



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability. Its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Singapore Exchange Securities Trading Limited.

The Company is an investment holding company. Its subsidiaries are principally engaged in the sourcing and export of cotton-based knitted garments for women, children and infants and property investments.

2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards ("HKFRSs") (herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005 except for HKFRS 3 "Business Combinations". The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 March 2005.

HKFRS 3 is applicable to business combinations for which the agreement date is on or after 1 January 2005. The Group has not entered into any business combination for which the agreement date is on or after 1 January 2005. Therefore, HKFRS 3 did not have any impact on the Group for the year ended 31 March 2005.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties and investments in securities, and have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below.

Basis of consolidation

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

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

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



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

3. SIGNIFICANT ACCOUNTING POLICIES - *continued*

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill is capitalised and amortised on a straight line basis over its useful economic life.

Goodwill will be charged to the income statement at the time of disposal of the relevant subsidiary, or at such time as the goodwill is determined to be impaired.

Investments in subsidiaries

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

Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates less any identified impairment loss.

Jointly controlled entities

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entities, less any identified impairment loss. The Group's share of the post-acquisition results of its jointly controlled entities is included in the consolidated income statement.

Revenue recognition

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

Income from properties developed for sales is recognised when legal title of the properties passed. Payments received from purchaser prior to this stage are recorded as deposits received (included in trade and other payables) under current liabilities.

Telecommunications revenue for services provided for fixed periods is recognised on a straight line basis over the respective periods. Other telecommunications revenue is recognised when products are delivered or services are rendered.

Other service income is recognised when services are rendered.

The gain on disposal of permanent or temporary textile quota entitlements is recognised upon execution of a legally binding, unconditional and irrevocable transfer form to the transferee.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

3. SIGNIFICANT ACCOUNTING POLICIES - *continued*

Revenue recognition - *continued*

Rental income, including rental invoiced in advance from properties under operating leases, is recognised on a straight line basis over the lease terms.

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable, except in the case of loans which are deemed to be doubtful at which stage interest accrual ceases.

Impairment

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

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

Property, plant and equipment

Property, plant and equipment are stated at cost or valuation less depreciation and any accumulated impairment losses.

Advantage has been taken of the transitional relief provided by paragraph 80 of Statement of Standard Accounting Practice 17 "Property, plant and equipment" ("SSAP 17") from the requirement to make revaluation on a regular basis of the Group's leasehold land and buildings, certain of which had been carried at revalued amount prior to the effective date of SSAP 17 and accordingly, no further valuation of these properties is carried out.

Depreciation is provided to write off the cost or valuation of property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

| | |
|----------------|--|
| Leasehold land | Over the unexpired term of lease |
| Buildings | Over the duration of the leases or fifty years, whichever is the shorter |
| Others | 5% - 20% |

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

3. SIGNIFICANT ACCOUNTING POLICIES - *continued*

Leases

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

Rentals payable under operating leases are charged to the income statement on a straight line basis over the relevant lease term.

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income derived therefrom being negotiated at arm's length.

Investment properties are stated at their open market values based on independent professional valuations at 31 March each year. Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance of this reserve is insufficient to cover a deficit on a portfolio basis, in which case the excess of the deficit over the balance on the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

On disposal of an investment property, any balance on the investment property revaluation reserve which is attributable to that property will be credited to the income statement and included in the determination of the gain or loss on disposal.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is twenty years or less.

Textile quota entitlements

Permanent textile quota entitlements purchased from outside parties are stated at cost less accumulated amortisation and any identified impairment losses. The cost of permanent textile quota entitlements is amortised on a straight line basis over a period of five years by equal monthly instalments up to 31 December 2004.

Temporary textile quota entitlements purchased from outside parties are charged to the income statement at the time of utilisation, or in the absence of such utilisation upon the expiry of the relevant utilisation period.

Club debenture

Club debenture, which is held for long-term investment purposes, is stated at cost less any identified impairment losses.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005



3. SIGNIFICANT ACCOUNTING POLICIES - *continued*

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity, which are held-to-maturity debt securities, are measured at amortised cost less any identified impairment losses. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity debt security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments, as appropriate.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost less any identified impairment losses.

Other investments are measured at fair value, with unrealised gains and losses included in the profit or loss for the year.

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value.

Inventories

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

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes 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 amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from 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.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

3. SIGNIFICANT ACCOUNTING POLICIES - *continued*

Taxation - *continued*

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary differences 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 to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

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

Retirement benefits costs

The amount of the Group's contributions payable under the Group's retirement benefits schemes is charged to the income statement as and when incurred.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

4. TURNOVER

Turnover represents the aggregate of the amounts received and receivable for goods and properties sold, net of returns, and services rendered by the Group, the total amount of quota income received and receivable from temporary transfer of permanent textile quota entitlements, and rental income received and receivable during the year. An analysis of the Group's turnover is as follows:

| | 2005 | 2004 |
|--|----------------------------------|---------------------------|
| | HK\$'000 | HK\$'000 |
| Continuing operations: | | |
| Sales of goods | 499,121 | 551,938 |
| Sales of properties | 39,017 | 34,424 |
| Rental income | 24,345 | 23,074 |
| Quota income | 20,369 | 38,947 |
| Building management fee income | 173 | — |
| | <hr/> 583,025 <hr/> | <hr/> 648,383 <hr/> |
| Discontinued operations (<i>see note 6</i>): | | |
| Bleaching and dyeing services | 6,976 | 55,679 |
| Telecommunications services | — | 1,982 |
| | <hr/> 6,976 <hr/> | <hr/> 57,661 <hr/> |
| | <hr/> 590,001 <hr/> <hr/> | <hr/> 706,044 <hr/> <hr/> |



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into four main operating divisions - garment sourcing and export, property investment, investment in securities and loan financing. These divisions are the bases on which the Group reports its primary segment information. The division of telecommunications services and related investments and bleaching and dyeing were discontinued in November 2003 and May 2004 respectively (*see note 6*).

Segment information about these businesses is presented below:

Year 2005

(i) Income statement

| | Continuing operations | | | | Discontinued operations | | Consolidated HK\$'000 |
|---|-----------------------------------|------------------------|-----------------------------|-------------------|----------------------------|----------------|--------------------------|
| | Garment sourcing and export | Property investment | Investment in securities | Loan financing | Bleaching and dyeing | Eliminations | |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | |
| TURNOVER | | | | | | | |
| External | 519,490 | 63,535 | — | — | 6,976 | — | 590,001 |
| Inter-segment | — | 3,000 | — | — | 7 | (3,007) | — |
| Total | <u>519,490</u> | <u>66,535</u> | <u>—</u> | <u>—</u> | <u>6,983</u> | <u>(3,007)</u> | <u>590,001</u> |
| RESULT | | | | | | | |
| Segment result and profit from operations | <u>23,667</u> | <u>169,889</u> | <u>159,498</u> | <u>1,926</u> | <u>(258)</u> | <u>(1,939)</u> | 352,783 |
| Gain on disposal of subsidiaries | | | | | 14,149 | | 14,149 |
| Finance costs | | | | | | | (3,566) |
| Share of results of associates | | | | | | | 2,876 |
| Profit before taxation | | | | | | | 366,242 |
| Taxation | | | | | | | (9,889) |
| Net profit for the year | | | | | | | <u>356,353</u> |

Notes:

- Inter-segment transactions are charged at prevailing market prices.
- Turnover from garment sourcing and export includes income from temporary transfer of permanent textile quota entitlements of HK\$19,812,000.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005



5. BUSINESS AND GEOGRAPHICAL SEGMENTS - *continued*

Business segments - *continued*

Year 2005 - *continued*

(ii) Balance sheet

| | Continuing operations | | | | Consolidated HK\$'000 |
|-----------------------------------|-----------------------------------|------------------------|-----------------------------|-------------------|--------------------------|
| | Garment sourcing and export | Property investment | Investment in securities | Loan financing | |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | |
| ASSETS | | | | | |
| Segment assets | 238,525 | 647,804 | 244,030 | 72,560 | 1,202,919 |
| Interests in associates | | | | | 15,729 |
| Unallocated corporate assets | | | | | 109,449 |
| | | | | | 1,328,097 |
| Consolidated total assets | | | | | 1,328,097 |
| LIABILITIES | | | | | |
| Segment liabilities | 15,001 | 20,625 | — | 23 | 35,649 |
| Unallocated corporate liabilities | | | | | 226,964 |
| | | | | | 262,613 |
| Consolidated total liabilities | | | | | 262,613 |

(iii) Other information

| | Continuing operations | | | | Discontinued operations | Consolidated HK\$'000 |
|----------------------------------|-----------------------------------|------------------------|-----------------------------|-------------------|----------------------------|--------------------------|
| | Garment sourcing and export | Property investment | Investment in securities | Loan financing | Bleaching and dyeing | |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | |
| Capital additions | 1,572 | — | — | — | 17 | 1,589 |
| Depreciation and amortisation | 1,645 | 532 | — | — | 326 | 2,503 |
| Allowance for doubtful debts | 4,215 | — | — | — | — | 4,215 |
| Allowance for inventories | 3,571 | — | — | — | — | 3,571 |



