
Prepayments, deposits and other receivables	1,128
Cash and bank balances	1,408
Trade and other payables	(679)
Taxation	(78)
Minority interests	(4,503)
	4,687
Goodwill	5,913
	10,600
Satisfied by:	
Cash	10,600

The subsidiaries acquired during the year contributed approximately HK$89,523,000 to the Group's turnover and contributed to the Group's profit of HK$9,670,000 for the year. The subsidiaries acquired contributed approximately HK$7,969,000 to the Group's net operating cash flows for the year ended 31 March 2004.

Analysis of the net cash outflow in respect of the acquisition of subsidiaries are set out below:

	2004 HK$'000
Cash consideration paid	10,600
Cash and bank balances acquired	(1,408)
Net cash outflow in respect of the acquisition of subsidiaries	9,192

NOTES TO FINANCIAL STATEMENTS (continued)

31 March 2004

29. DISPOSAL OF A SUBSIDIARY

During the year, the Group disposed of a subsidiary Xiong Yuan Spinning Clothing Company Limited (雄苑紡織服裝有限公司). The effect of the disposal to the financial statements were as follows:

Net assets disposed of:

	2004 HK$'000
Fixed assets	1,289
Trade receivables	278
Inventories	375
Prepayments, deposits and other receivables	242
Cash and bank balances	267
Trade and other payables	(165)
Taxation	(29)
Minority interests	(1,035)
	1,222
Loss on disposal of a subsidiary	(72)
Consideration satisfied by cash:	1,150

The Company disposed of did not contribute significantly to the Group's cash flows. The subsidiary disposed of did not have material impact on the Group's results as a whole.

Analysis of the net cash inflow in respect of the disposal of a subsidiary is set out below:

	2004 HK$'000
Cash consideration received	1,150
Cash and balances disposed	(267)
	883

30. RETIREMENT BENEFIT SCHEME

The Group has a defined contribution retirement benefits scheme (the "Scheme") for its qualified employees, which was registered under the Occupational Retirement Scheme Ordinance (Chapter 426 of Laws of Hong Kong) and exempted from registration requirements of Section 5 of the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong).

Under the Scheme, contributions are made by both the employer and employees at rates of 5% to 10% and 5% respectively on the employees' salaries. There were neither forfeited contributions for the year ended 31 March 2004 nor any unutilised forfeited contributions as at 31 March 2004.

NOTES TO FINANCIAL STATEMENTS (continued)

31 March 2004

31. COMMITMENTS AND CONTINGENT LIABILITIES

Contingent liabilities

As at 31 March 2004, several employees of the Group had completed the required number of years of service under the Employment Ordinance (the "Ordinance") to be eligible for long service payments upon termination of their employment. The Group is only liable to make such payments where the termination meets the required circumstances specified in the Ordinance. If the termination of the employees met the circumstances required by the Ordinance, the Group's liability at 31 March 2004 would have been approximately HK$39,000 (2003: HK$32,000). No provision has been made for this amount in the financial statements.

Operating lease commitments

As at 31 March 2004, the total future minimum lease payments under non-cancellable operating leases in respect of rented premises are payable as follows:

	2004 HK$'000	2003 HK$'000
Within one year	570	292
Between two to five year	765	25
	1,335	317

32. ULTIMATE HOLDING COMPANY

The directors of the Company consider that the ultimate holding company is Huge Gain Development Limited, which is incorporated in the British Virgin Islands.

33. MAJOR NON CASH TRANSACTION

An Extraordinary General Meeting of the Company held on 19 March 2004 in connection to the bonus issue of 800,000 shares on the basis of one bonus ordinary share for every three shares in the issued share capital on the Company on 19 March 2004 by way of capitalisation of the balance standing to the credit of the Company's share premium account.

34. AUTHORISATION FOR ISSUE OF FINANCIAL STATEMENTS

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