

NOTES TO FINANCIAL STATEMENTS

31 March 2005

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.

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 subsidiaries are engaged in provision of apparel sourcing services, sales support services and apparel trading. During the year, the Company ceased the operation of marketing and compliance monitoring services through the disposal of a subsidiary.

2. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Hong Kong Institute of Certified Public Accountants (the "HKICPA") has issued a number of new Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 March 2005. The Group has commenced considering the potential impact of these new HKFRSs. Based on management's preliminary assessment, the adoption of HKFRS 3 "Business Combinations" and HKAS 36 "Impairment of Assets" in the accounting period beginning on 1st January 2005 will result in cessation of amortisation of goodwill to the income statement. Pursuant to HKFRS 3 "Business Combinations" and HKAS 36 "Impairment of Assets", goodwill is to be recognised as an asset and reviewed for impairment at least annually and any impairment is recognised immediately in the income statement while the Group's current policy is to amortise goodwill on a straight-line basis over its useful economic life and reviewed for impairment if there are indicators of impairment at the year end. During the year ended 31 March 2005, the amortisation of goodwill charged to the income statement amounted to approximately HK\$271,000.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice and Interpretations) issued by the HKICPA, 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. 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 made up to 31 March each year, unless the subsidiaries are acquired and held exclusively with a view to be disposed of in the near future or operate under service long-term restructures with significantly impair their ability to transfer funds to the Company. The results of subsidiaries acquired or disposed of 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.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries which are shown separately in the consolidated income statement and consolidated balance sheet respectively.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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.

(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 its 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

31 March 2005

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

Where the Group has the use of assets under operating leases, payments made under the lease are charged to the income statement in equal instalments over the accounting periods covered by the lease term. Lease incentives received are recognised in the income statements as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

(i) Impairment of tangible assets

Internal and external sources of information are reviewed at each balance sheet date to determine whether there is any indication of impairment of tangible assets (other than inventories, assets arising from construction contracts, deferred tax assets, financial assets other than interests in subsidiaries, associates and joint ventures, and investment properties), 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 tangible asset is estimated. An impairment loss is recognised whenever the carrying amount of a tangible asset exceeds its recoverable amount. An impairment loss is charged to income statement in the period in which it arises, unless the tangible asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant policy for the revalued tangible assets.

i. Calculation of recoverable amount

The recoverable amount of a tangible 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 a tangible 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 a tangible asset and from its disposal at the end of its useful life. Where a tangible asset does not generate cash inflows largely independent of those from other tangible assets, the recoverable amount is determined for the smallest group of tangible 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 a tangible 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 tangible asset in prior years.

NOTES TO FINANCIAL STATEMENTS

31 March 2005

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 recognised 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.

(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.

NOTES TO FINANCIAL STATEMENTS

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Employee benefits *(Continued)*

- (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.

(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. Service income is recognised when services are provided;
- iv. Sales of merchandise are recognised when goods are delivered and title is passed;
- v. Interest income is recognised on a time-apportioned basis taking into account the principal outstanding and the effective interest rate applicable; and
- vi. Dividend income from investment in securities is recognised when the shareholder's right to receive payment is established.

NOTES TO FINANCIAL STATEMENTS

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Long term investments

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.

Trading securities

Trading securities are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of trading securities are recognised in the income statement. Profits or losses on disposal of trading securities, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the income statement as they arise.

(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.

(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/associated 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 15 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.

NOTES TO FINANCIAL STATEMENTS

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Intangible assets *(Continued)*

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 recognized 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.

(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 transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

NOTES TO FINANCIAL STATEMENTS

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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.