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

5. BUSINESS AND GEOGRAPHICAL SEGMENTS - *continued*

Business segments - *continued*

Year 2004

(i) Income statement

| | Continuing operations | | | | Discontinued operations | | | Consolidated HK\$'000 |
|---|---|------------------------------------|---|-------------------------------|---|--|--------------------------|--------------------------|
| | Garment sourcing and export HK\$'000 | Property investment HK\$'000 | Investment in securities HK\$'000 | Loan financing HK\$'000 | Tele- communications services and related investments HK\$'000 | Bleaching and dyeing HK\$'000 | Eliminations HK\$'000 | |
| TURNOVER | | | | | | | | |
| External | 590,885 | 57,498 | — | — | 1,982 | 55,679 | — | 706,044 |
| Inter-segment | — | 3,000 | — | — | — | 68 | (3,068) | — |
| Total | <u>590,885</u> | <u>60,498</u> | <u>—</u> | <u>—</u> | <u>1,982</u> | <u>55,747</u> | <u>(3,068)</u> | <u>706,044</u> |
| RESULT | | | | | | | | |
| Segment result and profit from operations | <u>36,169</u> | <u>59,130</u> | <u>(2,333)</u> | <u>4,701</u> | <u>(26,274)</u> | <u>(363)</u> | <u>(8,462)</u> | 62,568 |
| Gain on disposal of a subsidiary | | | 63,950 | | | | | 63,950 |
| Gain on deemed disposal of discontinued operations | | | | | 19,317 | | | 19,317 |
| Gain on partial disposal of a subsidiary | | | | | 886 | | | 886 |
| Finance costs | | | | | | | | (7,855) |
| Share of results of associates | | | | | (3,919) | | | (3,919) |
| Share of results of a jointly controlled entity | | | | | (72) | | | (72) |
| Profit before taxation | | | | | | | | 134,875 |
| Taxation | | | | | | | | (2,459) |
| Profit before minority interests | | | | | | | | 132,416 |
| Minority interests | | | | | | | | 8,414 |
| Net profit for the year | | | | | | | | <u>140,830</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005



5. BUSINESS AND GEOGRAPHICAL SEGMENTS - *continued*

Business segments - *continued*

Year 2004 - *continued*

(i) Income statement - *continued*

Notes:

- (a) Inter-segment transactions are charged at prevailing market prices.
- (b) Turnover from garment sourcing and export includes income from temporary transfer of permanent textile quota entitlements of HK\$34,421,000.

(ii) Balance sheet

| | Continuing operations | | | Discontinued operations | | Consolidated |
|-----------------------------------|-----------------------------|---------------------|--------------------------|-------------------------|----------------------|--------------|
| | Garment sourcing and export | Property investment | Investment in securities | Loan financing | Bleaching and dyeing | |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| ASSETS | | | | | | |
| Segment assets | 226,008 | 540,814 | 79,000 | 43,465 | 37,225 | 926,512 |
| Interests in associates | | | | | | 20,788 |
| Unallocated corporate assets | | | | | | 93,832 |
| Consolidated total assets | | | | | | 1,041,132 |
| LIABILITIES | | | | | | |
| Segment liabilities | 28,348 | 15,433 | — | 27 | 12,323 | 56,131 |
| Unallocated corporate liabilities | | | | | | 317,786 |
| Consolidated total liabilities | | | | | | 373,917 |



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

5. BUSINESS AND GEOGRAPHICAL SEGMENTS - *continued*

Business segments - *continued*

Year 2004 - *continued*

(iii) Other information

| | Continuing operations | | | Discontinued operations | | | Consolidated HK\$'000 |
|---|---|------------------------------------|---|-------------------------------|---|-------------------------------------|--------------------------|
| | Garment sourcing and export HK\$'000 | Property investment HK\$'000 | Investment in securities HK\$'000 | Loan financing HK\$'000 | Tele- communications services and related investments HK\$'000 | Bleaching and dyeing HK\$'000 | |
| Capital additions | 252 | 10 | — | — | 12,098 | 5,105 | 17,465 |
| Depreciation and amortisation | 2,059 | 430 | — | — | 4,848 | 1,650 | 8,987 |
| Impairment loss recognised in respect of property, plant and equipment | — | — | — | — | 9,911 | — | 9,911 |
| Loss on disposal of investment properties | — | 1,644 | — | — | — | — | 1,644 |
| (Gain) loss on disposal of property, plant and equipment | (94) | — | — | — | 243 | — | 149 |
| Impairment loss of goodwill on acquisition of a subsidiary | — | — | — | — | 104 | — | 104 |
| Impairment loss of goodwill on acquisition of additional interests in subsidiaries | 3,270 | — | — | — | — | — | 3,270 |
| (Reversal of allowance) allowance for doubtful debts | (119) | 3 | — | — | 1,237 | (27) | 1,094 |
| Loss on waiver of amount due from a minority shareholder of a subsidiary | — | — | — | — | 117 | — | 117 |
| Loss on disposal of other investments | — | — | 2,328 | — | — | — | 2,328 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005



5. BUSINESS AND GEOGRAPHICAL SEGMENTS - *continued*

Geographical segments

An analysis of the Group's turnover by geographical market is as follows:

| | Turnover | |
|---|------------------|------------------|
| | 2005 HK\$'000 | 2004 HK\$'000 |
| Hong Kong | 63,535 | 59,480 |
| The People's Republic of China, excluding Hong Kong (the "PRC") | 6,976 | 55,679 |
| United States of America ("USA") | 468,968 | 525,916 |
| Canada | 1,214 | 14,907 |
| Mexico | 12,309 | 13,575 |
| Europe | 36,999 | 36,487 |
| | 590,001 | 706,044 |

An analysis of the carrying amount of segment assets and additions to property, plant and equipment, analysed by the geographical area in which the assets are located is as follows:

| | Carrying amount of segment assets | | Additions to property, plant and equipment | |
|-----------|--------------------------------------|------------------|---|------------------|
| | 2005 HK\$'000 | 2004 HK\$'000 | 2005 HK\$'000 | 2004 HK\$'000 |
| Hong Kong | 1,313,793 | 984,484 | 1,563 | 12,270 |
| PRC | — | 38,772 | 17 | 5,105 |
| USA | 12,253 | 15,409 | 9 | 90 |
| | 1,326,046 | 1,038,665 | 1,589 | 17,465 |

6. DISCONTINUED OPERATIONS

(a) Asia Alliance Holdings Limited ("Asia Alliance") is incorporated in Bermuda with limited liability and whose shares are listed on the Stock Exchange. It was a subsidiary of the Company (see also note 9). In November 2003 and December 2003, Asia Alliance had two placements of new shares of which the Company was not a subscriber. The Group's equity interest in Asia Alliance was diluted from approximately 51.73% immediately before Asia Alliance's first placement of shares to approximately 43.11% immediately after that and further to approximately 35.93% immediately after Asia Alliance's second placement of shares. Asia Alliance ceased to be a subsidiary of the Company and became an associate (see note 20). The Group's business relating to telecommunications services and related investments was since discontinued.

The gain on the deemed disposal amounted to HK\$19,317,000, which was credited to the consolidated income statement for the year ended 31 March 2004.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

6. DISCONTINUED OPERATIONS - *continued*

The results of the discontinued operations were as follows:

| | 2005 HK\$'000 | 2004 HK\$'000 |
|---|------------------|------------------|
| Turnover | — | 1,982 |
| Cost of sales | — | (1,703) |
| Gross profit | — | 279 |
| Other operating income | — | 442 |
| Distribution costs | — | (11) |
| Administrative expenses | — | (16,969) |
| Impairment loss recognised in respect of property, plant and equipment | — | (9,911) |
| Impairment loss of goodwill on acquisition of a subsidiary | — | (104) |
| Loss from operations | — | (26,274) |
| Finance costs | — | (353) |
| Share of results of a jointly controlled entity | — | (72) |
| Loss for the year | — | (26,699) |

The carrying amounts of the assets and liabilities of the discontinued operations at the date of the deemed disposal are set out in note 36.

The net cash flows of the discontinued operations attributable to the Group were as follows:

| | 2005 HK\$'000 | 2004 HK\$'000 |
|---------------------------------------|------------------|------------------|
| Net cash used in operating activities | — | (13,894) |
| Net cash used in investing activities | — | (12,083) |
| Net cash from financing activities | — | 22,374 |
| Net cash outflow | — | (3,603) |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005



6. DISCONTINUED OPERATIONS - *continued*

- (b) As announced by the Company on 5 March 2004, the Group conditionally agreed to sell the entire issued shares of Po Cheong International Enterprises Limited (“Po Cheong”), a wholly-owned subsidiary of the Company, to a wholly-owned subsidiary of Asia Alliance at a consideration of HK\$65,000,000. Po Cheong, together with its subsidiary, is principally engaged in the business of bleaching and dyeing. The consideration shall be satisfied in cash, of which HK\$50,000,000 was received by the Group in May 2004 and the remaining balance of HK\$15,000,000 shall be received after finalisation of the adjustment (as referred to in the sale and purchase agreement dated 5 March 2004) in the mid of 2005. The disposal constituted a discontinued operation of the Group and was completed on 17 May 2004.

The results of the discontinued operations were as follows:

| | 2005 HK\$'000 | 2004 HK\$'000 |
|-------------------------|------------------|------------------|
| Turnover | 6,983 | 55,747 |
| Cost of sales | (6,465) | (51,731) |
| Gross profit | 518 | 4,016 |
| Other operating income | 15 | 172 |
| Distribution costs | (113) | (1,420) |
| Administrative expenses | (678) | (3,131) |
| Loss from operations | (258) | (363) |
| Finance costs | (17) | (172) |
| Loss for the year | (275) | (535) |

The carrying amounts of the assets and liabilities of the discontinued operations at the date of the disposal are set out in note 35. The total assets and total liabilities of the discontinued operations amounted to HK\$38,773,000 and HK\$21,927,000, respectively, at 31 March 2004.

The net cash flows of the discontinued operations attributable to the Group were as follows:

| | 2005 HK\$'000 | 2004 HK\$'000 |
|---------------------------------------|------------------|------------------|
| Net cash used in operating activities | (1,837) | (5,295) |
| Net cash used in investing activities | (12) | (5,090) |
| Net cash from financing activities | 725 | 11,146 |
| Net cash (outflow) inflow | (1,124) | 761 |



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

7. PROFIT FROM OPERATIONS

| | 2005 HK\$'000 | 2004 HK\$'000 |
|---|------------------|------------------|
| Profit from operations has been arrived at after charging: | | |
| Directors' remuneration (<i>note 11(a)</i>) | 7,383 | 7,208 |
| Other staff costs, including retirement benefits costs | 20,415 | 32,094 |
| Total staff costs | <u>27,798</u> | <u>39,302</u> |
| Allowance for doubtful debts | 4,215 | 1,094 |
| Allowance for inventories | 3,571 | — |
| Auditors' remuneration: | | |
| - current year | 647 | 876 |
| - underprovision in prior years | 78 | 56 |
| Cost of inventories consumed | 420,760 | 523,254 |
| Cost of properties sold | 35,062 | 32,814 |
| Depreciation and amortisation on: | | |
| - owned assets | 1,599 | 7,662 |
| - assets held under finance leases | 20 | 20 |
| - permanent textile quota entitlements (<i>note</i>) | 884 | 1,305 |
| Loss on disposal of other investments | — | 2,328 |
| Loss on disposal of property, plant and equipment | — | 149 |
| Loss on waiver of amount due from a minority shareholder of a subsidiary | — | 117 |
| Loss on waiver of loan to a jointly controlled entity | — | 7 |
| Purchased temporary textile quota entitlements utilised | 516 | 7,679 |
| and after crediting: | | |
| Gain on disposal of property, plant and equipment | 143 | — |
| Gain on disposal of other investments | 919 | — |
| Gain on disposal of permanent textile quota entitlements | 2 | 1 |
| Interest income | <u>2,118</u> | <u>3,172</u> |

Note: The amount is included in distribution costs.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

8. GAIN ON DISPOSAL OF SUBSIDIARIES/A SUBSIDIARY

During the year ended 31 March 2005, the amount represented the gain on disposal of the entire issued shares of Po Cheong to a wholly-owned subsidiary of Asia Alliance (see also notes 6(b) and 35).

During the year ended 31 March 2004, the amount represented the gain on disposal of the entire issued share capital of Touch Profits Limited to an outside party. The principal assets of Touch Profits Limited at the date of disposal are shares of Citic 21CN Company Limited (formerly known as "21CN CyberNet Corporation Limited") ("21CN"), which is a company incorporated in Bermuda with limited liability whose shares are listed on the Stock Exchange (see also note 24).

9. GAIN ON PARTIAL DISPOSAL OF A SUBSIDIARY

During the period from June to July 2003 when Asia Alliance was a subsidiary of the Company, the Group disposed of an aggregate of 39,328,000 shares of HK\$0.01 each of Asia Alliance, representing approximately 3.57% of the then issued capital of Asia Alliance. The gain on the partial disposal amounted to HK\$886,000, which was credited to the consolidated income statement for the year ended 31 March 2004.

As a result of the partial disposal, the Group's equity interest in Asia Alliance was reduced from approximately 55.30% to approximately 51.73% (see also note 6 (a)).

10. FINANCE COSTS

| | 2005 HK\$'000 | 2004 HK\$'000 |
|---|------------------|------------------|
| Interest on: | | |
| - bank borrowings wholly repayable within five years | 3,559 | 7,496 |
| - other borrowings wholly repayable within five years | — | 353 |
| - obligations under finance leases | 7 | 6 |
| | <u>3,566</u> | <u>7,855</u> |



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Information regarding directors' emoluments

| | 2005 HK\$'000 | 2004 HK\$'000 |
|--|---------------------|---------------------|
| Directors' fees: | | |
| Executive | — | — |
| Independent non-executive | 256 | 200 |
| | <u>256</u> | <u>200</u> |
| Other emoluments paid to executive directors: | | |
| Salaries and other benefits (including benefits in kind of HK\$2,087,000; 2004: HK\$1,968,000) | 6,887 | 6,768 |
| Retirement benefits costs | 240 | 240 |
| | <u>7,127</u> | <u>7,008</u> |
| Total directors' emoluments | <u><u>7,383</u></u> | <u><u>7,208</u></u> |

The emoluments of the directors fall within the following bands:

| | Number of directors | |
|--------------------------------|---------------------|----------|
| | 2005 | 2004 |
| Nil to HK\$1,000,000 | 4 | 3 |
| HK\$1,000,001 to HK\$1,500,000 | 1 | 1 |
| HK\$2,000,001 to HK\$2,500,000 | 1 | 1 |
| HK\$3,000,001 to HK\$3,500,000 | 1 | 1 |
| | <u>7</u> | <u>6</u> |

(b) Information regarding employees' emoluments

The five highest paid individuals of the Group in both years included three executive directors. The emoluments of the remaining two highest paid individuals, not being directors, are as follows:

| | 2005 HK\$'000 | 2004 HK\$'000 |
|-----------------------------|---------------------|---------------------|
| Salaries and other benefits | <u><u>1,541</u></u> | <u><u>1,824</u></u> |



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS - *continued*

(b) Information regarding employees' emoluments - *continued*

The emoluments of these employees fall within the following bands:

| | Number of employees | |
|--------------------------------|---------------------|----------|
| | 2005 | 2004 |
| Nil to HK\$1,000,000 | 2 | 1 |
| HK\$1,000,001 to HK\$1,500,000 | — | 1 |
| | <u>2</u> | <u>2</u> |

During both years, no emoluments were paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss in office. In addition, during both years, no director waived any emoluments.

12. TAXATION

| | 2005 | 2004 |
|---|--------------|--------------|
| | HK\$'000 | HK\$'000 |
| The charge comprises: | | |
| Current tax - Hong Kong Profits Tax: | | |
| Current year | 8,677 | 2,339 |
| Under(over)provision in prior years | 5 | (165) |
| | <u>8,682</u> | <u>2,174</u> |
| Deferred taxation (<i>note 33</i>): | | |
| Current year | 1,207 | 264 |
| Attributable to a change in tax rate | — | 21 |
| | <u>1,207</u> | <u>285</u> |
| Tax charge attributable to the Company and its subsidiaries | <u>9,889</u> | <u>2,459</u> |



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

12. TAXATION - *continued*

The tax charge for the year can be reconciled to the results per consolidated income statement as follows:

| | 2005 HK\$'000 | 2004 HK\$'000 |
|--|------------------|------------------|
| Profit before taxation | <u>366,242</u> | <u>134,875</u> |
| Tax charge of Hong Kong Profits Tax at 17.5% (2004: 17.5%) | 64,092 | 23,603 |
| Tax effect of share of results of associates | (503) | 686 |
| Tax effect of share of results of a jointly controlled entity | — | 13 |
| Tax effect of expenses not deductible for tax purpose | 1,599 | 2,884 |
| Tax effect of income not taxable for tax purpose | (18,970) | (17,698) |
| Tax effect of tax losses not recognised | 3,071 | 2,504 |
| Tax effect of utilisation of tax losses previously not recognised | (34,422) | (6,394) |
| Tax effect of other deductible temporary differences not recognised | (5,031) | (2,995) |
| Under(over)provision in prior years | 5 | (165) |
| Increase in opening deferred tax liability resulting from an increase in Hong Kong Profits Tax rate | — | 21 |
| Others | <u>48</u> | <u>—</u> |
| Tax charge for the year | <u>9,889</u> | <u>2,459</u> |

13. PROPOSED DIVIDEND

| | 2005 HK\$'000 | 2004 HK\$'000 |
|--|------------------|------------------|
| Proposed final dividend of 0.5 HK cent (2004: 0.5 HK cent) per ordinary share | <u>6,618</u> | <u>6,618</u> |

The final dividend of 0.5 HK cent (2004: 0.5 HK cent) per share has been proposed by the directors of the Company and is subject to approval by the shareholders of the Company in the forthcoming annual general meeting.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005



14. EARNINGS PER SHARE

The calculations of the basic and diluted earnings per share are based on the following data:

| | 2005 | 2004 |
|---|-----------------------------|--------------------|
| | HK\$'000 | HK\$'000 |
| Earnings for the purposes of calculating basic and diluted earnings per share | <u>356,353</u> | <u>140,830</u> |
| Number of shares | | |
| Weighted average number of shares for the purposes of calculating basic earnings per share | <u>1,218,081,240</u> | <u>847,856,926</u> |
| Effect of dilutive potential shares relating to outstanding share options | <u>5,256,920</u> | |
| Weighted average number of shares for the purpose of calculating diluted earnings per share | <u>1,223,338,160</u> | |

The denominator for the purpose of calculating basic earnings per share for year 2004 has been adjusted to reflect the rights issue of shares in June 2004.