(i) Business segment

	Continuing operations						Discontinued operation				Consolidated	
	Apparel sourcing		Apparel trading		Sales		Subtotal		Marketing and compliance monitoring services			
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
Segment revenue:												
Turnover	81,984	89,523	19,990	—	—	3,621	101,974	93,144	—	26,266	101,974	119,410
Segment results	8,823	9,167	8,114	—	—	385	16,937	9,552	(2,985)	19,724	13,952	29,276
Finance costs											(193)	(188)
Loss on disposal of a subsidiary											(2,585)	(72)
Profit before tax and minority interests											11,174	29,016
Taxation											(1,293)	(781)
Profit after tax and minority interests											9,881	28,235
Minority interests											(7,721)	(4,738)
Net profit from ordinary activities attributable to shareholders											2,160	23,497

NOTES TO FINANCIAL STATEMENTS

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4. SEGMENT INFORMATION (Continued)

(ii) Geographical segment

	Segment revenue						Segment results					
	Continuing operations		Discontinued operation		Total		Continuing operations		Discontinued operation		Total	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Hong Kong	6,106	3,621	—	26,266	6,106	29,887	339	385	—	19,652	339	20,037
Russia	31,872	40,478	—	—	31,872	40,478	3,920	4,216	—	—	3,920	4,216
South Korea	29,203	35,182	—	—	29,203	35,182	2,892	3,227	—	—	2,892	3,227
Panama	8,901	7,040	—	—	8,901	7,040	1,938	985	—	—	1,938	985
US	12,008	6,823	—	—	12,008	6,823	7,007	739	—	—	7,007	739
PRC	9,532	—	—	—	9,532	—	3,371	—	—	—	3,371	—
Macau	4,352	—	—	—	4,352	—	1,419	—	—	—	1,419	—
	101,974	93,144	—	26,266	101,974	119,410	20,886	9,552	—	19,652	20,886	29,204

5. TURNOVER AND REVENUE

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

	2005 HK\$'000	2004 HK\$'000
Turnover:		
Continuing operations:		
Apparel sourcing	81,984	89,523
Provision of sales support services	—	3,621
Apparel trading	19,990	—
	101,974	93,144
Discontinued operation:		
Provision of marketing and compliance monitoring services	—	26,266
	101,974	119,410
Other revenue:		
Interest income	200	19
Dividend income from investment securities	159	80
Sundry income	21	—
	380	99
Total revenue	102,354	119,509

NOTES TO FINANCIAL STATEMENTS

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6. DISCONTINUED OPERATION

On 20 October 2004, the Group entered into a sale and purchase agreement to dispose of its entire interest in Dragon City Limited ("Dragon City") at a total consideration of HK\$2,800,000. Dragon City Limited is principally engaged in the provision of marketing and compliance monitoring services. Upon disposal of Dragon City, the Group discontinued its marketing and compliance monitoring operation. Loss on disposal of the aforesaid discontinued operation of approximately HK\$2,585,000 has been credited to the income statement. No income tax expenses or credit arose from the disposal.

The turnover, results, cash flow, total assets and total liabilities of the marketing and compliance monitoring operation are as follows:

	2005 HK\$'000	2004 HK\$'000
Turnover	—	26,266
Selling expenses	(2,752)	(5,469)
Administrative expenses	(232)	(815)
(Loss)/Profit from operations	(2,984)	19,982
Taxation	—	—
Net (loss)/profit for the year	<u>(2,984)</u>	<u>19,982</u>
Total assets	13,679	45,528
Total liabilities, including amount due to the Group of approximately HK\$8,286,000 (2004: Nil)	<u>(8,294)</u>	(159)
Net assets	<u>5,385</u>	<u>45,369</u>
Net cash used in operating activities	(6)	28,047
Net cash used in investing activities	(2,984)	(5,182)
Net cash used from financing activities	—	—
Effect on foreign exchange rate changes	—	—
Total net cash outflow	<u>(2,990)</u>	<u>22,865</u>

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7. PROFIT FROM OPERATIONS

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

	2005 HK\$'000	2004 HK\$'000
Staff costs (excluding directors' remuneration):		
— Wages and salaries	2,467	3,033
— Retirement benefits contributions	173	264
	<u>2,640</u>	<u>3,297</u>
Auditors' remuneration	500	500
Depreciation of owned fixed assets	1,217	1,109
Loss on disposal of a subsidiary	2,585	72
Amortisation of intangible assets*		
— Goodwill	271	118
— System development costs	233	465
Operating lease rental in respect of rental premises	516	308
Cost of inventories expensed	73,674	75,686
Irrecoverable bad debts	3,800	—
	<u>3,800</u>	<u>—</u>

* The amortisation of intangible assets is included in "Selling Expenses" on the face of the consolidated income statement.