No diluted earnings per share for year 2004 had been presented as the exercise price of the Company's outstanding share options was higher than the average market price for that year and the exercise prices of the outstanding share options of Asia Alliance were also higher than its average market price.

15. RELATED PARTY TRANSACTIONS/CONNECTED TRANSACTIONS

- (a) During the year, the Group had the following transactions carried out at prices determined by reference to market prices for similar transactions with related parties/persons deemed to be "connected persons" by the Stock Exchange, being entities controlled by certain relatives of Mr. Koon Wing Yee and his spouse, Ms. Lui Yuk Chu, both of whom are directors of the Company:

| | THE GROUP | |
|---------------------------------------|-----------------------|----------------|
| | 2005 | 2004 |
| | HK\$'000 | HK\$'000 |
| Sales of garments | 503 | 861 |
| Bleaching and dyeing charges received | 978 | 27,840 |
| Rental income | 74 | 494 |
| Purchases of garments | <u>223,985</u> | <u>245,849</u> |



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

15. RELATED PARTY TRANSACTIONS/CONNECTED TRANSACTIONS - *continued*

At the balance sheet date, amounts due from these entities comprise:

| | THE GROUP | |
|-----------------------------|------------------|------------------|
| | 2005 HK\$'000 | 2004 HK\$'000 |
| Trade receivables | 11,923 | 10,942 |
| Deposits paid | 83,553 | 102,913 |
| Trade and other receivables | <u>95,476</u> | <u>113,855</u> |

The Group, its principal shareholders and directors of the Company neither control these entities, nor, other than having significant business transactions with these entities, exercise significant influence over these entities in making financial and operating decisions.

- (b) In May 2004, the Group disposed of the entire issued shares of Po Cheong to a wholly-owned subsidiary of Asia Alliance at a consideration of HK\$65,000,000, subject to adjustment, as described in the sale and purchase agreement dated 5 March 2004. The consideration has been subsequently adjusted downwards to HK\$38,880,000 on 16 June 2005. Details of the transaction are set out in note 35.
- (c) On 20 September 2004, Easyknit Properties Holdings Limited, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Mr. Koon Wing Yee and Mr. Tsang Yiu Kai, the directors of the Company, to acquire the entire issued shares of Easyknit Properties Management Limited ("EPML") from them at a cash consideration of HK\$15,000. Details of the transaction are set out in note 34.
- (d) Prior to the acquisition of the entire issued shares of EPML, the Group provided administrative service to EPML in which Mr. Koon Wing Yee and Mr. Tsang Yiu Kai, both of whom are directors of the Company, have beneficial interests and received service income of HK\$104,000 (2004: HK\$222,000) from that company. The service income is determined based on mutually agreed terms.
- (e) The Group also provided administrative service to Asia Alliance, a company in which Mr. Koon Wing Yee, Mr. Tsang Yiu Kai and Ms. Lui Yuk Chu, all of whom are directors of the Company, have beneficial interests, and received service income of HK\$241,000 (2004: nil) from that company. The service income is determined based on mutually agreed terms.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

16. PROPERTY, PLANT AND EQUIPMENT

| | Leasehold land and buildings | Plant and machinery | Furniture, fixtures and equipment | Motor vehicles | Total |
|---|---|--------------------------------|--|---------------------------|---------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| THE GROUP | | | | | |
| COST OR VALUATION | | | | | |
| At 1 April 2004 | 41,384 | 14,666 | 16,718 | 2,541 | 75,309 |
| Additions | — | — | 259 | 1,330 | 1,589 |
| On disposal of subsidiaries | — | (14,656) | (2,350) | (816) | (17,822) |
| Disposals | — | (10) | (11) | (762) | (783) |
| | <u>41,384</u> | <u>—</u> | <u>14,616</u> | <u>2,293</u> | <u>58,293</u> |
| At 31 March 2005 | | | | | |
| Comprising: | | | | | |
| At cost | 12,384 | — | 14,616 | 2,293 | 29,293 |
| At valuation - 1995 | 29,000 | — | — | — | 29,000 |
| | <u>41,384</u> | <u>—</u> | <u>14,616</u> | <u>2,293</u> | <u>58,293</u> |
| DEPRECIATION AND IMPAIRMENT LOSS | | | | | |
| At 1 April 2004 | 18,445 | 2,094 | 14,017 | 1,750 | 36,306 |
| Provided for the year | 530 | 227 | 640 | 222 | 1,619 |
| On disposal of subsidiaries | — | (2,317) | (928) | (48) | (3,293) |
| Eliminated on disposals | — | (4) | (8) | (762) | (774) |
| | <u>18,975</u> | <u>—</u> | <u>13,721</u> | <u>1,162</u> | <u>33,858</u> |
| At 31 March 2005 | | | | | |
| NET BOOK VALUES | | | | | |
| At 31 March 2005 | <u>22,409</u> | <u>—</u> | <u>895</u> | <u>1,131</u> | <u>24,435</u> |
| At 31 March 2004 | <u>22,939</u> | <u>12,572</u> | <u>2,701</u> | <u>791</u> | <u>39,003</u> |

The Group's leasehold land and buildings are situated in Hong Kong and are held under medium-term leases.

The valuation of certain leasehold land and buildings was carried out by Jones Lang Wootton Ltd., a firm of independent professional property valuers, at 31 October 1994 on an open market value vacant possession basis. Had all leasehold land and buildings been carried at cost less accumulated depreciation, their carrying value would have been stated at HK\$27,320,000 (2004: HK\$28,003,000).

The net book value of plant and machinery of the Group included an amount of HK\$18,000 (2004: HK\$38,000) in respect of assets held under finance leases.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

17. INVESTMENT PROPERTIES

| | THE GROUP HK\$'000 |
|--------------------------------|------------------------------|
| VALUATION | |
| At 1 April 2004 | 479,280 |
| Surplus arising on revaluation | <u>140,690</u> |
| At 31 March 2005 | <u><u>619,970</u></u> |

The investment properties are held for rental purposes under operating leases. They were revalued at 31 March 2005 by Messrs. Knight Frank, a firm of independent professional property valuers, on market value basis. This revaluation gives rise to a revaluation surplus of HK\$140,690,000 which was credited to the consolidated income statement to reverse deficit previously charged.

The Group's investment properties comprise properties situated in Hong Kong held under:

| | THE GROUP | |
|--------------------|-------------------------|-----------------------|
| | 2005 HK\$'000 | 2004 HK\$'000 |
| Long leases | 268,200 | 174,000 |
| Medium-term leases | 351,770 | <u>305,280</u> |
| | <u>619,970</u> | <u><u>479,280</u></u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005



18. PERMANENT TEXTILE QUOTA ENTITLEMENTS

| | THE GROUP |
|-------------------------|------------------|
| | HK\$'000 |
| COST | |
| At 1 April 2004 | 230,381 |
| Disposals | (230,381) |
| | <hr/> |
| At 31 March 2005 | — |
| | <hr/> |
| AMORTISATION | |
| At 1 April 2004 | 229,497 |
| Provided for the year | 884 |
| Eliminated on disposals | (230,381) |
| | <hr/> |
| At 31 March 2005 | — |
| | <hr/> |
| CARRYING AMOUNT | |
| At 31 March 2005 | — |
| | <hr/> <hr/> |
| At 31 March 2004 | 884 |
| | <hr/> <hr/> |

The permanent textile quota entitlements held by the Group were for shipments principally to USA.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

19. INTERESTS IN SUBSIDIARIES

| | THE COMPANY | |
|-------------------------------|------------------|------------------|
| | 2005 HK\$'000 | 2004 HK\$'000 |
| Unlisted shares, at cost | 48,577 | 48,577 |
| Amounts due from subsidiaries | 1,897,362 | 1,755,418 |
| | <u>1,945,939</u> | <u>1,803,995</u> |
| Less: Allowance | (828,253) | (1,464,503) |
| | <u>1,117,686</u> | <u>339,492</u> |
| Amounts due to subsidiaries | (162,564) | (118,182) |

The amounts due from subsidiaries are unsecured and have no fixed repayment terms. An aggregate sum of HK\$59,754,000 (2004: HK\$66,663,000) bear interest at the prevailing market rates and the remaining amounts are non-interest bearing. In the opinion of the directors, repayment of the amounts due from subsidiaries will not be demanded by the Company within the twelve months from the balance sheet date. Accordingly, the amounts are shown as non-current assets in the balance sheet.

The amounts due to subsidiaries are unsecured and repayable on demand. An amount of HK\$121,841,000 (2004: HK\$73,163,000) bears interest at the prevailing market rates and the remaining amounts are non-interest bearing.

Particulars of the Company's principal subsidiaries at 31 March 2005 are set out in note 43.

20. INTERESTS IN ASSOCIATES

| | THE GROUP | |
|---------------------|------------------|------------------|
| | 2005 HK\$'000 | 2004 HK\$'000 |
| Share of net assets | 15,729 | 20,788 |



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

20. INTERESTS IN ASSOCIATES - *continued*

Particulars of the Group's principal associates as at 31 March 2005 are as follows:

| Name of associate | Form of business structure | Place of incorporation/ registration | Principal place of operation | Class of shares held | Proportion of nominal value of issued capital/registered capital held by the Group | Nature of business |
|---|----------------------------|--------------------------------------|------------------------------|----------------------|--|---|
| Asia Alliance Holdings Limited | Incorporated | Bermuda | Hong Kong | Ordinary | 35.93% | Investment holding |
| Good Fine Technology Limited | Incorporated | Hong Kong | Hong Kong | Ordinary | 35.93%* | Wireless communication business, communication solutions consultancy services and Internet operations |
| Po Cheong International Enterprises Limited | Incorporated | Hong Kong | Hong Kong | Ordinary | 35.93%* | Investment holding |
| Tat Cheong International (HK) Limited | Incorporated | Hong Kong | Hong Kong | Ordinary | 35.93%* | Investment holding |
| 東莞永耀漂染有限公司 ("Wing Yiu") ** | Establishment | PRC | PRC | N/A | 35.93%* | Garment bleaching and dyeing |
| 永義紡織 (河源) 有限公司 ("He Yuan") *** | Establishment | PRC | PRC | N/A | 35.93%* | Garment knitting |

* Derived from a 35.93% interest in Asia Alliance whose shares are listed on the Stock Exchange.

** Wing Yiu is a wholly foreign owned enterprise established in the PRC, to be operated for 10 years up to 20 August 2011.

*** He Yuan is a wholly foreign owned enterprise established in the PRC, to be operated for 15 years up to 7 March 2019.

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



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

21. PROPERTIES HELD FOR SALE

The properties held for sales are situated in Hong Kong and are held under medium-term leases. They were stated at cost at 31 March 2005. At 31 March 2004, they were stated at net realisable value.

22. OTHER INVESTMENTS

| | THE GROUP | |
|---|------------------|------------------|
| | 2005 HK\$'000 | 2004 HK\$'000 |
| Equity securities listed in Hong Kong at market value | <u>244,030</u> | <u>—</u> |

23. INVENTORIES

| | THE GROUP | |
|------------------|------------------|------------------|
| | 2005 HK\$'000 | 2004 HK\$'000 |
| Raw materials | — | 2,145 |
| Work-in-progress | — | 478 |
| Finished goods | <u>2,423</u> | <u>5,732</u> |
| | <u>2,423</u> | <u>8,355</u> |

All inventories are carried at cost at the balance sheet date.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

24. CONSIDERATION RECEIVABLE ON DISPOSAL OF A SUBSIDIARY

The amount represented the consideration receivable on disposal of the entire issued share capital of Touch Profits Limited, the principal assets of which at the date of disposal were shares of 21CN.

As announced by the Company on 15 January 2004, the Company entered into an agreement (the “2004 Sale Shares Agreement”) on that day with Fairworld Investments Limited (“Fairworld”) and Mr. Chen Tien Tui (“Mr. T. Chen”) to dispose of the remaining 100,000,000 shares of HK\$0.01 each in the issued share capital of 21CN (the “2004 Sale Shares”) held by Touch Profits Limited, a then wholly-owned subsidiary of the Company, for an aggregate consideration of HK\$84,000,000. Fairworld is a company incorporated in the British Virgin Islands and Mr. T. Chen was the registered and beneficial owner of the entire issued share capital of Fairworld. Fairworld and Mr. T. Chen are independent third parties not connected with the directors, chief executive or substantial shareholders of the Company or any of their respective associates as defined in the Listing Rules. The consideration was determined with reference to the then market value of shares of 21CN. As at the closing of trading on 14 January 2004, the closing market price of shares of 21CN as quoted on the Stock Exchange was HK\$0.84 per share, which is equivalent to the purchase price per share of the 2004 Sale Shares. The consideration shall be paid by Fairworld in three tranches with (i) HK\$5,000,000 upon completion of the 2004 Sale Shares Agreement; (ii) HK\$39,500,000 on or before 20 July 2004; and (iii) the remaining HK\$39,500,000 on or before 20 January 2005. Mr. T. Chen agreed to guarantee the performance of Fairworld’s obligations in the 2004 Sale Shares Agreement.

Details of the above are set out, inter alia, in the circular of the Company dated 4 February 2004.

On 11 February 2004, the Company served Fairworld and Mr. T. Chen a letter proposing that the sale of the 2004 Sale Shares be effected by way of the sale of the entire issued share capital of US\$1.00 of Touch Profits Limited instead with other terms of the 2004 Sale Shares Agreement remained unchanged. Both Fairworld and Mr. T. Chen accepted the proposal. As at 31 March 2004, completion of the 2004 Sale Shares Agreement has taken place and the Group did not have any interest in the issued share capital of 21CN. Gain on disposal of Touch Profits Limited amounting to HK\$63,950,000 was recognised in the consolidated income statement for the year ended 31 March 2004 (see note 8).

The repayment terms of the balance is as follows:

| | THE GROUP AND THE COMPANY | |
|------------------------------|--------------------------------------|---------------|
| | 2005 | 2004 |
| | HK\$'000 | HK\$'000 |
| Repayable: | | |
| On or before 20 July 2004 | — | 39,500 |
| On or before 20 January 2005 | — | 39,500 |
| | <u>—</u> | <u>79,000</u> |
| | <u>—</u> | <u>79,000</u> |



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

25. TRADE AND OTHER RECEIVABLES

| | THE GROUP | |
|-----------------------|------------------|------------------|
| | 2005 HK\$'000 | 2004 HK\$'000 |
| Trade receivables | 34,682 | 55,192 |
| Deposits to suppliers | 153,748 | 166,079 |
| Other receivables | 7,783 | 5,442 |
| | <u>196,213</u> | <u>226,713</u> |

The Group allows an average credit period ranged from 30 to 90 days to its trade customers. The aged analysis of trade receivables at the balance sheet date is as follows:

| | THE GROUP | |
|--------------|------------------|------------------|
| | 2005 HK\$'000 | 2004 HK\$'000 |
| 0 - 60 days | 28,665 | 23,722 |
| 61 - 90 days | 2,742 | 3,565 |
| Over 90 days | 3,275 | 27,905 |
| | <u>34,682</u> | <u>55,192</u> |

26. LOANS RECEIVABLE

The loans are repayable by instalments within one year. They comprise:

| | THE GROUP | |
|--|------------------|------------------|
| | 2005 HK\$'000 | 2004 HK\$'000 |
| Amount secured by property interests and bearing interest at 2% (2004: 2% to 5%) per annum | 4,800 | 22,200 |
| Unsecured amount | | |
| - guaranteed by outside parties and bearing interest at rates ranging from 2% to 6% (2004: 2% to 5%) per annum | 54,725 | 20,142 |
| - bearing interest at rates ranging from 3% to 10% (2004: 4% to 10%) per annum | 12,350 | 575 |
| - guaranteed by outside parties and non-interest bearing | — | 360 |
| | <u>71,875</u> | <u>43,277</u> |



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

27. TRADE AND OTHER PAYABLES

The aged analysis of trade payables at the balance sheet date is as follows:

| | THE GROUP | |
|--------------|------------------|------------------|
| | 2005 HK\$'000 | 2004 HK\$'000 |
| 0 - 60 days | 9,507 | 20,703 |
| 61 - 90 days | 14 | 1,466 |
| Over 90 days | 337 | 14,941 |
| | <u>9,858</u> | <u>37,110</u> |

28. OBLIGATIONS UNDER FINANCE LEASES

| | THE GROUP | | | |
|--|------------------------|------------------|---|------------------|
| | Minimum lease payments | | Present value of minimum lease payments | |
| | 2005 HK\$'000 | 2004 HK\$'000 | 2005 HK\$'000 | 2004 HK\$'000 |
| Amounts payable under finance leases: | | | | |
| Within one year | 25 | 26 | 18 | 19 |
| Between one to two years | — | 25 | — | 18 |
| | <u>25</u> | <u>51</u> | <u>18</u> | <u>37</u> |
| Less: Future finance charges | (7) | (14) | — | — |
| Present value of lease obligations | <u>18</u> | <u>37</u> | <u>18</u> | <u>37</u> |
| Less: Amount due within one year shown under current liabilities | | | (18) | (19) |
| Amount due after one year | | | <u>—</u> | <u>18</u> |



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

29. SECURED BORROWINGS

| | THE GROUP | |
|--|------------------|------------------|
| | 2005 HK\$'000 | 2004 HK\$'000 |
| The amounts represent: | | |
| Bank loans | 174,835 | 298,629 |
| Import loans | 12,514 | 2,916 |
| | <u>187,349</u> | <u>301,545</u> |
| Less: Amount due within one year shown under current liabilities | (120,986) | (150,420) |
| Amount due after one year | <u>66,363</u> | <u>151,125</u> |
| The borrowings bear interest at prevailing market rates and are repayable as follows: | | |
| Within one year | 120,986 | 150,420 |
| Between one to two years | 44,863 | 82,504 |
| Between two to five years | 21,500 | 68,621 |
| | <u>187,349</u> | <u>301,545</u> |