8. FINANCE COSTS

	2005 HK\$'000	2004 HK\$'000
Interest expenses on:		
— Mortgage loan not wholly repayable within five years	172	184
Bank charges	21	4
	<u>193</u>	<u>188</u>

NOTES TO FINANCIAL STATEMENTS

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9. 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:

	2005 HK\$'000	2004 HK\$'000
Fees	150	120
Other emoluments:		
Basic salaries, housing benefits, other allowances and benefits in kind	269	1,656
Discretionary bonuses	—	—
Provident fund scheme contribution	—	28
	<u>419</u>	<u>1,804</u>

Included in the directors' remuneration were fees of HK\$150,000 (2004: HK\$120,000) paid to independent non-executive directors during the year.

The remuneration of all of the directors fell within the nil to HK\$1,000,000 band for both years.

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

10. EMPLOYEES' REMUNERATION

Of the five individuals with highest emoluments of the Group, one (2004: three) was director of the Company, whose emoluments are set out in note 9 above. The emoluments of the remaining four (2004: two) individuals were as follows:

	2005 HK\$'000	2004 HK\$'000
Salaries, allowances and benefits in kind	492	576
Discretionary bonuses	—	—
Contributions to retirement benefits scheme	17	20
	<u>509</u>	<u>596</u>

The aggregated emoluments of each of these remaining four (2004: two) highest paid individuals fell within the nil to HK\$1,000,000 band for both years.

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.

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11. TAXATION

Hong Kong Profits Tax is calculated at 17.5% (2004: 17.5%) of the estimated assessable profits the year.

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

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Current taxation:		
— Hong Kong Profits Tax for the year	60	18
— Overseas taxation	1,254	799
— Over provision in previous year	(21)	(36)
	1,293	781
Deferred tax (<i>Note 25</i>):	—	—
	1,293	781

No provision for deferred tax liabilities has been made as the Group and the Company had no material temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements (2004: Nil).

During the year, the Hong Kong Inland Revenue Department ("IRD") issued an estimated assessment to a subsidiary of the Group in respect of its potential taxation liabilities for the year of assessment for 1998/1999. The concerned subsidiary has formally objected to the estimated assessment as in the opinion of the Directors of the Company, these estimated assessments are incorrect. The Directors of the Company considered appropriate provision for taxation has already been made in the financial statements (note 32).

The charge for the year ended 31 March 2005 and 31 March 2004 can be reconciled to the profit per the income statement as follows:

	2005		2004	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Profit before taxation	11,174		29,016	
Tax at the domestic income tax rate of 17.5% (2004: 17.5%)	1,955	17.5	5,078	17.5
Tax effect of expenses that are not deductible in determining taxable profit	980	8.8	82	0.3
Tax effect of income that is not taxable in determining taxable profit	(63)	(0.6)	(4,118)	(14.2)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(1,558)	(13.9)	(261)	(0.9)
Over provision in previous year	(21)	(0.2)	—	—
Taxation charge for the year	1,293	11.6	781	2.7

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12. DIVIDENDS

The directors do not recommend the payment of any dividend in respect of the year ended 31 March 2005 (2004: Nil).

13. 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 2005 of approximately HK\$2,160,000 (2004: HK\$23,497,000) and the weighted average of 320,000,000 (2004: 320,000,000) ordinary shares in issue during the year.

There were no potential dilutive shares in existence for the two years ended 31 March 2005 and 2004, accordingly, no diluted earnings per share has been presented.

14. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The Group's consolidated profit attributable to shareholders is approximately HK\$2,160,000 (2004: HK\$23,497,000) of which net loss of approximately HK\$4,099,000 (2004: HK\$895,000) is dealt with in the financial statements of the Company. Details are shown in note 28 of the financial statements.