30. SHARE CAPITAL

| | <i>Notes</i> | Nominal value per share HK\$ | Number of shares | Amount HK\$'000 |
|---|--------------|---------------------------------------|-----------------------|--------------------|
| Authorised: | | | | |
| At 1 April 2003 and 1 April 2004 | | 0.10 | 30,000,000,000 | 3,000,000 |
| Reduction of authorised share capital | (a) | 0.10 | (20,000,000,000) | (2,000,000) |
| At 31 March 2005 | | 0.10 | <u>10,000,000,000</u> | <u>1,000,000</u> |
| Issued and fully paid: | | | | |
| At 1 April 2003 and 1 April 2004 | | 0.10 | 882,448,924 | 88,245 |
| Rights issue of shares at a price of HK\$0.11 per rights share | (b) | 0.10 | 441,224,462 | 44,122 |
| At 31 March 2005 | | 0.10 | <u>1,323,673,386</u> | <u>132,367</u> |



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

30. SHARE CAPITAL - *continued*

Notes:

- (a) As announced by the Company on 20 May 2004, the Company proposed a reduction in its authorised share capital from HK\$3,000,000,000 to HK\$1,000,000,000 by the diminution of 20,000,000,000 authorised but unissued shares of HK\$0.10 each. Details of this are set out, inter alia, in the circular of the Company dated 29 June 2004 issued by the Company. A resolution approving the proposed reduction was passed at the special general meeting of the Company held on 28 July 2004.
- (b) Rights issue of 441,224,462 shares of HK\$0.10 each at a subscription price of HK\$0.11 per rights share were allotted to the shareholders of the Company in proportion of one rights share for every two existing shares then held. The Company raised HK\$47,500,000 (net of expenses), out of which HK\$40,000,000 was used to repay the Group's bank borrowings and the balance was used for general working capital purpose.

All shares issued rank *pari passu* with the then existing shares in issue in all respects.

31. SHARE OPTION SCHEME

The Company has a share option scheme (the "Scheme") approved at the special general meeting of the Company held on 18 February 2002 (the "Adoption Date"). Under the Scheme the directors of the Company may at their absolute discretion grant options to any employee(s) including executive or non-executive directors of the Group or associated companies, controlling shareholders, business partners, joint venture partners, contractors, agents, representatives, suppliers, customers, landlords, tenants, advisers or consultants of the Group (including any company controlled by any of the above persons) to subscribe for shares in the Company.

The Scheme is for the primary purpose of attracting, retaining and motivating talented employees, providing participants of the Scheme with opportunity to acquire proprietary interests in the Company and encouraging participants as incentives to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole and as rewards for the participants' contribution or potential contribution to the Group. The Scheme will expire on 18 February 2012.

The maximum number of shares which may be issued upon exercise of all options to be granted under the Scheme and other share option schemes of the Company must not exceed 10% of the shares in issue on the Adoption Date. The overall limit on the number of shares which may be issued upon exercise of all options granted and yet to be exercised under the Scheme and other share option schemes of the Company must not exceed 30% of the shares in issue from time to time.

Each grant of options to any director, chief executive or substantial shareholder of the Company, or any of their respective associates, shall be subject to the approval of the independent non-executive directors of the Company. Where any grant of options to a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates, would result in the shares issued and to be issued upon exercise of all options already granted and to be granted to such person in the 12-month period representing in aggregate over 0.1% of the shares of the Company in issue and having an aggregate value, based on the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of each grant, in excess of HK\$5,000,000, such further grant of options shall be subject to shareholders' approval with the connected persons of the Company abstaining from voting.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

31. SHARE OPTION SCHEME - *continued*

Subject to the aforesaid, the total number of shares issued and to be issued upon exercise of the options granted and to be granted to each grantee (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the shares of the Company in issue. Any further grant of options in excess of the limit shall be subject to shareholders' approval with such grantee and his associates abstaining from voting.

The offer of the grant of options must be accepted within 30 days from the date of offer with the payment of a nominal consideration of HK\$1. The exercise period of the share options is determined by the directors of the Company and shall not expire later than ten years from the date of offer. The subscription price is determined by the directors of the Company, and will not be less than the highest of (i) the closing price of the Company's shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of offer; (ii) the average closing price of the Company's shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of offer; and (iii) the nominal value of a share of the Company on the date of offer. Unless otherwise determined by the directors of the Company, there is no minimum period for which an option must be held before it can be exercised.

A summary of the movements of the Company's share options during the year ended 31 March 2005 is as follows:

| Grantee | Date of grant | Exercise period | Exercise price HK\$ (Note 2) | Number of share options (adjusted as appropriate) | | | | | Share price at grant date of options HK\$ (Note 3) |
|-----------|------------------|--|------------------------------------|---|-------------------------------|--------------|------------------------------|---------------------|---|
| | | | | At 1 April 2004 | Granted during the year | Adjustment* | Lapsed during the year | At 31 March 2005 | |
| Employees | 20 February 2004 | 20 February 2004 | 0.144 | 88,000,000 | — | (88,000,000) | — | — | 0.143 |
| | | to 19 August 2004 (Note 1) | 0.138* | — | — | 132,000,000 | (132,000,000) | — | — |
| | 18 November 2004 | 18 November 2004 to 17 March 2005 (Note 1) | 0.131 | — | 132,360,000 | — | (132,360,000) | — | 0.125 |

A summary of the movements of the Company's share options during the year ended 31 March 2004 is as follows:

| Grantee | Date of grant | Exercise period | Exercise price HK\$ (Note 2) | Number of share options | | | Share price at grant date of options HK\$ (Note 3) |
|-----------|------------------|---|------------------------------------|-------------------------|-------------------------------|---------------------|---|
| | | | | At 1 April 2003 | Granted during the year | At 31 March 2004 | |
| Employees | 20 February 2004 | 20 February 2004 to 19 August 2004 (Note 1) | 0.144 | — | 88,000,000 | 88,000,000 | 0.143 |

No share options were exercised or cancelled during both years.

The Company received notional consideration for options granted during both years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005



31. SHARE OPTION SCHEME - *continued*

Notes:

- (1) The share options have no vesting period and are exercisable from the date of grant.
 - (2) The exercise price of the share options is subject to adjustment in case of rights or bonus issues, or other similar changes in the share capital of the Company.
 - (3) The share price at grant date of options shown in the above tables represents the closing price of the Company's shares as stated in the daily quotations sheets issued by the Stock Exchange on the trading day immediately preceding the date of offer of the options.
- * The number of share options and the corresponding exercise price have been adjusted as a result of the rights issue of shares of the Company in June 2004.

32. RESERVES

| | Share premium HK\$'000 | Capital reserve HK\$'000 | Contributed surplus HK\$'000 | Accumulated (losses) profits HK\$'000 | Total HK\$'000 |
|---|------------------------------|--------------------------------|------------------------------------|---|-------------------|
| THE COMPANY | | | | | |
| At 1 April 2003 | 1,117,131 | 895,932 | 48,369 | (1,799,306) | 262,126 |
| Net profit for the year | — | — | — | 13,798 | 13,798 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| At 31 March 2004 | 1,117,131 | 895,932 | 48,369 | (1,785,508) | 275,924 |
| Reductions of share premium and capital reserve and offsetting accumulated losses (Note) | (1,117,131) | (895,932) | 227,555 | 1,785,508 | — |
| Rights issue of shares at a price of HK\$0.11 per rights share | 4,412 | — | — | — | 4,412 |
| Net profit for the year | — | — | — | 627,880 | 627,880 |
| 2004 final dividend paid | — | — | (6,618) | — | (6,618) |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| At 31 March 2005 | <u>4,412</u> | <u>—</u> | <u>269,306</u> | <u>627,880</u> | <u>901,598</u> |

Note:

As announced by the Company on 26 July 2004, the Company proposed to effect the reductions of certain reserves of the Company as follows:

- (i) the entire amount standing to the credit of the share premium account and the capital reserve account of the Company will be reduced; and
- (ii) part of the credits arising from (i) above in the sum of HK\$1,785,508,000 will be applied to offset the accumulated losses of the Company at 31 March 2004 in full and the remaining balance of HK\$227,555,000 will be transferred to the contributed surplus account of the Company.

Details of the proposal are set out in the circular dated 30 July 2004 issued by the Company. The resolution approving the proposal was passed at the special general meeting of the Company held on 23 August 2004.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

32. RESERVES - *continued*

The capital reserve of the Company and the Group represents the credit arising from the reduction of the share capital of the Company in 1999 and 2002.

The special reserve of the Group represents the difference between the nominal value of the share capital issued by the Company and the nominal value of the share capital and share premium of the companies now forming the Group pursuant to the group reorganisation prior to the listing of the Company's shares in 1995.

The contributed surplus of the Company represents the sum of (i) the difference between the value of the underlying net assets of the subsidiaries acquired by the Company and the nominal amount of the share capital issued by the Company under the group reorganisation in 1995, and (ii) the credit arising from the reductions of certain reserves of the Company in August 2004 as described above.

The contributed surplus of the Group represents the credit arising from the reductions of certain reserves of the Company in August 2004 as described above.

Under the laws in Bermuda, the contributed surplus account of a company is also available for distribution. However, the company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

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

The Company's reserves available for distribution to shareholders at 31 March 2005 are as follows:

| | HK\$'000 |
|---------------------|-------------|
| Contributed surplus | 269,306 |
| Accumulated profits | 627,880 |
| | <hr/> |
| | 897,186 |
| | <hr/> <hr/> |

The Company had no distributable reserve at 31 March 2004.

At 31 March 2005, the accumulated profits of the Group include accumulated losses of HK\$1,043,000 (2004: HK\$3,919,000) attributable to the associates.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

33. DEFERRED TAXATION

Major deferred tax liabilities and assets recognised and movements thereon are as follows:

| | THE GROUP | | |
|---------------------------------------|---|-----------------------|--------------|
| | Accelerated tax depreciation | Tax losses | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 April 2003 | 1,912 | (1,687) | 225 |
| Charge (credit) to income statement | 2,375 | (2,111) | 264 |
| Effect of change in tax rate | | | |
| - charge (credit) to income statement | 179 | (158) | 21 |
| | <u>4,466</u> | <u>(3,956)</u> | <u>510</u> |
| At 31 March 2004 | 4,466 | (3,956) | 510 |
| Charge (credit) to income statement | 5,487 | (4,280) | 1,207 |
| | <u>9,953</u> | <u>(8,236)</u> | <u>1,717</u> |
| At 31 March 2005 | <u>9,953</u> | <u>(8,236)</u> | <u>1,717</u> |

For the purposes of balance sheet presentation, the above deferred tax liabilities and assets have been offset.

At the balance sheet date, deductible temporary differences not recognised in the financial statements were analysed into:

| | THE GROUP | |
|------------------------------|-----------------------|----------------|
| | 2005 | 2004 |
| | HK\$'000 | HK\$'000 |
| Tax losses | 104,029 | 283,179 |
| Accelerated tax depreciation | 226 | 37,041 |
| Miscellaneous allowance | 16,850 | 8,784 |
| | <u>121,105</u> | <u>329,004</u> |



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

33. DEFERRED TAXATION - *continued*

At 31 March 2005, the Group has unused tax losses of HK\$151,092,000 (2004: HK\$305,785,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$47,063,000 (2004: HK\$22,606,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of HK\$104,029,000 (2004: HK\$283,179,000) due to the unpredictability of future profits streams. The unrecognised tax losses may be carried forward indefinitely except the losses of HK\$28,481,000 (2004: HK\$15,202,000) which will expire as follows:

| | THE GROUP | |
|----------------|------------------|------------------|
| | 2005 HK\$'000 | 2004 HK\$'000 |
| Year of expiry | | |
| 2022 | 1,821 | 1,821 |
| 2023 | 2,163 | 2,163 |
| 2024 | 11,225 | 11,218 |
| 2025 | 13,272 | — |
| | <hr/> | <hr/> |
| | 28,481 | 15,202 |
| | <hr/> <hr/> | <hr/> <hr/> |

Other deductible temporary differences of HK\$17,076,000 (2004: HK\$45,825,000) have not been recognised as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

At 31 March 2005, the Company has unused tax losses of HK\$7,835,000 (2004: HK\$3,934,000) available for offset against future profit. No deferred tax asset has been recognised due to the unpredictability of future profits streams.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005



34. ACQUISITION OF A SUBSIDIARY

During the year ended 31 March 2005, the Group acquired the entire issued shares of EPML from Mr. Koon Wing Yee and Mr. Tsang Yiu Kai, directors of the Company, for a cash consideration of approximately HK\$15,000. Acquisition of the subsidiary was accounted for by the acquisition method of accounting.

During the year ended 31 March 2004, the Group acquired an additional interest of 45% of the issued share capital of Vector Entertainment Corporation ("Vector") for a cash consideration of approximately HK\$1.0 million. Vector was previously a jointly controlled entity of the Group in which the Group had a 45% equity interest amounting to HK\$954,000. Acquisition of the subsidiary was accounted for by the acquisition method of accounting.

| | 2005 HK\$'000 | 2004 HK\$'000 |
|--|------------------|------------------|
| Net assets acquired | | |
| Amounts due from shareholders | — | 1,131 |
| Bank balances and cash | 22 | 971 |
| Other payables | (7) | — |
| Minority interests | — | (209) |
| | <u>15</u> | <u>1,893</u> |
| Goodwill on acquisition | — | 104 |
| | <u>15</u> | <u>1,997</u> |
| Total consideration | <u>15</u> | <u>1,997</u> |
| Satisfied by: | | |
| Cash | 15 | 1,043 |
| Reclassification of interest in a jointly controlled entity | — | 954 |
| | <u>15</u> | <u>1,997</u> |
| Net cash inflow (outflow) of cash and cash equivalents in respect of the acquisition of a subsidiary: | | |
| Cash consideration paid | (15) | (1,043) |
| Bank balances and cash acquired | 22 | 971 |
| | <u>7</u> | <u>(72)</u> |

The subsidiaries acquired during the years ended 31 March 2005 and 2004 did not have any significant impact on the results and cash flows of the Group.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

35. DISPOSAL OF SUBSIDIARIES/A SUBSIDIARY

During the year ended 31 March 2005, the Group agreed to sell the entire issued shares of Po Cheong to a wholly-owned subsidiary of Asia Alliance at a consideration of HK\$65,000,000, subject to adjustment, as described in the sale and purchase agreement dated 5 March 2004. Po Cheong, together with its subsidiary, is principally engaged in the business of bleaching and dyeing. The total consideration shall be satisfied in cash, of which HK\$50,000,000 was received on 13 May 2004 and the remaining balance of HK\$15,000,000 shall be received after finalisation of the adjustment (as referred to in the sale and purchase agreement dated 5 March 2004). The adjustment was finalised on 16 June 2005 (see note 42) and the revised consideration was determined to be HK\$38,880,000 and accordingly, an amount of HK\$11,120,000 was recognised as consideration repayable in the consolidated balance sheet at 31 March 2005.

During the year ended 31 March 2004, the Group disposed of the entire issued share capital of Touch Profits Limited to an outside party at an aggregate consideration of HK\$84,000,000. Details of the transaction are set out in note 24.

| | 2005 HK\$'000 | 2004 HK\$'000 |
|---|------------------|------------------|
| Net assets disposed of | | |
| Property, plant and equipment | 14,529 | — |
| Inventories | 3,010 | — |
| Other investments | — | 20,000 |
| Trade and other receivables | 19,973 | — |
| Bank balances and cash | 423 | — |
| Trade and other payables | (10,752) | — |
| Bills payable | (1,837) | — |
| Bank loans | (8,775) | — |
| | <u>16,571</u> | <u>20,000</u> |
| Gain on disposal of subsidiaries/a subsidiary | | |
| - realised | 14,149 | 63,950 |
| - unrealised | 7,935 | — |
| | <u>38,655</u> | <u>83,950</u> |



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

35. DISPOSAL OF SUBSIDIARIES/A SUBSIDIARY - *continued*

| | 2005 HK\$'000 | 2004 HK\$'000 |
|--|------------------|------------------|
| Satisfied by: | | |
| Cash consideration | | |
| - Cash received | 50,000 | 5,000 |
| - Consideration (repayable) receivable | (11,120) | 79,000 |
| Expenses incurred in connection with the disposal of subsidiaries/a subsidiary | (225) | (50) |
| | <u>38,655</u> | <u>83,950</u> |
| Net cash inflow of cash and cash equivalents in respect of the disposal of subsidiaries/a subsidiary: | | |
| Cash received | 50,000 | 5,000 |
| Expenses incurred in connection with the disposal of subsidiaries/a subsidiary | (225) | (50) |
| Bank balances and cash disposed of | (423) | — |
| | <u>49,352</u> | <u>4,950</u> |

The results and cashflows of the subsidiaries disposed of during the year ended 31 March 2005 are set out in note 6(b).

The subsidiary disposed of during the year ended 31 March 2004 did not have any significant impact on the results and cash flows of the Group.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

36. DEEMED DISPOSAL OF A SUBSIDIARY

| | 2005 HK\$'000 | 2004 HK\$'000 |
|---|------------------|------------------|
| Net liabilities released: | | |
| Property, plant and equipment | — | 1,193 |
| Interests in associates | — | 20 |
| Inventories | — | 282 |
| Trade and other receivables | — | 4,440 |
| Bank balances and cash | — | 17,822 |
| Secured other loan | — | (4,000) |
| Trade and other payables | — | (3,881) |
| Loan from a related company | — | (21,270) |
| Minority interests | — | (15,935) |
| | — | (21,329) |
| Gain on deemed disposal of a subsidiary | — | 19,317 |
| | — | (2,012) |
| Represented by: | | |
| Interests in associates - share of net liabilities | — | (2,012) |
| Net cash outflow of cash and cash equivalents in connection with the deemed disposal of a subsidiary: | | |
| Bank balances and cash disposal of | — | (17,822) |

The results and cashflows of the subsidiary deemed to be disposed of during the year ended 31 March 2004 are set out in note 6(a).