15. 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 2004	14,130	2,663	1,489	1,059	753	20,094
Additions	—	3,782	302	530	—	4,614
Acquisition of a subsidiary	—	1,361	457	238	—	2,056
As at 31 March 2005	14,130	7,806	2,248	1,827	753	26,764
Accumulated depreciation:						
As at 1 April 2004	1,088	82	274	288	735	2,467
Acquisition of a subsidiary	—	280	35	45	—	360
Charge for the year	189	264	410	336	18	1,217
As at 31 March 2005	1,277	626	719	669	753	4,044
Net book value:						
As at 31 March 2005	12,853	7,180	1,529	1,158	—	22,720
As at 31 March 2004	13,042	2,581	1,215	771	18	17,627

At 31 March 2005, 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\$9,289,000 as at 31 March 2005 (2004: HK\$9,436,000) was pledged to secure a mortgage loan granted to the Group (note 24).

NOTES TO FINANCIAL STATEMENTS

31 March 2005

15. FIXED ASSETS (Continued)

The Company

	Furniture & fixtures <i>HK\$'000</i>	Office equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
At cost:			
Additions and at 31 March 2005	157	127	284
Depreciation:			
Charge for the year and at 31 March 2005	31	25	56
Net book value:			
At 31 March 2005	126	102	228
At 31 March 2004	—	—	—

16. INVESTMENTS IN SUBSIDIARIES

The Company

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Unlisted shares, at cost	32,916	32,916

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

NOTES TO FINANCIAL STATEMENTS

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16. INVESTMENTS IN SUBSIDIARIES (Continued)

The following list contains the particulars of the subsidiaries of the Group as at 31 March 2005. 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		Principal activities
			Held by Company	Held by subsidiary	
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
Easy Billion International Enterprise Limited	Hong Kong	Ordinary HK\$10,000	—	100%	Investment holding
East Step Trading Limited	Hong Kong	Ordinary HK\$1	—	100%	Apparel trading (Hong Kong based)
Gala Consultants Group Limited	British Virgin Islands	Ordinary US\$1	—	100%	Apparel trading (Overseas based)
Fair Good Limited	British Virgin Islands	Ordinary US\$1	100%	—	Investment holding
Elitie Team Inc.	British Virgin Islands	Ordinary US\$1	—	100%	Investment holding
Fanlink Far East Limited	British Virgin Islands	Ordinary US\$1	—	100%	Investment holding
View Joy Limited	British Virgin Islands	Ordinary US\$100	—	51%	Provision of apparel sourcing, quality assurance and social compliance monitoring services

NOTES TO FINANCIAL STATEMENTS

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17. INTANGIBLE ASSETS

The Group

	Goodwill <i>HK\$'000</i> <i>(Note 1)</i>	Cost of CSR System <i>HK\$'000</i> <i>(Note 2)</i>	Total <i>HK\$'000</i>
Cost			
At 1 April 2004	5,913	4,645	10,558
Disposal of a subsidiary	—	(4,645)	(4,645)
At 31 March 2005	5,913	—	5,913
Accumulated amortisation			
At 1 April 2004	118	578	696
Amortisation charge for the year	271	233	504
Disposal of a subsidiary	—	(811)	(811)
At 31 March 2005	389	—	389
Net book value			
At 31 March 2005	5,524	—	5,524
At 31 March 2004	5,795	4,067	9,862

Note 1: As at 31 March 2005, the directors assessed the carrying value of goodwill based on results projections to determine the estimated goodwill recoverable amount and considered that no impairment loss of goodwill has been required.

Note 2: The balance of the cost of CSR system has been disposed of together with a subsidiary during the year.

18. ADVANCES TO AGENTS

The Group

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Costs	18,870	18,870
Amount brought forward	12,580	17,297
Less: Expenditure recognised in the income statement for the year	(2,753)	(4,717)
Disposal of a subsidiary	(9,827)	—
Amount carried forward	—	12,580
Portion classified as current assets	—	(4,717)
Long term portion	—	7,863

NOTES TO FINANCIAL STATEMENTS

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18. ADVANCES TO AGENTS *(Continued)*

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 "Agents") pursuant to which the Agents 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.

The balance of advances to agents has been disposed of together with a subsidiary during the year.

19. INVESTMENT IN SECURITIES

The Group

	2005 HK\$'000	2004 HK\$'000
Investment in securities, at cost		
Listed in Hong Kong	31,260	31,260
Listed outside Hong Kong	4,680	—
Long term portion	<u>35,940</u>	<u>31,260</u>
Market value	<u>10,246</u>	<u>8,926</u>

20. INVENTORIES

The Group

	2005 HK\$'000	2004 HK\$'000
Finished goods	<u>11,303</u>	<u>544</u>

21. TRADE RECEIVABLES

The Group

General credit terms granted by the Group to its customers ranged from 0-60 days (2004: 0-30 days). The following is an aged analysis of the trade receivables at the balance sheet date.