37. PLEDGE OF ASSETS

At 31 March 2005, leasehold land and buildings, and investment properties with carrying amount of HK\$9,337,000 (2004: HK\$9,558,000) and HK\$619,010,000 (2004: HK\$478,400,000), respectively, have been pledged to banks to secure the bank borrowings granted to the Group.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

38. CONTINGENT LIABILITIES

| | THE GROUP | | THE COMPANY | |
|---|------------------|------------------|------------------|------------------|
| | 2005 HK\$'000 | 2004 HK\$'000 | 2005 HK\$'000 | 2004 HK\$'000 |
| Bills discounted with recourse | 3,441 | 5,719 | — | — |
| Corporate guarantees given to banks in respect of credit facilities granted to subsidiaries | — | — | 188,913 | 301,545 |
| | <u>3,441</u> | <u>5,719</u> | <u>188,913</u> | <u>301,545</u> |

39. CAPITAL COMMITMENTS

The Group and the Company had no significant capital commitments at the balance sheet date.

40. OPERATING LEASE ARRANGEMENTS

The Group as lessee

| | THE GROUP | |
|--|------------------|------------------|
| | 2005 HK\$'000 | 2004 HK\$'000 |
| Minimum lease payments recognised in the consolidated income statement during the year | <u>3,130</u> | <u>4,844</u> |

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | THE GROUP | |
|---------------------------------------|------------------|------------------|
| | 2005 HK\$'000 | 2004 HK\$'000 |
| Within one year | 2,727 | 3,993 |
| In the second to fifth year inclusive | 1,686 | 7,952 |
| After five years | — | 1,795 |
| | <u>4,413</u> | <u>13,740</u> |

Operating lease payments represent rentals payable by the Group for certain of its office and factory premises. Leases are negotiated for an average term of two to ten years.

Under the leases entered into by the Group, the lease payments are fixed and no arrangements have been entered into for contingent rental payments.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

40. OPERATING LEASE ARRANGEMENTS - *continued*

The Group as lessor

| | THE GROUP | |
|---|------------------|------------------|
| | 2005 HK\$'000 | 2004 HK\$'000 |
| Property rental income earned during the year | 24,345 | 23,074 |
| Less: Outgoings | (725) | (703) |
| Net rental income | <u>23,620</u> | <u>22,371</u> |

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

| | THE GROUP | |
|---------------------------------------|------------------|------------------|
| | 2005 HK\$'000 | 2004 HK\$'000 |
| Within one year | 24,224 | 21,448 |
| In the second to fifth year inclusive | <u>11,610</u> | <u>18,451</u> |
| | <u>35,834</u> | <u>39,899</u> |

Under the leases entered into by the Group, the rental payments are fixed and no arrangements have been entered into for contingent rental payments. The properties held have committed tenants for a term of one to three years.

The Company had no significant lease commitments at the balance sheet date.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

41. RETIREMENT BENEFITS SCHEMES

The Group had defined contribution retirement scheme (the “Retirement Scheme”) for its employees and the assets of the Retirement Scheme are held under provident funds managed by independent trustees. With effect from 1 December 2000, the Retirement Scheme has become a “Top Up” scheme to supplement the minimum benefit under the mandatory provident fund scheme (the “MPF Scheme”) for all the eligible employees of the Group in Hong Kong.

Under the MPF Scheme, the employees are required to contribute 5% of their monthly salaries or up to a maximum of HK\$1,000 and they can choose to make additional contributions. The employer’s monthly contributions are calculated at 5% of the employee’s monthly salaries or up to a maximum of HK\$1,000 (the “mandatory contributions”). The employees are entitled to 100% of the employer’s mandatory contributions upon their retirement at the age of 65, death or total incapacity.

Employees of the subsidiaries in the PRC are members of the state-sponsored pension scheme operated by the PRC government. The subsidiaries are required to contribute a certain percentage of their payroll to the pension scheme to fund the benefits. The only obligation of the Group with respect to the pension scheme is to make the required contributions.

The aggregate employers’ contributions, net of forfeited contributions, which have been dealt with in the consolidated income statement were as follows:

| | THE GROUP | |
|--|------------|------------|
| | 2005 | 2004 |
| | HK\$'000 | HK\$'000 |
| Gross employers’ contributions | 811 | 835 |
| Less: Forfeited contributions utilised to offset employers’ contributions for the year | — | (61) |
| Net employers’ contributions charged to the consolidated income statement | <u>811</u> | <u>774</u> |

At the balance sheet date, the total amount of forfeited contributions available to reduce the contributions payable in the future years was insignificant.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

42. POST BALANCE SHEET EVENTS

The following significant events took place subsequent to 31 March 2005:

- (a) As announced by the Company on 22 February 2005, the Group proposed to dispose of certain of its investment properties at an aggregate consideration of HK\$220,000,000 to an outside party. This proposal was approved by shareholders of the Company at a special general meeting held on 22 April 2005 and the transactions will be completed by August 2005. Loss on disposal of investment properties amounted to approximately HK\$1,000,000.

Details of this proposal are set out, inter alia, in the circular of the Company dated 6 April 2005.

- (b) As announced by the Company on 16 June 2005, the consideration of the disposal of the entire issued shares of Po Cheong to a wholly-owned subsidiary of Asia Alliance was adjusted downwards from the original amount of HK\$65,000,000 to HK\$38,880,000 based on the adjustment mechanism as described in the sale and purchase agreement dated 5 March 2004. According to the adjustment mechanism, when seven times of the audited consolidated results of Po Cheong and its subsidiary is less than HK\$65,000,000 for the year ended 31 March 2005, the consideration for the disposal shall be adjusted downwards by the amount of such shortfall. As a result, instead of paying the balance of the consideration of HK\$15,000,000, the Group shall compensate the wholly-owned subsidiary of Asia Alliance for an amount of HK\$11,120,000. The adjusting post balance sheet event has already been reflected in the consolidated financial statements of the Company for the year ended 31 March 2005.

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 March 2005 are as follows:

| Name of subsidiary | Place of incorporation/ establishment and operation | Nominal value of issued share/ registered capital | Proportion of nominal value of issued share capital/ registered capital held by the Company | | Principal activities |
|--|---|---|---|------------|-------------------------|
| | | | Directly | Indirectly | |
| Cheong Ko Investment Company Limited | Hong Kong | Ordinary HK\$2 (Non-voting preferred HK\$10,000)* | — | 100% | Property holding |
| Easyknit BVI Limited | British Virgin Islands/ Hong Kong | Ordinary US\$100 | 100% | — | Investment holding |
| Easyknit International Limited | British Virgin Islands/ Hong Kong | Ordinary US\$1 | 100% | — | Investment holding |
| Easyknit International Trading Company Limited | Hong Kong | Ordinary HK\$2 | — | 100% | Trading of garments |



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES- *continued*

| Name of subsidiary | Place of incorporation/ establishment and operation | Nominal value of issued share/ registered capital | Proportion of nominal value of issued share capital/ registered capital held by the Company | | Principal activities |
|--|---|---|---|------------|---|
| | | | Directly | Indirectly | |
| Easyknit Properties Holdings Limited | British Virgin Islands/ Hong Kong | Ordinary US\$1,000 | 100% | — | Investment holding |
| Easyknit Properties Management Limited | Hong Kong | Ordinary HK\$10,000 | — | 100% | Property management |
| Easyknit Trading Company Limited | Hong Kong | Ordinary HK\$2 | — | 100% | Trading of garments |
| Golden Top Properties Limited | Hong Kong | Ordinary HK\$2 | — | 100% | Property holding |
| Grand Profit Development Limited | Hong Kong | Ordinary HK\$2 | — | 100% | Trading of garments |
| Janson Properties Limited | Hong Kong | Ordinary HK\$2 | — | 100% | Property holding |
| Landmark Profits Limited | British Virgin Islands/ Hong Kong | Ordinary US\$1 | 100% | — | Investment holding |
| Mark Profit Development Limited | Hong Kong | Ordinary HK\$2 | — | 100% | Property holding and property development |
| Mary Mac Apparel Inc. | USA | Common stock US\$200,000 | — | 100% | Garment distribution |
| Perfect Luck Development Limited | Hong Kong | Ordinary HK\$2 | — | 100% | Property holding |
| Planetic International Limited | Hong Kong | Ordinary HK\$2 | — | 100% | Finance company |
| Victor Investment Limited | Hong Kong | Ordinary HK\$1,001 | — | 100% | Property holding |
| Wellmake Investments Limited | Hong Kong | Ordinary HK\$9,998 (Non-voting deferred HK\$2)* | — | 100% | Property holding |

* The non-voting preferred shares of Cheong Ko Investment Company Limited and the non-voting deferred shares of Wellmake Investments Limited carry no rights to receive notice of, attend or vote at any general meeting and have very limited rights to participate in a distribution of profits and, on liquidation, to the repayment of the amount paid up on the shares.

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

None of the subsidiaries had issued any debt securities at 31 March 2005.