	2005 HK\$'000	2004 HK\$'000
0 - 30 days	8,485	5,442
31 - 60 days	484	—
	<u>8,969</u>	<u>5,442</u>

NOTES TO FINANCIAL STATEMENTS

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22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Prepayments	3,689	5,339	85	543
Rental and utility deposits	2,437	336	—	—
Other receivables	—	117	—	—
Loan receivables (Note 1)	2,000	—	—	—
Investment deposits (Note 2)	2,745	6,895	—	—
	10,871	12,687	85	543

Note 1: Loan receivables are unsecured, interest-bearing at 24% per annum and recoverable on demand.

Note 2: Deposits totalling HK\$2,745,000 (2004: HK\$6,895,000) are held by agents appointed by the Group, who are engaged to search for potential investments in the American Stock Exchange ("AMEX").

23. TRADE AND OTHER PAYABLES

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Accrued expenses due within 30 days or on demand	6,909	1,783	403	1,042

24. INTEREST-BEARING BANK BORROWINGS, SECURED

The Group

	2005 HK\$'000	2004 HK\$'000
Mortgage loan repayable:		
Within one year or on demand	250	258
In the second year	255	266
In the third to fifth years, inclusive	792	844
Beyond five years	4,903	4,990
	6,200	6,358
Portion classified as current liabilities	(250)	(258)
Long term portion	5,950	6,100

As at 31 March 2005, the Group's mortgage loan was secured by the followings:

- legal charge over the leasehold land and building of the Group with an aggregate net book value of approximately HK\$9,289,000 (2004: HK\$9,436,000 (note 15)); and
- corporate guarantee executed by the Company.

NOTES TO FINANCIAL STATEMENTS

31 March 2005

25. DEFERRED TAX

The Group

	2005 HK\$'000	2004 HK\$'000
Balance as at 31 March 2005/2004	<u>167</u>	<u>167</u>

Deferred tax relates principally to the differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. There's no movement in deferred taxation during the year as the Company had no material potential assets and liabilities arising on temporary differences.

The Company did not have any significant unprovided deferred tax at the balance sheet date (2004: Nil).

26. SHARE CAPITAL

	2005		2004	
	Number of shares '000	Amount HK\$'000	Number of shares '000	Amount HK\$'000
Authorised:				
Ordinary shares at HK\$0.01 each	<u>10,000,000</u>	<u>100,000</u>	<u>10,000,000</u>	<u>100,000</u>
Issued and fully paid:				
Ordinary shares at HK\$0.01 each	<u>320,000</u>	<u>3,200</u>	<u>320,000</u>	<u>3,200</u>

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
At 1 April 2003	240,000	2,400
Bonus issue of shares (Note 1)	<u>80,000</u>	<u>800</u>
At 31 March 2004 and 2005	<u>320,000</u>	<u>3,200</u>

Note 1: 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 account.

Note 2: There is no movement in share capital for the year ended 31 March 2005.

NOTES TO FINANCIAL STATEMENTS

31 March 2005

27. 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.

(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.

NOTES TO FINANCIAL STATEMENTS

31 March 2005

27. SHARE OPTION SCHEME (Continued)

(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.

(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.

28. RESERVES

The Group	Contributed surplus HK\$'000 (Note (i))	Share premium account HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 April 2003	(84)	25,946	28,943	54,805
Bonus issue of shares	—	(800)	—	(800)
Profit for the year	—	—	23,497	23,497
At 31 March 2004 and at 1 April 2004	(84)	25,146	52,440	77,502
Release upon disposal of a subsidiary	(1)	—	—	(1)
Profit for the year	—	—	2,160	2,160
At 31 March 2005	(85)	25,146	54,600	79,661

NOTES TO FINANCIAL STATEMENTS

31 March 2005

28. RESERVES (Continued)

The Company

	Contributed surplus <i>HK\$'000</i> <i>(Note (ii))</i>	Share premium account <i>HK\$'000</i>	Accumulated loss <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2003	22,117	25,946	(11)	48,052
Bonus issue of shares	—	(800)	—	(800)
Loss for the year	—	—	(894)	(894)
At 31 March 2004 and at 1 April 2004	22,117	25,146	(905)	46,358
Release upon disposal of a subsidiary	(1)	—	—	(1)
Loss for the year	—	—	(4,099)	(4,099)
At 31 March 2005	22,116	25,146	(5,004)	42,258

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 therefor.

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

NOTES TO FINANCIAL STATEMENTS

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29. ACQUISITION OF A SUBSIDIARY

During the year, the Group acquired 100% interests in Gala Consultants Group Limited which is principally engaged in apparel trading. The effect of the acquisition to the financial statements were as follows:

Net assets acquired:

	2005 HK\$'000	2004 HK\$'000
Fixed assets	730	5,027
Trade receivables	—	1,730
Inventories	201	654
Prepayments, deposits and other receivables	2,930	1,128
Cash and bank balances	20	1,408
Trade and other payables	(381)	(679)
Taxation	—	(78)
Minority interests	—	(4,503)
	3,500	4,687
Goodwill	—	5,913
	3,500	10,600
Satisfied by:		
Cash	3,500	10,600

The subsidiary acquired during the year contributed approximately HK\$13,884,000 to the Group's turnover and contributed to the Group's profit of approximately HK\$4,790,000 for the year. The subsidiary acquired contributed approximately HK\$2,692,000 to the Group's net operating cash flows for the year ended 31 March 2005.

Analysis of the net cash outflow in respect of the acquisition of a subsidiary is set out below:

	2005 HK\$'000	2004 HK\$'000
Cash consideration paid	3,500	10,600
Cash and bank balances acquired	(20)	(1,408)
Net cash outflow in respect of the acquisition of a subsidiary	3,480	9,192

NOTES TO FINANCIAL STATEMENTS

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30. DISPOSAL OF A SUBSIDIARY

During the year, the Group disposed of the entire interests in Dragon City Limited which is principally engaged in the provision of marketing and compliance monitoring services. The effect of the disposal to the financial statements were as follows:

Net assets disposed of:

	2005 HK\$'000	2004 HK\$'000
Fixed assets	—	1,289
Intangible assets	3,835	—
Trade receivables	—	278
Agency costs	9,827	—
Inventories	—	375
Prepayments, deposits and other receivables	9	242
Cash and bank balances	8	267
Assignment of amount due to fellow subsidiaries	(8,286)	—
Trade and other payables	(8)	(165)
Taxation	—	(29)
Minority interests	—	(1,035)
	5,385	1,222
Loss on disposal of a subsidiary attributable to discontinued operation	(2,585)	(72)
Consideration satisfied by cash:	2,800	1,150

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

	2005 HK\$'000	2004 HK\$'000
Cash consideration received	2,800	1,150
Cash and bank balances disposed of	(8)	(267)
Net cash inflow in respect of the disposal of a subsidiary attributable to discontinued operation	2,792	883

The subsidiary 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.

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31. 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 2005 nor any unutilised forfeited contributions as at 31 March 2005.

32. COMMITMENTS AND CONTINGENT LIABILITIES

Contingent liabilities

- (i) As at 31 March 2005, 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 2005 would have been approximately HK\$52,000 (2004: HK\$39,000). No provision has been made for this amount in the financial statements.
- (ii) As stated in note 11 to the financial statements, the IRD issued estimated assessments to a subsidiary of the Group in respect of their potential taxation liabilities for the year of assessment of 1998/1999. However, no provision for tax penalty has been made in the financial statements as in the opinion of the Directors of the Company, the estimated assessments were incorrect and it would be premature to endeavour to determine whether any tax penalty would arise.

Operating lease commitments

As at 31 March 2005, the total future minimum lease payments under non-cancellable operating leases in respect of rented premises are payable as follows:

	2005 HK\$'000	2004 HK\$'000
Within one year	303	570
Between two to five years	329	765
	632	1,335

33. 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.

34. AUTHORISATION FOR ISSUE OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 July 2005.